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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM 20-F**

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(Mark One)

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2021.

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

OR

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report \_\_\_\_\_

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-36427

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**Cheetah Mobile Inc.**

(Exact name of Registrant as specified in its charter)

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N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

Building No. 11

Wandong Science and Technology Cultural Innovation Park

No.7 Sanjianfangnanli

Chaoyang District

Beijing 100024

People's Republic of China

(Address of principal executive offices)

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(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

**Securities registered or to be registered pursuant to Section 12(b) of the Act.**

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
American depositary shares, each representing ten Class A ordinary shares Class A ordinary shares, par value US\$0.000025 per share*	CMCM	The New York Stock Exchange

\* Not for trading, but only in connection with the listing on the New York Stock Exchange of American depositary shares, each representing ten Class A ordinary shares.

**Securities registered or to be registered pursuant to Section 12(g) of the Act.**

NONE  
(Title of Class)

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.**

NONE  
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 487,234,522 Class A ordinary shares and 945,496,827 Class B ordinary shares, par value US\$0.000025 per share, as of December 31, 2021.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.  Yes  No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.  Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer   
Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards<sup>†</sup> provided pursuant to Section 13 (a) of the Exchange Act.

<sup>†</sup> The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

US GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.  Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.  Yes  No

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## INTRODUCTION

In this annual report, except where the context otherwise requires and for purposes of this annual report only:

- “we,” “us,” “our company,” or “our” refers to Cheetah Mobile Inc., its subsidiaries and, in the context of describing our operations and consolidated financial information, the consolidated variable interest entities and their subsidiaries in China, including but not limited to Beijing Mobile, Beijing Network and Beijing Conew. References to the consolidated variable interest entities may include their subsidiaries, depending on the context as appropriate;
- “ADSs” refers to American depositary shares, each of which represents ten of our Class A ordinary shares;
- “China” or the “PRC” refers to the People’s Republic of China, excluding, for the purposes of this annual report, Hong Kong, Macau and Taiwan;
- “Ordinary shares,” prior to the completion of our initial public offering in May 2014, refers to our ordinary shares, par value US\$0.000025 per share and, upon the completion of the offering, to our Class A and Class B ordinary shares, par value US\$0.000025 per share;
- “RMB” or “Renminbi” refers to the legal currency of China;
- “US\$,” “U.S. dollars,” “\$,” or “dollars” refers to the legal currency of the United States; “€,” “Euro dollars” or “Euro” refers to the legal currency of the eurozone;
- “¥,” “Japanese Yen” or “JPY” refers to the legal currency of Japan;
- “Kingsoft Corporation Limited” or “Kingsoft Corporation” refers to Kingsoft Corporation Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 3888);
- Number of “monthly active users,” in reference to all of our products, refers to the number of computers, tablets or smartphones on which one or more of our products have been installed or downloaded and that accessed the internet at least once during the relevant month; and number of “monthly active users,” in reference to an individual product, refers to the number of computers, tablets or smartphones on which such product has been installed or downloaded and that accessed the internet at least once during the relevant month. A single device with multiple applications installed is counted as one user. A single person with applications installed on multiple devices is counted as multiple users. Multiple persons using a single device are counted as one user. The number of monthly active users for our mobile products is based on our internal statistics;
- Number of mobile devices on which our applications have been “installed,” as of a specified date, refers to the cumulative number of mobile devices on which one or more of our applications have been installed as of the specified date;
- “Hong Kong Listing Rules” refers to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited;
- “Overseas revenues” or “revenues from overseas markets” refers to revenues generated by our operating legal entities incorporated outside China. Such revenues are primarily attributable to customers located outside China, based on our customers’ registered addresses; and
- “Variable interest entities” or “VIEs” refers to those entities incorporated in PRC consolidated in our financial statements and over which our subsidiaries exercise effective control through a series of contractual arrangements.

## FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains forward-looking statements that reflect our current expectations and views of future events. These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by words or phrases such as “may,” “could,” “should,” “would,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “likely to,” “project,” “continue,” “potential,” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, but are not limited to, statements about:

- our business strategies, plans and priorities, including growth strategies as well as investment and acquisition plans in China and overseas;
- our ability to retain and attract users, customers and business partners, and increase their spending or level of engagement with us;
- our ability to expand and improve our product and service offerings;
- our ability to monetize the user traffic on our platform;
- our future business development, results of operations and financial condition, including the seasonal trends of our results of operations;
- expectations regarding our user growth rate and user engagement;
- expected changes in our revenues and cost or expense items;
- competition and changes in landscape in our industry;
- relevant PRC and foreign government policies and regulations relating to our industry;
- general economic and business condition globally and in China; and
- assumptions underlying or related to any of the foregoing.

You should not place undue reliance on these forward-looking statements and you should read these statements in conjunction with other sections of this annual report, in particular the risk factors disclosed in “Item 3. Key Information—D. Risk Factors.” These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. Moreover, we operate in a rapidly evolving environment. New risks emerge from time to time and it is impossible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ from those contained in any forward-looking statement. The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. We do not undertake any obligation to update or revise the forward-looking statements except as required under applicable law.



Notes:

- (1) We consolidate Beijing Network through contractual arrangements with Beijing Network and Mr. Kun Wang and Mr. Wei Liu, who owns 50% and 50% equity interests in Beijing Network, respectively.
- (2) We consolidate Beijing Mobile through contractual arrangements with Beijing Mobile and Mr. Sheng Fu and Ms. Weiqin Qiu, who owns 35% and 65% equity interests in Beijing Mobile, respectively.
- (3) We consolidate Beijing Conew through contractual arrangements with Beijing Conew and Mr. Sheng Fu and Mr. Kun Wang, who owns 62.73% and 37.27% equity interests in Beijing Conew, respectively.
- (4) Each of Cheetah Technology, Cheetah Mobile Calls Hong Kong Limited and Multicloud Limited has entered into deeds of nominee with the nominee shareholders of certain of our Hong Kong operating entities which we do not control through equity ownership. These deeds of nominee provide us with effective control over such Hong Kong entities, enable transfer of the economic benefits therein to us, and afford us the ability to have the equity interest held by the nominee shareholders transferred to us at our discretion.

Holders of our Class A ordinary shares or the ADSs hold equity interest in Cheetah Mobile Inc., our Cayman Islands holding company, and do not have direct or indirect equity interests in the VIEs and their subsidiaries. A series of contractual agreements, including business operation agreements, shareholder voting proxy agreements, equity pledge agreements, exclusive technology development, support and consultancy agreements, loan agreements and exclusive option agreements, have been entered into by and among our subsidiaries, the consolidated variable interest entities and their respective shareholders. Terms contained in each set of contractual arrangements with the consolidated variable interest entities and their respective shareholders are substantially similar. As a result of the contractual arrangements, we have effective control over and are considered the primary beneficiary of these companies, and we have consolidated the financial results of these companies in our consolidated financial statements. For more details of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure.”

However, the contractual arrangements may not be as effective as direct ownership in providing us with control over the consolidated variable interest entities, and we may incur substantial costs to enforce the terms of the arrangements. In addition, these agreements have not been tested in China courts. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure—We rely on contractual arrangements with the VIEs and their shareholders for the operation of our business in China, which may not be as effective as direct ownership.” and “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure—The shareholders of the VIEs may have potential conflicts of interest with us, which may materially and adversely affect our business.”

There are also substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules regarding the status of the rights of our Cayman Islands holding company with respect to its contractual arrangements with the consolidated variable interest entities and their shareholders. It is uncertain whether any new PRC laws or regulations relating to variable interest entity structures will be adopted or if adopted, what they would provide. If we or any of the consolidated variable interest entities are found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure—If the PRC government finds that the structure we have adopted for our business operations does not comply with PRC governmental restrictions on foreign investment in internet businesses, or if these laws or regulations or interpretations of existing laws or regulations change in the future, we could be subject to severe penalties, including the shutting down of our platform and our business operations” and “—Substantial uncertainties exist with respect to the interpretation and implementation of PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.”

Our corporate structure is subject to risks associated with our contractual arrangements with the consolidated variable interest entities. If the PRC government deems that our contractual arrangements with the consolidated variable interest entities do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change or are interpreted differently in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations. Our holding company, our PRC subsidiaries and consolidated variable interest entities, and investors of our company face uncertainty about potential future actions by the PRC government that could affect the enforceability of the contractual arrangements with the consolidated variable interest entities and, consequently, significantly affect the financial performance of the consolidated variable interest entities and our company as a whole. For a detailed description of the risks associated with our corporate structure, please refer to risks disclosed under “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure.”



## **Risks and Uncertainties Related to Doing Business in China**

We face various risks and uncertainties related to doing business in China. Our business operations are primarily conducted in China, and we are subject to complex and evolving PRC laws and regulations. For example, we face risks associated with regulatory approvals on offshore offerings, oversight on cybersecurity and data privacy, as well as the lack of inspection by the Public Company Accounting Oversight Board (United States), or the PCAOB, on our auditors, which may impact our ability to conduct certain businesses, accept foreign investments, or list on a United States or other foreign exchange. These risks could result in a material adverse change in our operations and the value of our ADSs, significantly limit or completely hinder our ability to continue to offer securities to investors, or cause the value of such securities to significantly decline. For a detailed description of Risks Relating to Doing Business in China, please refer to risks disclosed under “Item 3.D. Key Information—Risk Factors—Risks Relating to Doing Business in China.”

PRC government’s significant authority in regulating our operations and its oversight and control over offerings conducted overseas by, and foreign investment in, China-based issuers could significantly limit or completely hinder our ability to offer or continue to offer securities to investors. Implementation of industry-wide regulations, including data security or anti-monopoly related regulations, in this nature may cause the value of such securities to significantly decline. For more details, see “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—The PRC government’s significant oversight over our business operation could result in a material adverse change in our operations and the value of our ADSs.”

Risks and uncertainties arising from the legal system in China, including risks and uncertainties regarding the enforcement of laws and quickly evolving rules and regulations in China, could result in a material adverse change in our operations and the value of our ADSs. For more details, see “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—Uncertainties in the interpretation and enforcement of Chinese laws and regulations could limit the legal protections available to you and us.” and “We may be adversely affected by the complexity of, and uncertainties and changes in, PRC regulation on mobile and PC internet businesses and companies.

Our business requires us to collect, store and process certain personal data relating to our customers. In recent years, the PRC regulators have tightened the regulations of the collection, storage, use, processing, transmission, provision, disclosure and deletion of personal information and data. Privacy, data protection and cybersecurity concerns and domestic or foreign laws and regulation may reduce the effectiveness of our business operating, and may result in significant costs and compliance challenges, and adversely affect our business. On December 28, 2021, twelve regulatory authorities jointly released the Cybersecurity Review Measures, which became effective on February 15, 2022. The Cybersecurity Review Measures provides that a critical information infrastructure operator purchasing network products and services, and platform operators carrying out data processing activities which affect or may affect national security, must apply for cybersecurity review. The Cybersecurity Review Measures also provides that a platform operator with more than one million users’ personal information aiming to list abroad must apply for cybersecurity review. New York Stock Exchange fall within the definition of “abroad” in the provision, however, we are already listed on the New York Stock Exchange, therefore, there can be no assurance if we are required to follow the cybersecurity review or the security assessment procedures, and if so, whether we would be able to complete the applicable cybersecurity review or the security assessment procedures in a timely manner. For more details, see “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—Actual or alleged failure to comply with laws and regulations on data privacy and protection could damage our reputation, discourage current and potential users from using our products and services applications and subject us to damages, administrative penalties and criminal liabilities, which could have material adverse effects on our business and results of operation.”

## **The Holding Foreign Companies Accountable Act**

The Holding Foreign Companies Accountable Act, or the HFCAA, was enacted on December 18, 2020. The HFCAA states if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspection by the PCAOB for three consecutive years beginning in 2021, the SEC shall prohibit our shares or ADSs from being traded on a national securities exchange. Since our auditor is located in China, a jurisdiction where the PCAOB has been unable to conduct inspections without the approval of the Chinese authorities, our auditor is not currently inspected by the PCAOB, which may impact our ability to remain listed on a United States exchange. The related risks and uncertainties could cause the value of the ADSs to significantly decline. For more details, see “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—The PCAOB is currently unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections over our auditor deprives our investors with the benefits of such inspections” and “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—The ADSs will be prohibited from trading in the United States under the HFCAA in 2024 if the PCAOB is unable to inspect or fully investigate auditors located in China, or in 2023 if proposed changes to the law are enacted. The delisting of the ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment.”

## **Permissions Required from the PRC Authorities for Our Operations**

We conduct our business primarily through our subsidiaries and consolidated variable interest entities in China. Our operations in China are governed by PRC laws and regulations. As of the date of this annual report, our PRC subsidiaries and consolidated variable interest entities have obtained the requisite licenses and permits from the PRC government authorities that are material for the business operations of our holding company and the consolidated variable interest entities in China, including, among others, Internet Content Provider Licenses, or ICP Licenses, for the provision of internet information services, a license for value-added telecommunications services with the specification of online data processing and transaction processing business, or EDI license, Business License of Value-Added Telecommunications Services, or SP license, Internet Culture Operation Licenses for the operation of online entertainment products, and Computer Information System Security Products Sales License for our mobile and PC security applications. Given the uncertainties of interpretation and implementation of relevant laws and regulations and the enforcement practice by relevant government authorities, we may be required to obtain additional licenses, permits, filings or approvals for the functions and services of our platform in the future. Any lack of, or failure to keep, requisite licenses, permits, filings or approvals to our business operations, may harm our business. For more detailed information, see “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—We may be adversely affected by the complexity of, and uncertainties and changes in, PRC regulation on mobile and PC internet businesses and companies.”

Furthermore, in connection with our issuance of securities to foreign investors, under current PRC laws, regulations and regulatory rules, as of the date of this annual report, we, our PRC subsidiaries and the consolidated variable interest entities, (i) are not required to obtain permissions from the China Securities Regulatory Commission, or the CSRC, (ii) have not received any formal notice from any cybersecurity regulator that we should apply for a cybersecurity review, and (iii) have not received or were denied such requisite permissions by any PRC authority.

However, the PRC government has recently indicated an intent to exert more oversight and control over offerings that are conducted overseas and/or foreign investment in China-based issuers. For more detailed information, see “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—The approval of and filing with the CSRC or other PRC government authorities may be required in connection with our future offshore offerings under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval or complete such filing.”

## **Cash and Asset Flows through Our Organization**

Cheetah Mobile Inc. is a holding company with no material operations of its own. We conduct our operations primarily through our PRC subsidiaries, the VIEs and their subsidiaries in China. As a result, Cheetah Mobile Inc.’s ability to pay dividends depends upon dividends paid by our PRC subsidiaries. If our existing PRC subsidiaries or any newly formed ones incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our wholly foreign-owned subsidiaries in China are permitted to pay dividends to us only out of its retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, each of our subsidiaries and the VIEs in China is required to make appropriations to certain statutory reserve funds or may make appropriations to certain discretionary funds, which are not distributable as cash dividends except in the event of a solvent liquidation of the companies. For more details, see “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Holding Company Structure.” and “Item 3. Key Information—Risk Factors—Risks Relating to Doing Business in China—We may rely on dividends paid by our PRC subsidiaries to fund cash and financing requirements. Any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business and to pay dividends to our shareholders and ADS holders.”

Under PRC laws and regulations, our PRC subsidiaries and consolidated variable interest entities are subject to certain restrictions with respect to paying dividends or otherwise transferring any of their net assets to us. Remittance of dividends by a wholly foreign-owned enterprise out of China is also subject to examination by the banks designated by State Administration of Foreign Exchange, or SAFE. The amounts restricted include the paid-up capital and the statutory reserve funds of our PRC subsidiaries and the net assets of the consolidated variable interest entities in which we have no legal ownership, totalling RMB217.5 million, RMB218.4 million and RMB200.6 million (US\$31.5 million) as of December 31, 2019, 2020 and 2021, respectively. For details, see “Item 3. Key Information—Risk Factors—Risks Relating to Doing Business in China—PRC regulation of loans to, and direct investment in, PRC entities by offshore holding companies and governmental control of currency conversion may restrict or prevent us from using the proceeds of the offering of equity securities and notes to make loans to our PRC subsidiaries and the VIEs and their subsidiaries, or to make additional capital contributions to our PRC subsidiaries.”

For the years ended December 31, 2019, 2020 and 2021, certain of our PRC subsidiaries have declared dividends to our Hong Kong subsidiaries for an aggregate amount of nil, RMB19.6 million and RMB9.5 million (US\$1.5 million); the dividend payments are subject to withholding tax. We have made tax provisions based on the corresponding tax rate. If our PRC subsidiaries further declare and distribute profits earned after January 1, 2008 in the future, the dividend payments will be subject to withholding tax, which will increase our tax liability and reduce the amount of cash available to our company. For the potential distributable profits to be distributed to our qualified Hong Kong incorporated subsidiary, the deferred tax liabilities are accrued at a 5% withholding tax rate. For more information on related risks, please see “Item 3.D. Key Information—Risk Factors—Risks Relating to Doing Business in China—If our PRC subsidiaries declare and distribute dividends to their respective offshore parent companies, we will be required to pay more taxes, which could have a material and adverse effect on our result of operations.”

Cheetah Mobile Inc. transfers cash to its wholly-owned Hong Kong and Singapore subsidiaries, by making capital contributions or providing loans, and the Hong Kong or Singapore subsidiaries transfer cash to the subsidiaries in China by making capital contributions, providing loans or by making payment for inter-group transactions. Because Cheetah Mobile Inc. and its subsidiaries have contractual arrangements with the VIEs instead of equity ownership, they are not able to make direct capital contribution to the VIEs and their subsidiaries. However, they may transfer cash to the VIEs by loans or by making payment to the VIEs for inter-group transactions.

For the years ended December 31, 2019, 2020 and 2021, Cheetah Mobile Inc. through its intermediate holding companies provided capital contribution and loans with principal amount of RMB184.0 million, RMB309.7 million and RMB74.2 million (US\$11.6 million), respectively, to its subsidiaries in China, and the subsidiaries haven’t repaid the loans for the years ended December 31, 2019, 2020 and 2021. For the years ended December 31, 2019, 2020 and 2021, our PRC subsidiaries provide technical support, marketing and operating services to our overseas subsidiaries, total amounts paid for such services by our overseas subsidiaries to our PRC subsidiaries were RMB657.8 million, RMB54.7 million and RMB3.3 million (US\$0.5 million). In 2020, our PRC subsidiaries transferred some game assets to one of our Hong Kong subsidiary, the total consideration of such transfer was US\$15.5 million which was fully paid in 2021.

For the years ended December 31, 2019, 2020 and 2021, our consolidated VIEs received debt financing of RMB393.0 million, RMB278.0 million and RMB91.1 million (US\$14.3 million) from Cayman and subsidiaries, respectively, and the VIEs repaid the principal amount of RMB197.6 million, 286.6 million and 121.0 million (US\$19.0 million), respectively to the related subsidiaries.

The VIEs may transfer cash to the relevant subsidiaries by paying service fees related to technical support, backoffice support, marketing and sales agency services. For the years ended December 31, 2019, 2020 and 2021, the total amount of service fees that VIEs paid to the relevant subsidiaries related to such services was RMB167.5 million, RMB243.6 million and RMB155.3 million (US\$24.4 million), respectively. The VIEs also provide cloud and promotion services to our subsidiaries, the total amount received from the relevant subsidiaries related to such services was RMB114.7 million, RMB53.2 million and RMB33.3 million (US\$5.2 million), respectively for the years ended December 31, 2019, 2020 and 2021.

For the years ended December 31, 2019, 2020 and 2021, no material assets other than the above cash transactions were transferred between our subsidiaries and the consolidated variable interest entities.

Cheetah Mobile Inc. declared and paid cash dividends on its ordinary shares of approximately US\$72.0 million and US\$200.0 million in 2019 and 2020, respectively. We currently don't have any present plan to pay any cash dividends on its ordinary shares in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to fund the development and growth of our business. See "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Dividend Policy." For the material Cayman Islands, PRC and U.S. federal income tax consequences of an investment in our ADSs or ordinary shares, see "Item 10. Additional Information—E. Taxation."

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## A. Selected Financial Data

The following table presents the selected consolidated financial information of our company. The selected consolidated statements of comprehensive income (loss) data for each of the three years ended December 31, 2021 and the selected consolidated balance sheets data as of December 31, 2020 and 2021 have been derived from our audited consolidated financial statements, which are included in this annual report beginning on page F-2. The selected consolidated statements of comprehensive income (loss) data for each of the two years ended December 31, 2017 and 2018 and the selected consolidated balance sheets data as of December 31, 2017, 2018 and 2019 have been derived from our audited consolidated financial statements that are not included in this annual report. Our audited consolidated financial statements are prepared and presented in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. Our historical results do not necessarily indicate results expected for any future period. You should read the following selected financial data in conjunction with the consolidated financial statements and related notes and “Item 5. Operating and Financial Review and Prospects” included elsewhere in this annual report.

Starting from January 1, 2018, we adopted ASC Topic 606, *Revenue from contracts with customers* or ASC 606, which reclassifies value added tax from the cost of revenues to net against revenues. The consolidated statement of comprehensive income (loss) data for the years ended December 31, 2018, 2019, 2020 and 2021 presented below have been prepared in accordance with ASC 606, while the consolidated statements of comprehensive income (loss) data for the year ended December 31, 2017 presented below have been prepared in accordance with ASC Topic 605, *Revenue Recognition* or ASC 605.

	Year Ended December 31,					
	2017 <sup>(1)</sup>	2018 <sup>(2)</sup>	2019 <sup>(2)</sup>	2020 <sup>(2)</sup>	2021 <sup>(2)</sup>	
	RMB	RMB	RMB	RMB	RMB	US\$

(in thousands except for shares, per share and per ADS data)

### Selected Consolidated Statements of

#### Comprehensive Income/ (Loss) Data:

<b>Revenues</b>	<b>4,974,757</b>	<b>4,981,705</b>	<b>3,587,695</b>	<b>1,552,645</b>	<b>784,616</b>	<b>123,123</b>
Internet Business <sup>(3)</sup>	4,899,842	4,847,154	3,370,811	1,380,906	653,759	102,589
AI and others	74,915	134,551	216,884	171,739	130,857	20,534
Cost of revenues <sup>(4)</sup>	(1,780,089)	(1,540,633)	(1,241,932)	(475,378)	(257,656)	(40,432)
<b>Gross profit</b>	<b>3,194,668</b>	<b>3,441,072</b>	<b>2,345,763</b>	<b>1,077,267</b>	<b>526,960</b>	<b>82,691</b>
Operating income and expenses:						
Research and development <sup>(4)</sup>	(684,863)	(668,918)	(787,329)	(455,179)	(211,594)	(33,204)
Selling and marketing <sup>(4)</sup>	(1,656,505)	(1,910,044)	(1,558,315)	(766,986)	(370,274)	(58,104)
General and administrative <sup>(4)</sup>	(407,410)	(430,826)	(587,457)	(380,533)	(191,868)	(30,108)
Impairment of goodwill	—	—	(545,665)	—	—	—
Other operating income/(expenses), net	990	35,938	22,091	(5,684)	17,205	2,700
Total operating expenses	(2,747,788)	(2,973,850)	(3,456,675)	(1,608,382)	(756,531)	(118,716)
<b>Operating profit (loss)</b>	<b>446,880</b>	<b>467,222</b>	<b>(1,110,912)</b>	<b>(531,115)</b>	<b>(229,571)</b>	<b>(36,025)</b>
Other income/(expenses)	986,385	802,501	745,225	1,039,362	(110,000)	(17,263)
Income/(Loss) before income taxes	1,433,265	1,269,723	(365,687)	508,247	(339,571)	(53,288)
Income tax expenses	(57,602)	(117,000)	(7,904)	(97,090)	(13,633)	(2,139)
Net income/(loss)	1,375,663	1,152,723	(373,591)	411,157	(353,204)	(55,427)
Less: Net income/(loss) attributable to noncontrolling interests	27,469	(14,186)	(59,614)	(5,575)	(2,078)	(326)
Net income/(loss) attributable to Cheetah Mobile Inc.	1,348,194	1,166,909	(313,977)	416,732	(351,126)	(55,101)
<b>Earnings/(Losses) per share</b>						
Basic	0.9573	0.8048	(0.2514)	0.2895	(0.2469)	(0.0388)
Diluted	0.9366	0.7839	(0.2514)	0.2857	(0.2469)	(0.0388)
<b>Earnings/(Losses) per ADS<sup>(5)</sup></b>						
Basic	9.5728	8.0478	(2.5140)	2.8953	(2.4694)	(0.3875)
Diluted	9.3656	7.8393	(2.5140)	2.8575	(2.4694)	(0.3875)
<b>Weighted average number of shares used in computation:</b>						
Basic	1,394,303,326	1,403,089,609	1,369,041,418	1,402,509,386	1,430,052,602	1,430,052,602
Diluted	1,425,154,838	1,440,414,849	1,369,041,418	1,421,067,906	1,430,052,602	1,430,052,602

- (1) VAT is presented in cost of revenues rather than net against revenues in accordance with the legacy revenue accounting standard (ASC 605)
- (2) VAT is presented as net against revenues rather than in cost of revenues in accordance with the new revenue accounting standard (ASC 606)
- (3) Starting from March 31, 2017, we reorganized our operation into three segments: utility products and related services, mobile entertainment business and AI and others. In 2020, we disposed major gaming-related business. As a result, we expect the revenue contribution from our mobile game business to decrease in the foreseeable future. Therefore, we started reporting its revenues and operating profits by two segments: internet business and AI and others. In 2021, we realigned our segments as the chief operating decision maker changes how he manages and assesses our segment performance. Our overseas advertising agency services, which assists domestic companies to launch advertisement on overseas advertising platforms, are changed from the Internet business into AI and others due to the synergies created between the Company's advertising agency services and global multi-cloud management services. We had retrospectively revised segment information from the previous periods to conform to the requisite presentation for the current period.

(4) Share-based compensation expenses were allocated in cost of revenues and operating expenses as follows:

	Year Ended December 31,					
	2017 <sup>(1)</sup>	2018 <sup>(2)</sup>	2019 <sup>(2)</sup>	2020 <sup>(2)</sup>	2021 <sup>(2)</sup>	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
Cost of revenues	762	206	524	1,044	1,027	161
Research and development	20,691	14,224	59,771	29,091	5,996	941
Selling and marketing	39	8,967	3,818	(1,087)	1,339	210
General and administrative	51,824	61,721	63,327	51,934	(1,212)	(190)
<b>Total</b>	<b>73,316</b>	<b>85,118</b>	<b>127,440</b>	<b>80,982</b>	<b>7,150</b>	<b>1,122</b>

(5) Each ADS represents ten Class A ordinary shares.

	Year Ended December 31,					
	2017	2018	2019	2020	2021	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands)					
<b>Selected Consolidated Balance Sheets Data:</b>						
Cash and cash equivalents	2,317,488	2,783,843	983,004	1,299,658	1,583,926	248,553
Short-term investments	1,395,694	930,610	1,369,118	360,803	262,813	41,241
Total assets	7,448,931	8,292,636	7,011,744	5,613,483	4,978,318	781,205
Total current liabilities	2,165,754	1,835,765	1,745,119	1,572,317	1,353,894	212,455
Total liabilities	2,293,721	2,010,241	2,017,197	1,825,091	1,618,175	253,926
Total mezzanine equity	649,246	687,847	—	—	—	—
Total Cheetah Mobile Inc. shareholders' equity	4,293,361	5,476,465	4,932,278	3,747,381	3,279,126	514,566
Total shareholders' equity	4,505,964	5,594,548	4,994,547	3,788,392	3,360,143	527,279

We present our financial results in RMB. This annual report contains translations of RMB amounts into U.S. dollars at specific rates solely for the convenience of the reader. The conversion of RMB into U.S. dollars in this annual report is based on the exchange rate set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System. Unless otherwise noted, all translations from RMB to U.S. dollars and from U.S. dollars to Renminbi in this annual report were made at a rate of RMB6.3726 to US\$1.00, the exchange rate on December 30, 2021 set forth in the H.10 statistical release of The Board of Governors of the Federal Reserve System. We make no representation that any RMB or U.S. dollar amount could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade.

#### Financial Information Related to The Consolidated Variable Interest Entities

The following table presents the condensed consolidating schedule of financial information of Cheetah Mobile Inc., its subsidiaries, and its consolidated variable interest entities and other entities as of the dates presented.

*Selected Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) Data*

	<b>For the Year Ended December 31, 2021</b>				
	<b>Cheetah Mobile Inc.</b>	<b>Company Subsidiaries</b>	<b>Consolidated Variable Interest Entities</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
	(RMB, in thousands)				
Revenues	—	894,352	320,942	(430,678)	784,616
Net (loss) income	(351,126)	(358,345)	(8,489)	364,756	(353,204)

  

	<b>For the Year Ended December 31, 2020</b>				
	<b>Cheetah Mobile Inc.</b>	<b>Company Subsidiaries</b>	<b>Consolidated Variable Interest Entities</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
	(RMB, in thousands)				
Revenues	—	1,316,872	659,626	(423,853)	1,552,645
Net income (loss)	416,732	(48,734)	(8,825)	51,984	411,157

  

	<b>For the Year Ended December 31, 2019</b>				
	<b>Cheetah Mobile Inc.</b>	<b>Company Subsidiaries</b>	<b>Consolidated Variable Interest Entities</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
	(RMB, in thousands)				
Revenues	—	3,462,093	586,404	(460,802)	3,587,695
Net (loss) income	(313,977)	(906,989)	(88,559)	935,934	(373,591)



*Selected Condensed Consolidated Balance Sheets Data*

	As of December 31, 2021				
	Cheetah Mobile Inc.	Company Subsidiaries	Consolidated Variable Interest Entities	Eliminations	Consolidated Total
	(RMB, in thousands)				
Cash and cash equivalents	20,401	1,526,029	37,496	—	1,583,926
Restricted cash	—	637	144	—	781
Short-term investments	—	142,616	120,197	—	262,813
Due from related parties	—	46,709	54,624	—	101,333
Others	147,396	467,870	34,368	—	649,634
<b>Total current assets</b>	<b>167,797</b>	<b>2,183,861</b>	<b>246,829</b>	<b>—</b>	<b>2,598,487</b>
Investments in subsidiaries	897,699	—	—	(897,699)	—
Due from related parties	—	111,335	—	—	111,335
Others	449,850	1,465,166	353,480	—	2,268,496
<b>Total non-current assets</b>	<b>1,347,549</b>	<b>1,576,501</b>	<b>353,480</b>	<b>(897,699)</b>	<b>2,379,831</b>
Amount due from Group companies	3,124,311	2,229,709	706,646	(6,060,666)	—
<b>Total assets</b>	<b>4,639,657</b>	<b>5,990,071</b>	<b>1,306,955</b>	<b>(6,958,365)</b>	<b>4,978,318</b>
Due to related parties	—	8,735	29,025	—	37,760
Others	31,107	1,129,974	155,053	—	1,316,134
<b>Total current liabilities</b>	<b>31,107</b>	<b>1,138,709</b>	<b>184,078</b>	<b>—</b>	<b>1,353,894</b>
<b>Total non-current liabilities</b>	<b>169,629</b>	<b>86,705</b>	<b>7,947</b>	<b>—</b>	<b>264,281</b>
Amount due to Group companies	1,159,795	3,876,360	1,024,511	(6,060,666)	—
<b>Total liabilities</b>	<b>1,360,531</b>	<b>5,101,774</b>	<b>1,216,536</b>	<b>(6,060,666)</b>	<b>1,618,175</b>

	As of December 31, 2020				
	Cheetah Mobile Inc.	Company Subsidiaries	Consolidated Variable Interest Entities	Eliminations	Consolidated Total
	(RMB, in thousands)				
Cash and cash equivalents	18,243	1,253,355	28,060	—	1,299,658
Restricted cash	—	653	144	—	797
Short-term investments	—	360,788	15	—	360,803
Due from related parties	86,296	77,354	60,673	—	224,323
Others	131,128	838,281	91,871	—	1,061,280
<b>Total current assets</b>	<b>235,667</b>	<b>2,530,431</b>	<b>180,763</b>	<b>—</b>	<b>2,946,861</b>
Investments in subsidiaries	2,625,791	—	—	(2,625,791)	—
Due from related parties	—	3,522	—	—	3,522
Others	492,714	1,850,158	320,228	—	2,663,100
<b>Total non-current assets</b>	<b>3,118,505</b>	<b>1,853,680</b>	<b>320,228</b>	<b>(2,625,791)</b>	<b>2,666,622</b>
Amount due from Group companies	1,343,691	1,378,140	684,257	(3,406,088)	—
<b>Total assets</b>	<b>4,697,863</b>	<b>5,762,251</b>	<b>1,185,248</b>	<b>(6,031,879)</b>	<b>5,613,483</b>
Due to related parties	86,296	(57,707)	20,349	—	48,938
Others	25,662	1,377,325	120,392	—	1,523,379
<b>Total current liabilities</b>	<b>111,958</b>	<b>1,319,618</b>	<b>140,741</b>	<b>—</b>	<b>1,572,317</b>
<b>Total non-current liabilities</b>	<b>170,684</b>	<b>59,949</b>	<b>22,141</b>	<b>—</b>	<b>252,774</b>
Amount due to Group companies	667,840	1,810,356	927,892	(3,406,088)	—
<b>Total liabilities</b>	<b>950,482</b>	<b>3,189,923</b>	<b>1,090,774</b>	<b>(3,406,088)</b>	<b>1,825,091</b>

*Selected Condensed Consolidated Cash Flows Data*

	<b>For the Year Ended December 31, 2021</b>					
	<b>Cheetah Mobile Inc.</b>	<b>Company Subsidiaries</b>	<b>Consolidated Variable Interest Entities</b>		<b>Eliminations</b>	<b>Consolidated Total</b>
			<b>(RMB, in thousands)</b>			
Net cash provided by/(used in) operating activities	666	(121,934)	209,357	14,722	102,811	
Net cash (used in)/provided by investing activities	(864,999)	251,806	(255,027)	1,089,056	220,836	
Net cash provided by/(used in) financing activities	891,960	111,085	91,093	(1,103,778)	(9,640)	

	<b>For the Year Ended December 31, 2020</b>					
	<b>Cheetah Mobile Inc.</b>	<b>Company Subsidiaries</b>	<b>Consolidated Variable Interest Entities</b>		<b>Eliminations</b>	<b>Consolidated Total</b>
			<b>(RMB, in thousands)</b>			
Net cash (used in)/provided by operating activities	(2,186)	419,715	(36,196)	(427,465)	(46,132)	
Net cash provided by investing activities	1,345,523	85,901	21,168	427,771	1,880,363	
Net cash (used in)/provided by financing activities	(1,453,285)	2,934	—	(306)	(1,450,657)	

	<b>For the Year Ended December 31, 2019</b>					
	<b>Cheetah Mobile Inc.</b>	<b>Company Subsidiaries</b>	<b>Consolidated Variable Interest Entities</b>		<b>Eliminations</b>	<b>Consolidated Total</b>
			<b>(RMB, in thousands)</b>			
Net cash (used in)/provided by operating activities	(15,258)	(1,407,336)	62,401	1,120,649	(239,544)	
Net cash provided by/(used in) investing activities	375,584	(270,775)	(69,386)	(1,120,649)	(1,085,226)	
Net cash (used in)/provided by financing activities	(494,055)	8,985	—	—	(485,070)	

**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable.

**D. Risk Factors**

**Summary of Risk Factors**

An investment in our ADSs or ordinary shares involves significant risks. Below is a summary of material risks we face, organized under relevant headings. These risks are discussed more fully in this Item 3. Key Information—D. Risk Factors.

***Risks Relating to Our Business and Industry***

- Our products monthly active users decreased in the past years and may continue to decrease in the future, which would materially and adversely affect our business, financial condition and results of operations would be materially and adversely affected.
- Because a limited number of customers contribute to a significant portion of our revenues, our revenues and results of operations could be materially and adversely affected if we were to lose a significant customer or a significant portion of its business.
- We are subject to risks and uncertainties faced by companies in a rapidly evolving industry.
- If we fail to compete effectively, our business, financial condition and results of operations may be materially and adversely affected.
- We have certain operations in international markets. If we fail to meet the challenges presented by our overseas operations, our business, financial conditions and results of operations may be adversely affected.
- Actual or alleged failure to comply with Chinese laws and regulations on data privacy and protection laws and regulations could damage our reputation, discourage current and potential users from using our products and services applications and subject us to damages, administrative penalties and criminal liabilities, which could have material adverse effects on our business and results of operations.
- Our business is subject to complex and evolving laws and regulations regarding privacy, data protection, and other matters both within and outside China. Many of these laws and regulations are subject to change and uncertain interpretation, and could result in claims, changes to our business practices, monetary penalties, increased cost of operations, or declines in user growth or engagement, or otherwise harm our business.
- Our shopping-mall coupon-selling business could be negatively impacted by COVID-19. Shops could be closed and restaurants could stop eat-in due to COVID-19, which could have adverse effects on our business and results of operations.

***Risks Relating to Our Corporate Structure***

- We are a Cayman Islands holding company conducting our operations in China through (i) our PRC subsidiaries and (ii) the VIEs with which we have maintained contractual arrangements. We have no equity ownership in the VIEs and their subsidiaries. Holders of our Class A ordinary shares or the ADSs hold equity interest in Cheetah Mobile Inc., our Cayman Islands holding company, and do not have direct or indirect equity interests in the VIEs and their subsidiaries. If the PRC government deems that our contractual arrangements with the VIEs do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations. Our holding company in the Cayman Islands, the VIEs, and investors of our company face uncertainty about potential future actions by the PRC government that could affect the enforceability of the contractual arrangements with the VIEs and, consequently, significantly affect the financial performance of the VIEs and our company as a group.

- We rely on contractual arrangements with the VIEs and their shareholders for the operation of our business in China, which may not be as effective as direct ownership.

#### ***Risks Relating to Doing Business in China***

- Uncertainties in the interpretation and enforcement of Chinese laws and regulations could limit the legal protections available to you and us.
- The PRC government's significant oversight over our business operation could result in a material adverse change in our operations and the value of our ADSs.
- The approval of and filing with the CSRC or other PRC government authorities may be required in connection with our future offshore offerings under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval or complete such filing.
- A severe or prolonged downturn in the global economy could materially and adversely affect our business and financial condition.
- We may be adversely affected by the complexity of, and uncertainties and changes in, PRC regulation on mobile and PC internet businesses and companies.
- It may be difficult for overseas regulators to conduct investigation, collect evidence or obtain materials or data within China.
- The PCAOB is currently unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections over our auditor deprives our investors with the benefits of such inspections.
- The ADSs will be prohibited from trading in the United States under the HFCAA in 2024 if the PCAOB is unable to inspect or fully investigate auditors located in China, or in 2023 if proposed changes to the law are enacted. The delisting of the ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment.

#### ***Risks Relating to the ADSs***

- The trading price of our ADSs has been volatile and may continue to be volatile regardless of our operating performance.
- We believe that we were a passive foreign investment company, or PFIC, for United States federal income tax purposes for the taxable year ended December 31, 2021, which could subject United States investors in the ADSs or Class A ordinary shares to significant adverse United States income tax consequences.

#### ***Risks Relating to Our Business and Industry***

***Our product monthly active users decreased in the past years and may continue to decrease in the future, which would materially and adversely affect our business, financial condition and results of operations would be materially and adversely affected.***

The size of our user base and our users' level of engagement are critical to our success. Our business and financial performance have been and will continue to be significantly determined by our success in retaining and engaging active users. We have been consistently anticipating user demand and developing innovative products and services to attract and retain users. However, the internet industry, including the mobile internet industry, is characterized by constant and rapid technological changes. As a result, users may switch from one set of products to others more quickly than in other sectors. Our success will become increasingly dependent on our ability to increase levels of user engagement and monetization in our key markets. Our user engagement could be adversely affected if:

- we fail to maintain the popularity of our existing products for users;
- we are unsuccessful in launching new and popular applications in a cost-effective manner to further diversify our product offerings and increase user engagement;
- technical or other problems prevent us from delivering our products or services in a rapid and reliable manner or otherwise affect user experience;
- strategic investments or acquisitions that we make to diversify or improve our products or services offerings fail to generate the favorable results or synergies that we anticipate;
- there are user concerns related to privacy, safety, security or other factors;
- our competitors may launch or develop products and services similar to ours, which may result in a loss of existing users or reduced growth in new users;
- products adopting new technologies displace our products;
- there are adverse changes in our products or services that are mandated by, or that we elect to make to address, legislation, regulatory authorities or litigation, including settlements or consent decrees;
- there are regulatory enforcement actions or negative publicity for actual or perceived defects of our products and services;
- we fail to provide adequate customer service to users; or
- we do not maintain our brand image, or our reputation is damaged.

Furthermore, if any major distribution channel changes their standard terms and conditions in a manner that is detrimental to us, or terminate their existing relationship with us, our business, financial condition and results of operations may be materially and adversely affected. For example, on February 20, 2020, our company's Google Play Store, Google AdMob and Google AdManager accounts were disabled, which adversely affected our ability to attract new users and keep existing users. According to Google, the decision was made because some of our company's apps had not been compliant with Google policies, resulting in certain invalid traffic.

We received in the past and may continue to receive, complaints from users regarding our mobile applications primarily regarding privacy settings and certain third-party website promotion activities on our mobile applications. While we did not incur any material costs to address the complaints, we may need to incur substantial expenditures in the future. If we are unable to address user complaints timely or at all, our reputation may be harmed, and our user may continue to decline. Our efforts to avoid or address any of these events could require us to incur substantial expenditures to modify or adapt our products, services or infrastructure. If we fail to retain our user base, or if our users decrease their engagement with our products, our business, financial condition and results of operations would be materially and adversely affected.

***Because a limited number of customers contribute to a significant portion of our revenues, our revenues and results of operations could be materially and adversely affected if we were to lose a significant customer or a significant portion of its business.***

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Currently, a limited number of customers contribute a significant portion of our revenues. Our customers primarily comprise mobile application developers, mobile game developers, mobile advertising networks, e-commerce companies and search engines as well as individual customers, to which we refer traffic, sell advertisements, provide network security and technical services. In 2019, 2020 and 2021, our five largest customers in aggregate contributed approximately 35.0%, 28.0% and 35.6% of our revenues, respectively. We expect that a limited number of our customers will continue to contribute a significant portion of our revenues in the near future. If we lose any of these customers, or if revenues generated from a significant customer are substantially reduced due to, for example, increased competition, a significant change in the customer's business policy or operation, suspected breach or violation to the underlying contract or policy, any deterioration in customer relationship, or significant delays in payments for our services, our business, financial condition and results of operations may be materially and adversely affected. For example, some of overseas business partners have discontinued the placement of ads on mobile phone lock screens since May 2017 and January 2018, respectively, which adversely affected our revenues from internet business. In addition, on November 26, 2018, a third party made certain allegations about some of our products. Although we have made a number of public statements to clarify the matter, these allegations did cause a disruption to our business, and as a result, our revenues from internet business decreased by 30.5% from RMB4,847.2 million in 2018 to RMB3,370.8 million in 2019.

On February 20, 2020, our Google Play Store, Google AdMob and Google AdManager accounts were disabled, which adversely affected our ability to attract new users and generate revenue from Google and may lead to a more concentrated customer base in future. Furthermore, in 2020, we disposed certain internet business, which mainly include gaming-related business, and resulted in a contraction of our products and services. For the year ended December 31, 2020, our disposed business contributed approximately 34.5% of our revenues. As a result, our revenues from internet business decreased by 59.0% from RMB3,370.8 million in 2019 to RMB1,380.9 million in 2020 and further by 52.7% to RMB653.8 million in 2021.

***We are subject to risks and uncertainties faced by companies in a rapidly evolving industry.***

We operate in the rapidly evolving internet industry, which makes it difficult to predict our future results of operations. Accordingly, our future prospects are subject to the risks and uncertainties experienced by companies in this evolving industry. Some of these risks and uncertainties relate to our ability to, among others:

- successfully implement our plan to further develop and monetize our mobile platform;
- offer new, innovative products and services and enhance our existing products and services with innovative and advanced technology to attract and retain a larger user base;
- retain existing customers, attract additional customers and restore collaborations with lost customers, and increase spending per customer;
- maintain our relationships with important suppliers, such as bandwidth suppliers, on favorable terms;
- respond to evolving user preferences and industry changes;
- respond to competitive market conditions;
- upgrade our technology to support traffic, product and service offerings;
- maintain effective control of our costs and expenses;
- respond to changes in the regulatory environment and manage legal risks, including those associated with intellectual property rights; and
- execute our strategic investments and acquisitions and post-acquisition integrations effectively.

If we fail to address any of the above risks and uncertainties, our business may be materially and adversely affected.

Additionally, certain of our technologies, such as artificial intelligence technologies, are characterized by rapid technological changes, new product introductions, enhancements, and evolving industry standards. The prospects of our products and business based on such technologies would depend on our ability to develop new products and applications in new markets that develop as a result of technological and scientific advances, while improving the performance and cost-effectiveness. New technologies, techniques or products that might offer better combinations of price and performance than our products could emerge. It is important that we anticipate changes in technology and market demand. If we do not successfully innovate and introduce new technology into our anticipated product lines or effectively manage the transitions of our technology to new product offerings, our business, financial condition and results of operations could be harmed.

***If we fail to compete effectively, our business, financial condition and results of operations may be materially and adversely affected.***

We face intense competition in our businesses. In the internet business, we compete with other mobile application and PC software developers, including those developers that offer products purported to perform similar functions as Clean Master, such as 360 Security Technology Inc., or 360, in China's internet security and anti-virus market. In the AI and others business, we compete with other companies offering similar product and service offerings as E-coupon vending robot, multi-cloud management business and overseas advertising business globally. In addition, we compete with all major internet companies for user attention and advertising spend.

Some of our competitors have longer operating histories and significantly greater financial, technological and marketing resources than we do and, in turn, have an advantage in attracting and retaining users and customers. If we are not able to effectively compete in any aspect of our business or if our reputation is harmed by negative publicity relating to us, our products and services or our key management, our user base may decrease, which could make us less attractive to customers, and our business, financial condition and results of operations may be materially and adversely affected.

***We have certain operations in international markets. If we fail to meet the challenges presented by our overseas operations, our business, financial conditions and results of operations may be adversely affected.***

Our business has continued to experience some challenges in the international markets. While we recently chose to scale back from the international markets, our existing overseas business continues to be exposed may continue exposing to a number of risks, including:

- challenges in formulating effective marketing strategies targeting mobile internet users from various jurisdictions and cultures, who have a diverse range of preferences and demands;
- challenges in identifying appropriate local business partners and establishing and maintaining good working relationships with them.
- local competition;
- challenges in meeting local advertiser demands as well as online marketing practices and conventions;
- differences in user and advertiser reception and perception of our applications internationally;
- challenges in building direct sales operations in the oversea market;
- fluctuations in currency exchange rates;
- compliance with applicable foreign laws and regulations, including but not limited to internet content requirements, foreign exchange controls, cash repatriation restrictions, intellectual property protection rules and data privacy requirements;
- exposure to different tax jurisdictions that may subject us to greater fluctuations in our effective tax rate and assessments in multiple jurisdictions on various tax-related assertions, including transfer pricing adjustments and permanent establishment; and
- increased costs associated with doing business in foreign jurisdictions.

Our business, financial condition and results of operations may be materially and adversely affected by these and other risks associated with our overseas operations.



***If users do not widely adopt versions of our applications developed for various mobile devices, our business could be adversely affected.***

The number of people who access the internet through mobile devices is keeping increasing. The varying display sizes, functionality, and memory associated with mobile devices make the use of our applications on such devices more difficult and the versions of our applications developed for these devices may not be compelling to users, manufacturers or distributors of devices. Each manufacturer or distributor may establish unique technical standards for its devices, and our applications may not work or be compatible with these devices. Some manufacturers may also elect not to include our applications on their devices. As new devices and new platforms are continually being released, it is difficult to predict the problems we may encounter in developing versions of our applications for use on these mobile devices and we may need to devote significant resources to the creation, support, and maintenance of our applications tailored for such devices. If we are unable to attract and retain a substantial number of mobile device manufacturers, distributors, and users to adopt and use our applications, or if we are slow to develop products and technologies that are more compatible with mobile devices, our business could be adversely affected.

***If major mobile application distribution channels change their standard terms and conditions in a manner that is detrimental to us, or terminate their existing relationship with us, our business, financial condition and results of operations may be materially and adversely affected.***

We currently rely on third-party mobile application distribution channels such as iOS App Store to distribute most of our mobile applications to users. In China, we collaborate with similar local distribution channels to distribute our mobile applications. We expect a substantial number of downloads of our mobile applications will continue to be derived from these distribution channels. As such, the promotion, distribution and operation of our applications are subject to such distribution channels' standard terms and policies for application developers, which are subject to the interpretation of, and frequent changes by, these distribution channels. On February 20, 2020, our company's Google Play Store, Google AdMob and Google AdManager accounts were disabled, which adversely affected our ability to attract new users and generate revenue from Google. According to Google, the decision was made because some of our company's apps had not been compliant with Google policies, resulting in certain invalid traffic. If iOS App Store or any other major distribution channel changes their standard terms and conditions in a manner that is detrimental to us, or terminate their existing relationship with us, our business, financial condition and results of operations may be materially and adversely affected.

***If our internet business fails to optimize system performance or provide attractive personalized experiences, we may lose users, and our business, financial condition and results of operations may be materially and adversely affected.***

Our users rely on our utility products to optimize the performance of their PC and mobile devices, provide real time protection against security threats, and gain personalized device experience. Our software and applications are highly technical and complex and, when deployed, may contain defects or security vulnerabilities. Some errors in our products may only be discovered after a product has been installed and used by our users.

Our software and applications for users rely on our cloud-based data analytics engines to optimize system performance and protect against security threats. The data analytics engines include our most up-to-date security threats library and application behavior library in the cloud, and our products only include a subset of these libraries on the users' end devices. If our data analytics engines do not function properly, or if the infrastructure supporting the data analytics engine malfunctions, our applications may not achieve optimal results.

Our cloud-based data analytics engines employ a heuristic, or experience-based, approach to detect unknown security threats and behavior of unknown PC software and mobile applications. However, new malware and malicious software and applications are constantly appearing and evolving, and our detection technologies may not detect all forms of security threats or malicious software and applications encountered by our users. In addition, our products may not work properly with the Windows, Android or iOS operating systems if we cannot promptly upgrade our products following any changes or updates to these operating systems. We previously experienced system disruption due to compatibility issues resulting from an update to the Windows operating system.

Any of these defects, vulnerabilities or failures could result in damage to our reputation, decrease in our user base and loss of customers, and our business, financial condition and results of operations may be materially and adversely affected.

***If any system failure, interruption or downtime occurs, our business, financial condition and results of operations may be materially and adversely affected.***

Although we seek to reduce the possibility of disruptions and other outages, our applications may be disrupted by problems with our own cloud-based technology and system, such as malfunctions in our software or other facilities or network overload. Our systems may be vulnerable to damage or interruption caused by telecommunication failures, power loss, human error, computer attacks or viruses, earthquakes, floods, fires, terrorist attacks, change of relevant laws, regulations or policies and similar events. Our IT systems may not be fully redundant or backed up, and our disaster recovery planning may not be sufficient for all eventualities. Despite any precautions we may take, the occurrence of natural disasters, policy changes or other unanticipated problems at our hosting facilities or similar events affecting our ability to use necessary online resources could result in interruptions in the availability of our products and services. In particular, we may be required to expand and adapt our technology and infrastructure to continue to reliably store, process and analyze user content as well as to ensure smooth delivery of high quality content. Any interruption in the ability of our users to use our applications could damage our reputation, reduce our future revenues, harm our future operations, subject us to regulatory scrutiny and lead users to seek alternative products.

We mostly use third party cloud-based services, such as AWS, Tencent cloud etc. instead of self-owned servers. These third-party services may experience downtime from time to time, and we have limited control over the quality and reliability of these services. Any scheduled or unscheduled interruption in our ability to use such services could result in service disruption, which could result in an immediate, and possibly substantial, loss of revenues. If any such incidents take place, our brands and user perception of the reliability of our systems may be adversely affected.

***As most of our core mobile utility products are created for Android devices, a decrease in the popularity of the Android ecosystem may materially and adversely affect our business.***

Most of our core mobile utility applications are created for Android devices. Any significant downturn in the overall popularity of the Android ecosystem or the use of Android devices could materially and adversely affect the demand for and revenues generated from these mobile utility applications. Although the Android ecosystem has grown rapidly in recent years, it is uncertain whether it will continue to grow at a similar rate in the future. In addition, due to the constantly evolving nature of the mobile industry, another operating system for mobile devices may eclipse Android and decrease its popularity. To the extent that our mobile utility applications continue to mainly support Android devices, our utility products would be vulnerable to any decline in popularity of the Android operating system.

***We may further dispose our internet products that could have a material adverse impact on our revenues.***

We have developed widely popular mobile applications in-house and have grown some acquired or jointly-operated third-party applications into popular applications in the past. These applications attracted a large user base which in turn helps generate significant revenues for us. On February 20, 2020, our company's Google Play Store, Google AdMob and Google AdManager accounts were disabled, which adversely affected our ability to attract new users and generate revenue from Google. In 2020, we disposed major gaming-related business. As a result, we expect the revenue contribution from gaming-related business to decrease in the foreseeable future. If we further dispose our internet products, our internet business may be materially and adversely affected.

***We have been named as a defendant in putative shareholder class action lawsuit that could have a material adverse impact on our business, financial condition, results of operation, cash flows and reputation.***

We will have to defend against putative shareholder class action lawsuits described in "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings," including any appeals of such lawsuit should our initial defense be unsuccessful. We are currently unable to estimate the possible loss or possible range of loss, if any, associated with the resolution of this lawsuit. In the event that our defense of this lawsuit is unsuccessful, there can be no assurance that we will prevail in any appeal. Any adverse outcome of these cases, including any plaintiff's appeal of a judgment in this lawsuit, could have a material adverse effect on our business, financial condition, results of operation, cash flows and reputation. In addition, there can be no assurance that our insurance carriers will cover all or part of the defense costs, or any liabilities that may arise from this matter. The litigation processes may utilize a significant portion of our cash resources and divert management's attention from the day-to-day operations of our company, all of which could harm our business. We also may be subject to claims for indemnification related to this matter, and we cannot predict the impact that indemnification claims may have on our business or financial results.

***We may not be able to adequately protect our intellectual property, which could harm our business and competitive position.***

We regard our trademarks, service marks, patents, domain names, trade secrets, proprietary technologies know-how and similar intellectual property as critical to our success, and we rely on trademark and patent law, trade secret protection and confidentiality and invention assignment agreements with our employees and third parties to protect our proprietary rights. See “Item 4. Information on the Company—B. Business Overview—Intellectual Property” for a description for our intellectual property. While we actively take measures to protect our intellectual property, such measures may not be adequate to prevent the infringement or misappropriation of our intellectual property. There can be no assurance that any of our pending patent, trademark or other intellectual property applications will be issued or registered. Any intellectual property rights we have obtained or may obtain in the future may not be sufficient to provide us with a competitive advantage, and could be challenged, invalidated, circumvented, infringed or misappropriated. Given the potential cost, effort, risks and disadvantages of obtaining patent protection, we have not applied and do not plan to apply for patents or other forms of intellectual property protection for certain of our key technologies. If some of these technologies are later proven to be important to our business and are used by third parties without our authorization, especially for commercial purposes, our business and competitive position may be harmed.

Monitoring for infringement or other unauthorized use of our intellectual property rights is difficult and costly, and we cannot be certain that we can effectively prevent such infringement or unauthorized use of our intellectual property. From time to time, we may need to resort to litigation or other proceedings to enforce our intellectual property rights, which could result in substantial cost and diversion of resources. We cannot provide assurance that we will prevail in such litigation or proceedings, in addition, our trade secrets may be leaked or otherwise become available to, or be independently discovered by, our competitors. Our efforts to enforce or protect our intellectual property rights may be ineffective and could result in the invalidation or narrowing of the scope of our intellectual property or expose us to counterclaims from third parties, any of which may adversely affect our business and operating results.

In addition, it is often difficult to create and enforce intellectual property rights in China and other countries outside of the United States. Even where adequate, relevant laws exist in China and other countries outside of the United States, it may not be possible to obtain swift and equitable enforcement of such laws, or to enforce court judgments or arbitration awards delivered in another jurisdiction. Accordingly, we may not be able to effectively protect our intellectual property rights in such countries. Additional uncertainty may result from changes to intellectual property laws enacted in the jurisdictions in which we operate, and from interpretations of intellectual property laws by applicable courts and government bodies.

Our confidentiality and invention assignment agreements with our employees and third parties, such as consultants and contractors, may not effectively prevent unauthorized use or disclosure of our confidential information, intellectual property or technology and may not provide an adequate remedy in the event of such unauthorized use or disclosure. Trade secrets and know-how are difficult to protect, and our trade secrets may be disclosed, become known or be independently discovered by others. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our website features, software and functionality or obtain and use information that we consider confidential and proprietary. If we are not able to adequately protect our trade secrets, know-how and other confidential information, intellectual property or technology, our business and operating results may be adversely affected.

***We may be subject to intellectual property infringement lawsuits which could result in our payment of substantial damages or license fees, disruption to our product and service offerings and reputational harm.***

Third parties, including our competitors, may assert claims against us for alleged infringements of their technology patents, copyrights, trademarks, trade secrets and internet content. Our internal procedures and licensing practices may not be effective in completely preventing the unauthorized use of copyrighted materials or the infringement of other rights of third parties by us or our users. The validity, enforceability and scope of protection of intellectual property rights in internet-related industries, particularly in China, is uncertain and still evolving. If a claim of infringement brought against us in China or another jurisdiction is successful, we may be required to pay substantial penalties or other damages and fines, enter into license agreements which may not be available on commercially reasonable terms or at all or be subject to injunction or court orders. We may be subject to injunction or court orders or required to redesign our products or technology, any of which could adversely affect our business, financial condition and results of operations. Even if allegations or claims lack merit, defending against them could be both costly and time-consuming and could significantly divert the efforts and resources of our management and other personnel. In addition, regardless of the outcome of the lawsuit, we could suffer reputational harm.

For example, we changed our corporate name, company logo and trademark to reflect our new name Cheetah Mobile in the first half of 2014. Cheetah is commonly used in corporate names in China, the United States and elsewhere. Although we believe in good faith that our use of Cheetah Mobile does not infringe on any third-party intellectual property rights and we have filed trademark applications in certain categories in China, third parties may bring trademark and other intellectual property infringement claims against us, which could distract our management attention and result in us incurring significant cost to defend ourselves.

Further, we license and use technologies from third parties in our applications. These third-party technology licenses may not continue to be available to us on acceptable terms or at all, and may expose us to liability. Any such liability, or our inability to use any of these third-party technologies, could result in disruptions to our business that could materially and adversely affect our operating and financial results.

***Some of our applications contain open source software, which may pose increased risk to our proprietary software.***

We use open source software in some of our applications, including our Clean Master which uses volley networking technology and will use open source software in the future. In addition, we regularly contribute source code to open source software projects and release internal software projects under open source licenses, and anticipate doing so in the future. The terms of many open source licenses to which we are subject have not been interpreted by U.S. or foreign courts, and there is a risk that such licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to sell or distribute our applications. Additionally, we may from time to time face threats or claims from third parties claiming ownership of, or demanding release of, the alleged open source software or derivative works we developed using such software, which could include our proprietary source code, or otherwise seeking to enforce the terms of the applicable open source license. These threats or claims could result in litigation and could require us to make our source code freely available, purchase a costly license or cease offering the implicated applications unless and until we can re-engineer them to avoid infringement. Such a re-engineering process could require significant additional research and development resources, and we may not be able to complete it successfully. In addition to risks related to license requirements, our use of certain open source software may lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or controls on the origin of the software. Additionally, because any software source code we contribute to open source projects is publicly available, our ability to protect our intellectual property rights with respect to such software source code may be limited or lost entirely, and we are unable to prevent our competitors or others from using such contributed software source code. Any of these risks could be difficult to eliminate or manage and, if not addressed, could adversely affect our business, financial condition and results of operations.

***We do not have internal manufacturing capabilities and rely on third-party contract manufacturers to produce our products. If we encounter issues with these contract manufacturers, our business, brand and results of operations could be harmed.***

We currently focus on deploying AI robots in some shopping malls in China's tier one and tier two cities. Our AI robots products are developed by Beijing OrionStar Technology Co., Ltd. or Beijing OrionStar, one of our related parties. Through voice interaction and AI technologies, these AI robots are able to perform marketing campaigns to amplify partner promotions and build brand recognition.

We do not maintain our own manufacturing capabilities and rely on contract manufacturers to produce our products. We assign the production of these products to Beijing OrionStar. We may experience operational difficulties with our manufacturers, including reductions in the availability of production capacity, failures to comply with product specifications, insufficient quality control, failures to meet production deadlines, insolvency of the manufacturers, increases in manufacturing costs and longer lead time required. Our manufacturers may experience disruptions in their manufacturing operations due to equipment breakdowns, labor strikes or shortages, natural disasters, component or material shortages, cost increases or other problems. In addition, we may not be able to renew contracts with our contract manufacturers or identify manufacturers who are capable of producing new products we target to launch in the future.

***We are susceptible to supply shortages, long lead time for raw materials and components, and supply changes, any of which could disrupt our supply chain and harm our results of operation.***

Most of the components and raw materials used to produce our AI-driven products are sourced from third-party suppliers, and some of these components are sourced from a limited number of or a single supplier. We also rely on licensing from certain third-parties to use certain technologies necessary for our AI-driven products. Therefore, we are subject to risks of shortages or discontinuation in licensing, supply, long lead time, cost increases and quality control issues with the limited sources of suppliers. In addition, as many of electronics component suppliers are concentrated in East and Southeast Asia, there have been industry-wide conditions, natural disasters and global events in the past that have caused material shortages for components. While component shortages have historically been immaterial, they could be material in the future.

In the event of a component shortage or supply interruption from suppliers of key components, we will need to identify alternate sources of supply, which can be time-consuming, difficult and costly. We may not be able to source these components on terms that are acceptable to us, or at all, which may undermine our ability to meet our production requirements or to fill our orders in a timely manner. This could cause delays in shipment of our products, harm our relationships with our customers, distributors and users, and adversely affect our results of operations.

***Our operating results could be materially harmed if we are unable to accurately forecast consumer demand for our products and services or manage our inventory.***

To ensure adequate inventory supply for our products, we procure products and components based on demand and production forecasts. The ability to accurately forecast demand for our products and services could be affected by many factors, including changes in customer demand for our products and services, and unanticipated changes in general market and economic conditions. In addition, as we continue to introduce new products and services, we may also face challenges managing the production plan of our existing products, which may in turn affect the inventory management for our existing products. If we or our customers fail to accurately forecast customer demand, we may experience excess inventory levels or a shortage of products available for sale. Inventory levels in excess of customer demand may result in inventory write-downs or write-offs and the sale of excess inventory at discounted prices, which may cause our gross margin to suffer and could impair the strength of our brand. In 2019, 2020 and 2021, our impairment of inventory were RMB2.8 million, RMB23.7 million and RMB7.6 million, respectively. On the other hand, in the case we experience shortage of products, we may be unable to meet the demand for our products, and our business and operating results could be adversely affected.

***Our business depends substantially on the continuing efforts of our management team, key employees and skilled personnel, and our business operations may be severely disrupted if we lose their services.***

Our future success depends substantially on the continued efforts of our management team and key employees, in particular, Mr. Sheng Fu, our chief executive officer. The loss of Mr. Fu or any of our management team members could harm our business. In addition, if our key employees were unable or unwilling to continue their services with us, we may not be able to replace them easily, in a timely manner, or at all, which could result in significant disruptions to our business. The integration of any replacement personnel could be time-consuming, expensive and cause additional disruption to our business. If any of our management team members or key employees joins a competitor or forms a competing company, we may lose customers, know-how and staff.

Each of our executive officers and key employees has agreed to non-competition obligations. However, these agreements may not be properly and effectively implemented in China, where our executives and key employees reside, in light of uncertainties relating to China's legal system. If any of our executive officers or key employees violates the terms of their non-competition or other employment agreements with us, or their legal duties by diverting business opportunities from us, it will result in our loss of corporate opportunities. Although we have adopted a code of business conduct and ethics to help restrict conflicts of interest involving directors and officers, any violation of this code by our directors or officers may materially and adversely affect our business operations, prospects and reputation.

***Allegations or lawsuits against us or our management may harm our reputation and have a material and adverse impact on our business, results of operations and cash flows.***

We have been, and may become, subject to allegations or lawsuits brought by our competitors, customers, business partners, short sellers, investment research firms or other individuals or entities, including claims of breach of contract or unfair competition. Any such allegation or lawsuit, with or without merit, or any perceived unfair, unethical, fraudulent or inappropriate business practice by us or perceived malfeasance by our management could harm our reputation and user base and distract our management from our daily operations. Allegations or lawsuits against us or our management may also generate negative publicity that significantly harms our reputation, which may materially and adversely affect our user base and our ability to attract customers. In addition to the related cost, managing and defending litigation and related indemnity obligations can significantly divert management's attention. We may also need to pay damages or settle the litigation with a substantial amount of cash. All of these could have a material adverse impact on our business, results of operation and cash flows.

***Our chief executive officer, Mr. Sheng Fu, is named in a lawsuit filed by Qihoo in Hong Kong, and there is uncertainty as to the outcome of this lawsuit and its impact on us.***

In September 2011, Mr. Sheng Fu, our chief executive officer, was named as a defendant in a lawsuit filed by Qihoo 360 Technology Co., Ltd., or Qihoo, the previous U.S. listed entity of 360, in the High Court of the Hong Kong Special Administrative Region. The complaint was subsequently amended in May 2012, July 2012 and January 2014. The amended complaint alleges that Mr. Fu has breached his contractual obligations of confidentiality, non-competition, non-solicitation and non-disparagement under the agreements Mr. Fu had entered into with a subsidiary of Qihoo prior to his resignation from the subsidiary in August 2008. The complaint asserts that Mr. Fu was a product manager of Qihoo and was responsible for, and participated in, product design and research of certain anti-virus products, including 360 Anti-virus and 360 Safe Guard, and had access to the related confidential information, trade secret, technology and know-how.

In connection with the above claims, the complaint specifically alleges that Mr. Fu: (i) used confidential information of Qihoo to develop, by himself or through Beijing Conew Technology Development Co. Ltd., or Beijing Conew, and Conew Network Technology (Beijing) Co., Ltd., or Conew Network, an anti-virus product released around May 2010 that was allegedly substantially similar to Qihoo's 360 Anti-virus and 360 Safe Guard and infringed upon the confidential information, trade secrets and other rights of Qihoo; (ii) engaged in or dealt with businesses and products that directly competed with the businesses and/or products of Qihoo within the 18-month restricted period; (iii) employed employees of Qihoo within the 18-month restricted period, including Mr. Ming Xu, our former president, who was the then director of technology of 360 Safe Guard, a division of Qihoo; and (iv) publicly made certain negative statements about Qihoo.

Qihoo is seeking a court declaration that Qihoo's repurchase of its shares previously granted to Mr. Fu under Qihoo's share incentive plan at a nominal value was valid, a court order that Mr. Fu cease to use any confidential information or know-how of Qihoo, damages for disparagement, and a court order that Mr. Fu account to Qihoo for any profits that he earned as a result of the alleged breach.

Mr. Fu joined us in October 2010 when we acquired Conew.com Corporation for which Mr. Fu served as the chief executive officer prior to the acquisition. Our product offerings do not include, and are not derived from, the anti-virus products referenced in the complaint. Mr. Fu believes that Qihoo's allegations are without merit and intends to contest them vigorously. However, it is inherently difficult to predict the length, process and outcome of any court proceedings. Any litigation, regardless of the merits, can be time-consuming and can divert Mr. Fu's attention away from our business. Should Qihoo prevail in the lawsuit against Mr. Fu, Mr. Fu's reputation may be harmed and he may be ordered to cease using such confidential information. Moreover, although we have not been named as a defendant in the lawsuit, we cannot guarantee that Qihoo or 360 will not initiate proceedings against us in the future, which could adversely affect our reputation, business and results of operations.

***We have made significant capital investment in a number of strategic investments, acquisitions and partnerships, which may not be successful and may have a material and adverse effect on our business, reputation and results of operations.***

We have made significant capital investment in strategic investments, acquisitions and partnerships to complement our organic business expansion. We have also made a number of investments in securities and minority investments in companies with strategic value for us. These investments and acquisitions require a significant amount of capital, which decreases the amount of cash available for working capital or capital expenditures. In 2019, 2020 and 2021, we have paid for investments and acquisitions in an aggregate amount of RMB523.1 million, RMB186.2 million and RMB9.5 million (US\$1.5 million), respectively. If these investments and acquisitions do not perform as we have expected, become less valuable to our business due to a change in our overall business strategy, or if the industry, regulatory or economic environments deteriorate, they could result in significant impairment of investments. In 2019, 2020 and 2021, our impairment of investments were RMB168.0 million, RMB78.1 million and RMB395.0 million (US\$62.0 million), respectively, primarily due to some non-cash write-downs of certain investment assets, as we considered the fair value of such investment assets less than carrying value. As our market capitalization was lower than the carrying amount of the net assets, we performed impairment assessment for the goodwill of all reporting units using the two-step process, and recognized impairment loss of RMB545.7 million for the year ended 2019. These write-downs were the result of lower-than-expected performance and financial position of the investment assets. In addition, acquisitions of businesses and assets may increase our capital and expenses in integrating new businesses and personnel into our own, require significant management attention and result in a diversion of resources away from our existing business, which in turn could have an adverse effect on our business operations. Further, acquisitions could result in increased leverage, potentially dilutive issuances of equity securities and exposure to potential unknown liabilities of the acquired business. The costs of identifying and consummating acquisitions may also be significant. In addition to possible shareholders' approval, we may also have to obtain approvals and licenses from relevant government authorities for the acquisitions and comply with applicable laws and regulations, which could result in increased costs and delays.

In the future, if appropriate opportunities arise, we may acquire additional assets, products, technologies or businesses that are complementary to our existing business. However, we may fail to select appropriate acquisition targets, negotiate acceptable arrangements (including arrangements to finance acquisitions) or integrate the acquired businesses and their personnel into our own. In addition, strategic partnerships could subject us to a number of risks, including risks associated with sharing proprietary information and non-performance by third parties. We may not be able to monitor or control the actions of our strategic partners and, to the extent any such strategic partner suffers negative publicity or harm to its reputation from events relating to its own business, we may also suffer negative publicity or harm to our reputation by association.

***If we fail to effectively resume our growth or implement our business strategies, our business and operating results could be harmed.***

Our business experienced revenue decrease since 2019. Total revenues decreased to RMB784.6 million (US\$123.1 million) in 2021 from RMB1,552.6 million in 2020. As our business continues to face some challenges, we may not be able to resume our growth in the near future. In addition, resuming our growth requires significant expenditures and allocation of valuable management time and resources. To execute our business plan and strategy, we need to continuously improve our operational and financial systems, procedures and controls, and expand, train, manage and maintain good relations with our employee base. Further, we must expand and continue to engage or maintain our relationships with a growing number of users, customers and business partners. Resumed growth could also strain our ability to maintain reliable service for our users, customers and business partners. We operate in a dynamic and rapidly evolving market and investors should not rely on our past results as an indication of our future operating performance. Any failure to effectively manage our growth or implement our business strategies may materially and adversely affect our business and results of operations.

***We rely on certain assumptions to calculate our mobile monthly active user and mobile installation figures, and real or perceived inaccuracies may harm our reputation and adversely affect our business.***

We derive the number of mobile monthly active users of our applications using a combination of our internal statistics and data provided by a third-party research firm, and we derive the number of mobile devices installed with our applications using our internal statistics. Our internal statistics have not been independently verified. While we believe third-party data we use are reliable, we have not independently verified such data. Furthermore, there are inherent challenges in measuring usage across our large user base. For example, we calculate the number of active users of our mobile applications based on the number of unique devices. We count each device on which one or more of our mobile applications have been installed or downloaded as a single user. As such, a single individual using our applications on multiple devices is counted as multiple users, while multiple individuals sharing a device on which our applications are installed or downloaded is counted as a single user.

Since 2018, the Android 8 operating system discontinued to support for publishers with multiple applications to measure the number of monthly active users by unique device. The move caused difficulties for publishers like us to measure the number of our overall mobile monthly active user by devices given that we have a rich mobile product portfolio and there may be multiple of our applications installed in a single Android device. We have already begun to adjust our models to respond to Google's policy adjustment. However, our measures of user base and user activity may differ from estimates published by third parties or from similarly titled metrics used by our competitors due to differences in methodology. If customers or investors do not perceive our user metrics to be accurate representations of our user base or user activity, or if we discover material inaccuracies in our user metrics, our reputation may be harmed and customers may be less willing to allocate their spending or resources to us, which could negatively affect our business and operating results.

***Our results of operations are subject to seasonal fluctuations due to a number of factors, any of which could adversely affect our business and operating results.***

We are subject to seasonality and other fluctuations in our business. Revenues from our internet business are affected by seasonality in advertising spending in both China and the overseas markets. In 2021, revenues from our Internet business accounted for 83.3% of our total revenues. We believe that such seasonality in advertising spending affects our quarterly results, resulting in growth in our revenues from internet business between the third and the fourth quarters but a decline from the fourth quarter to the next quarter. Thus, our operating results for one or more future quarters or years may fluctuate substantially or fall below the expectations of securities analysts and investors. In such event, the trading price of the ADSs may fluctuate significantly.

***If we fail to build, maintain and enhance our brands, incur excessive expenses in this effort, our business, results of operations and prospects may be materially and adversely affected.***

We believe that building, maintaining and enhancing our brands are critical to the success of our business and our ability to compete. Well-recognized brands are important to increasing our number of users and expanding our business.

Many factors, some of which are beyond our control, are important to maintaining and enhancing our brands and may negatively impact our brands and reputation if not properly managed, such as:

- our ability to provide a convenient and reliable user experience as user preferences evolve and we expand into new applications;
- our ability to increase brand awareness among existing and potential users and customers through various marketing and promotional activities;
- our ability to adopt new technologies or adapt our applications to meet user needs or the expectations of our customers;
- our ability to maintain and enhance our brands in the face of potential challenges from third parties;
- actions by third parties, through whom we collect revenues and perform other business functions, that may affect our reputation; and
- our ability to differentiate our brands and products from those of Kingsoft Corporation.

As we expand, we may conduct various marketing and brand promotion activities. We cannot assure you, however, that these activities will be successful or that we will be able to achieve the outcomes we expect. In addition, any negative publicity in relation to our applications, regardless of its veracity, could harm our brands and reputation.



***Non-compliance on the part of third parties with whom we conduct business could disrupt our business and adversely affect our results of operations.***

Third parties with whom we conduct our business, including our advertisers place their advertisements on our products through mobile advertising networks, operational partners who provide assistive functionalities for our PC or mobile products, content provider and hardware manufacturer, may be subject to regulatory penalties or punishments because of their regulatory compliance failures, which may disrupt our business. Any legal liabilities of, or regulatory actions against, such third parties may affect our business activities and reputation and, in turn, our results of operations. For example, under PRC advertising laws and regulations, we are obligated to monitor the advertising contents shown on our products. We have strict terms in contracts with most of the advertising networks to ensure that the advertisements shown on our products are in full compliance with applicable PRC laws and regulations. However, there are still uncertainties underlying these contents from advertisers. If we are found to be in violation of applicable PRC advertising laws and regulations, we may be subject to penalties and our reputation may be harmed, which may have an adverse effect on our business, financial condition, results of operations and prospects.

***If we fail to obtain and maintain the requisite licenses and approvals or otherwise comply with the laws and regulations under the complex regulatory environment applicable to our businesses in China as well as our outbound investment, or if we are required to take actions that are time-consuming or costly, our business, financial condition and results of operations may be materially and adversely affected.***

The internet industry, including the mobile internet industry, is highly regulated in China. The VIEs are required to obtain and maintain applicable licenses and approvals from different regulatory authorities in order to provide their current services. Under the current PRC regulatory scheme, a number of regulatory agencies, including but not limited to the State Administration of Press, Publication, Radio, Film and Television, or SARFT, which has been reformed and become National Radio and Television Administration, or NRTA, the Ministry of Culture, or MOC, which were consolidated with the National Tourism Administration and has been reformed and become the Ministry of Culture and Tourism, or MCT, Ministry of Industry and Information Technology, or MIIT, the State Council Information Office, or SCIO, and the Cyberspace Administration of China, or CAC, jointly regulate all major aspects of the internet industry, including mobile and PC internet businesses. Operators must obtain various government approvals and licenses for relevant internet or mobile business.

We have obtained Internet Content Provider Licenses, or ICP Licenses, for the provision of internet information services, a license for value-added telecommunications services with the specification of online data processing and transaction processing business, or EDI license, Business License of Value-Added Telecommunications Services, or SP license, Internet Culture Operation Licenses for the operation of online entertainment products, and Computer Information System Security Products Sales License for our mobile and PC security applications. These licenses are essential to the operation of our business and are generally subject to regular government review or renewal. However, we cannot assure you that we can successfully renew these licenses in a timely manner or that these licenses are sufficient to conduct all of our present or future business.

Pursuant to the Decision of Ministry of Culture and Tourism on Abolishing Provisional Administration Measures of Online Games and the Measures for the Administration of Tourism Development Plans, which was promulgated by the MCT on 10 July 2019, the Provisional Administration Measures of Online Games was abolished. On May 14, 2019, the general office of MCT promulgated the Notice on Adjustment of the Approval Scope of Internet Cultural Operation Licenses and Further Regulating the Approval Work, or the No. 81 Notice. According to the No. 81 Notice, the MCT no longer assumes the online game industry management responsibility. Upon receiving the No. 81 Notice, the provincial cultural and tourism administrative departments no longer approve and issue the Internet Culture Operation Licenses covering business scope of “operating gaming products through the internet” or “operating gaming products through the internet, including the issuance of virtual currency”. See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulations on Online Games and Foreign Ownership Restrictions.”

A number of online games currently offered on our platform are developed by and jointly operated with game developers, whereas several online games were developed and are currently operated by us. We are required to obtain an Internet Publishing License from SARFT for the operation and distribution of games through mobile and PC internet networks. As it is difficult to acquire Internet Publishing License in practice, we have not obtained an Internet Publishing License from SARFT for the operation and distribution of games on mobile and PC internet. Due to the lack of Internet Publishing License for operating and distributing games through mobile and PC internet networks, we may be prohibited from carrying out the abovementioned activities and may be subject to administrative penalties, such as warnings, fines or even criminal liabilities. Additionally, each online game is also required to be filed with SARFT prior to the commencement of its operations in China. While we endeavor to comply with the registration requirements, a few developers of the games we publish (including our subsidiaries), who have contractual obligations to file the games with SARFT, may have not made such filings as required. We cannot assure you that we or our game developers will be able to obtain all the required permits, approvals or licenses or complete all the required filings in a timely manner, or at all. If we or any of such game developers fails to do so, we may have to modify our online game publishing services in a manner disruptive to our business or may not be able to continue to operate the affected online games, which may adversely affect our business and results of operations. Besides, our subsidiary is operating the website of [www.duba.com](http://www.duba.com), providing links pertaining to news reporting and commentary on politics, economy, military affairs, diplomacy, public emergencies and other public affairs, which eventually will be viewed by users of other websites. Pursuant to regulations relating to internet news information services, the abovementioned activities may be regarded as providing internet news information reprinting services and communication platform services, and the operator of the website of [www.duba.com](http://www.duba.com) may be required to obtain an internet news information service license, or an INIS License. However, our subsidiary has not obtained such license. Therefore, our subsidiary may be prohibited from carrying out the abovementioned activities and may be subject to administrative penalties, such as warnings, fines, or even criminal liabilities.

Considerable uncertainties exist regarding the interpretation and implementation of existing and future laws and regulations governing our current business activities and new industries or businesses we may expand into. For example, we once commenced an online lottery sales business in April 2014 but suspended such business in March 2015 due to regulatory uncertainty in China. We have then disposed of and deconsolidated the online lottery business in May 2016. We cannot assure you that we will not be found in violation of any future laws and regulations or any of the laws and regulations currently in effect due to changes in the relevant authorities' implementation or interpretation of these laws and regulations. If we fail to complete, obtain or maintain any of the required licenses or approvals or make the necessary filings, or otherwise fail to comply with the laws and regulations, we may be subject to various penalties, such as confiscation of revenues that were generated through the unlicensed internet or mobile activities, the imposition of fines and the discontinuation or restriction of our operations. Any such penalties may disrupt our business operations and materially and adversely affect our business, financial condition and results of operations.

Pursuant to NDRC Order 11, any sensitive outbound investment project carried out by overseas enterprise controlled by a PRC natural person shall be subject to a verification and approval procedure, and any non-sensitive outbound investment project, with the total investment amount from any Chinese investor via overseas enterprise under its control exceeding US\$300 million, shall be reported to NDRC before the implementation of the project. On February 12, 2017, Kingsoft Corporation have entered into a voting proxy agreement with Mr. Sheng Fu, which became effective on October 1, 2017. According to such agreement, Kingsoft Corporation have delegated to Mr. Sheng Fu its approximately 39.4% voting power of our company. Mr. Sheng Fu has approximately 46.4% voting power of our company so far. As we and our overseas subsidiaries may be considered as companies under control of Mr. Sheng Fu pursuant to NDRC Order 11, verification and approval procedure or reporting may be required when we or our subsidiaries make investments outside China. While we endeavor to comply with NDRC Order 11 and other regulations regarding outbound investment, we cannot assure you that our existing or future subsidiaries will maintain all applicable outbound investment procedures in a timely manner, and any non-compliance on their part may cause potential liabilities to us and disrupt our operations. See "Item 4. Information on the Company—B. Business Overview—Regulations— Regulations on Outbound Investment" for further details.

***Actual or alleged failure to comply with laws and regulations on data privacy and protection could damage our reputation, discourage current and potential users from using our products and services applications and subject us to damages, administrative penalties and criminal liabilities, which could have material adverse effects on our business and results of operations.***

As the regulations regarding data privacy and cybersecurity are quickly evolving in China and globally, we may become subject to evolving laws and regulations applying to the solicitation, collection, processing or use of personal or consumer information that could affect how we store, process and share data with our customers, suppliers and third-party merchants. Concerns about our practices with regard to the collection, storage, use, processing, disclosure or transfer of personal information or other privacy-related matters, even if unfounded, could damage our reputation, business and results of operations.

For example, in August 2015, the Standing Committee of the National People’s Congress promulgated the Ninth Amendment to the Criminal Law, which became effective in November 2015 and amended the standards of crime of infringing citizens’ personal information and reinforced the criminal culpability of unlawful collection, transaction, and provision of personal information. It further provides that any ICP provider that fails to fulfill the obligations related to internet information security administration as required by applicable laws and refuses to rectify upon orders will be subject to criminal liability. In November 2016, the Standing Committee of the National People’s Congress promulgated the PRC Cyber Security Law, which requires, among others, that network operators take security measures to protect the network from unauthorized interference, damage and unauthorized access and prevent data from being divulged, stolen or tampered with. Network operators are also required to collect and use personal information in compliance with the principles of legitimacy, properness and necessity, and strictly within the scope of authorization by the subject of personal information unless otherwise prescribed by laws or regulations. Significant capital, managerial and human resources are required to comply with legal requirements, enhance information security and to address any issues caused by security failures. The Civil Code promulgated in 2020 also provides specific provisions regarding the protection of personal information. On June 10, 2021, the Standing Committee of the National People’s Congress promulgated the PRC Data Security Law, which took effect in September 2021. The Data Security Law, among others, provides for a security review procedure for the data activities that may affect national security. On August 20, 2021, the Standing Committee of the National People’s Congress of China promulgated the Personal Information Protection Law, which integrates the scattered rules with respect to personal information rights and privacy protection and took effect on November 1, 2021. In December 2012, the Standing Committee of the PRC National People’s Congress promulgated the Decision on Strengthening Network Information Protection, or the Network Information Protection Decision, to enhance the legal protection of information security and privacy on the internet. The Network Information Protection Decision also requires internet operators to take measures to ensure confidentiality of information of users.

In July 2013, the MIIT promulgated the Provisions on Protection of Personal Information of Telecommunication and Internet Users to regulate the collection and use of users’ personal information in the provision of telecommunication service and internet information service in China.

Our mobile applications and websites collect certain user personal information that is necessary to provide the corresponding services. We have privacy policies in place that defines the scope and necessity of the personal information we collect, which have been, and will continue to be updated from time to time to meet the latest regulatory requirements. Nonetheless, many specific requirements for collecting, or processing personal information, including requirements of the Personal Information Protection Law, remain to be clarified by the CAC, other regulatory authorities, and courts in practice. We may be required to make further adjustments to our business practices to comply with the personal information protection laws and regulations. See “Item 4.B. Information on the Company—Business Overview—Regulation.”

In addition, the PRC Cyber Security Law, the Data Security Law and Civil Code are relatively new and subject to interpretation by the regulators. The data we obtain and use in relation to the services we provide may include information that is deemed as “personal information”, “network data” or “important data” under the PRC Cyber Security Law, the Civil Code and related data privacy and protection laws and regulations. As such, we have adopted a series of measures to ensure that we comply with relevant laws and regulations in the collection, use, disclosure, sharing, storage, and security of user information and other data. The Data Security Law also stipulates that the relevant authorities will formulate the catalogues for important data and strengthen the protection of important data, and state core data, i.e. data having a bearing on national security, the lifelines of national economy, people’s key livelihood and major public interests, shall be subject to stricter management system. “Item 4.B. Information on the Company—Business Overview—Regulation.” The exact scopes of important data and state core data remain unclear and may be subject to further interpretation. If any data that we are in possession of constitutes important data or state core data, we may be required to adopt stricter measures for protection and management of such data.

Any failure or perceived failure by us to prevent information security breaches or to comply with privacy policies or privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other customer data, could cause our customers to lose trust in us and could expose us to legal claims. Any perception by the public that online transactions or the privacy of user information are becoming increasingly unsafe or vulnerable to attacks could inhibit the growth of online retail and other online services generally, which may reduce the number of orders we receive.

On July 30, 2021, the state council promulgated the Regulations on Protection of Critical Information Infrastructure, which became effective on September 1, 2021. Pursuant to the Regulations on Protection of Critical Information Infrastructure, critical information infrastructure shall mean any important network facilities or information systems of the important industry or field such as public communication and information service, energy, transportation, water conservation, finance, public services, e-government affairs and national defense science, which may endanger national security, people's livelihood and public interest in case of damage, function loss or data leakage. In addition, relevant administration departments of each critical industry and sector, or Protection Departments, shall be responsible to formulate eligibility criteria and determine the critical information infrastructure operator in the respective industry or sector. The operators shall be informed about the final determination as to whether they are categorized as critical information infrastructure operators. As of the date of this annual report, no detailed rules or implementation has been issued by any authority and we have not been informed as a critical information infrastructure operator by any government authorities. Furthermore, the exact scope of "critical information infrastructure operators" under the current regulatory regime remains unclear, and the PRC government authorities may have wide discretion in the interpretation and enforcement of these laws. Therefore, it is uncertain whether we would be deemed as a critical information infrastructure operator under PRC law. If we are deemed as a critical information infrastructure operator under the PRC cybersecurity laws and regulations, we must fulfill certain obligations as required under the PRC cybersecurity laws and regulations, including, among others, storing personal information and important data collected and produced within the PRC territory during our operations in China, which we have fulfilled in our business, and we may be subject to review when purchasing internet products and services.

On November 14, 2021, the CAC released the Regulations on the Network Data Security (Draft for Comments), or the Draft Regulations. The Draft Regulations provide that data processors refer to individuals or organizations that autonomously determine the purpose and the manner of processing data. In accordance with the Draft Regulations, data processors shall apply for a cybersecurity review for the following activities: (i) merger, reorganization or division of Internet platform operators that have acquired a large number of data resources related to national security, economic development or public interests to the extent that affects or may affect national security; (ii) listing abroad of data processors which process over one million users' personal information; (iii) the listing of data processors in Hong Kong which affects or may affect national security; or (iv) other data processing activities that affect or may affect national security. However, there have been no clarifications from the authorities as of the date of this annual report as to the standards for determining such activities that "affects or may affect national security." See "Item 4.B. Information on the Company—Business Overview—Regulation." As of the date of this annual report, the Draft Regulations was released for public comment only, and its respective provisions and the anticipated adoption or effective date may be subject to change with substantial uncertainty. The Cybersecurity Review Measures are relatively new and remain unclear on how it will be interpreted and implemented by the relevant PRC governmental authorities, it remains uncertain how PRC governmental authorities will regulate overseas listing in general and whether we are required to obtain any specific regulatory approvals for our offshore offerings. However, as of the date of this annual report, we have not received any formal notice from any cybersecurity regulator that we should apply for a cybersecurity review. The Draft Regulations remains unclear on whether the relevant requirements will be applicable to companies that have been listed in the United States and Hong Kong, such as us. We cannot predict the impact of the Draft Regulations, if any, at this stage, and we will closely monitor and assess any development in the rule-making process. If the enacted versions of the Draft Regulations mandate clearance of cybersecurity review and other specific actions to be completed by China-based companies listed on a U.S. stock exchange and Hong Kong Exchanges, such as us, we face uncertainties as to whether such clearance can be timely obtained, or at all. In addition, if a final version of the Draft Regulations is adopted, we may be subject to review when conducting data processing activities and annual data security assessment and may face challenges in addressing its requirements and make necessary changes to our internal policies and practices in data processing. We have been advised by our PRC legal counsel that, these laws and regulations are relatively new, and therefore there are substantial uncertainties with respect to the interpretation and implementation of these data security laws and regulations. We may need to adjust our business to comply with information security requirements from time to time. We have taken measures to comply with existing laws and regulations.

On December 31, 2021, the CAC, together with other regulatory authorities, published Administrative Provisions on Algorithm Recommendation for Internet Information Services (the Administrative Provisions on Algorithm Recommendation), effective on March 1, 2022. Pursuant to the Administrative Provisions on Algorithm Recommendation, users should be given an option to easily turn off algorithm recommendation services, and service providers shall, among others, establish and improve the management systems and technical measures for algorithm driven recommendation mechanism and regularly review, evaluate and verify the principle, models, data and application results of algorithms. We will closely monitor the regulatory development and adjust our business operation from time to time to comply with the regulations over algorithm.

***Our business is subject to complex and evolving laws and regulations regarding privacy, data protection, and other matters outside China. Many of these laws and regulations are subject to change and uncertain interpretation, and could result in claims, changes to our business practices, monetary penalties, increased cost of operations, or declines in user growth or engagement, or otherwise harm our business.***

In addition to PRC laws and regulations, we face additional regulatory risks and costs outside China. We are subject to a variety of laws and regulations in foreign jurisdictions that involve matters central to our business, including privacy and data protection, rights of publicity, content, intellectual property, advertising, marketing, distribution, data security, data retention and deletion, personal information, national security, electronic contracts and other communications, virtual currencies, competition, protection of minors, consumer protection, telecommunications, taxation, and economic or other trade prohibitions or sanctions. The introduction of new products, services or expansion of our activities in certain jurisdictions may subject us to additional laws and regulations. In addition, foreign data protection, privacy, and other laws and regulations can be more restrictive than those in China and in the United States.

For instance, we are subject to regulations under U.S. state law regarding the publication and dissemination of our privacy policy with respect to user data. It is possible that we may become subject to additional U.S. state or federal legislation or rules and regulations of governmental authorities outside China regarding the use of personal information or privacy-related matters. The General Data Protection Regulation (GDPR) (EU) 2016/679 is a regulation in EU law on data protection and privacy for all individuals within the European Union. It addresses the export of personal data outside the EU. The GDPR became enforceable on May 25, 2018. Failure to comply with GDPR may result in punitive actions from EU authorities, reputation damage, user loss, and revenue loss. Complying with any additional or new regulatory requirements could force us to incur substantial costs or require us to change our business practices.

Similar to PRC laws and regulations, these foreign laws and regulations are constantly evolving and can be subject to significant change. As a result, the application, interpretation, and enforcement of these laws and regulations are often uncertain, particularly in the new and rapidly evolving industry in which we operate, and may be interpreted and applied inconsistently from country to country and inconsistently with our current policies and practices. For example, regulatory or legislative actions affecting the manner in which we display content to our users could adversely affect user growth and engagement, and legislations implementing data protection requirements or requiring local storage and processing of data or similar requirements could increase the cost and complexity of delivering our services.

The existing and proposed laws and regulations, as well as any associated inquiries, investigations, or actions, can be costly to comply with and can delay or impede the development of new products, result in negative publicity, increase our operating costs, require significant management time and attention, and subject us to remedies that may harm our business, including fines or demands or orders that we modify or cease existing business practices.

While we strive to protect our users' privacy and comply with all applicable data protection laws and regulations, any failure or perceived failure to do so may result in proceedings or actions against us by government entities or others, and could damage our reputation, discourage current and potential users from using our products or services, and subject us to damages, administrative penalties and criminal liabilities. From time to time, we may be subject to claims or allegations of infringement of users' privacy or breach of data protections laws. Negative publicity in relation to our products or services, regardless of its veracity, could seriously harm our reputation, which in turn may discourage current and potential users from using our applications, which could have material adverse effects on our business and results of operations. In addition, user and regulatory attitudes towards privacy are evolving, and future regulatory or user concerns about the extent to which personal information is used by, accessible to or shared with customers or others may adversely affect our ability to share certain data with customers.

***Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us.***

The PRC legal system is based on written statutes and court decisions have limited precedential value. The PRC legal system is evolving rapidly, and the interpretations of many laws, regulations and rules may contain inconsistencies and enforcement of these laws, regulations and rules involves uncertainties.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. However, since PRC judicial and administrative authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to predict the outcome of a judicial or administrative proceeding than in more developed legal systems. Furthermore, the PRC legal system is based, in part, on government policies and internal rules, some of which are not published in a timely manner, or at all, but which may have retroactive effect. As a result, we may not always be aware of any potential violation of these policies and rules. Such unpredictability towards our contractual, property (including intellectual property) and procedural rights could adversely affect our business, impede our ability to continue our operations or cause products removal.

***Security breaches or hacking incidents could have a material adverse effect on our reputation, business prospects and results of operations.***

Any significant breach of the security of our computer systems could significantly harm our business, reputation and results of operations and expose us to lawsuits brought by our users and customers and to sanctions by governmental authorities in the jurisdictions in which we operate and may result in significant damage to our internet security brand. We cannot assure you that our IT systems will be completely secure from future security breaches or hacking incidents. Anyone who is able to circumvent our security measures could misappropriate proprietary information, including the personal information of our users, obtain users' names and passwords and enable hackers to access users' other online and mobile accounts, if those users use identical user names and passwords. They could also misappropriate other information, including financial information, uploaded by our users in a secure environment. These circumventions may cause interruptions in our operations or damage our brand image and reputation. Our servers may be vulnerable to computer viruses, physical or electronic break-ins and similar disruptions, which could cause system interruptions, website slowdown or unavailability, delays in communication or transactions, or loss of data. We may be required to incur significant additional costs to protect against security breaches or to alleviate problems caused by such breaches. Any significant security breach or attack on our system could result in a material adverse impact on our reputation, business prospects and results of operations.

***The successful operation of our business depends upon the performance and reliability of the internet infrastructure in China and the safety of our network and infrastructure.***

Our business depends on the performance and reliability of the internet infrastructure in China. Almost all access to the internet is maintained through state-owned telecommunication operators under the administrative control and regulatory supervision of the MIIT. A more sophisticated internet infrastructure may not develop in China. We may not have access to alternative networks in the event of disruptions, failures or other problems with China's internet infrastructure. In addition, the internet infrastructure in China may not support the demands associated with continued growth in internet usage. Although we believe we have sufficient controls in place to prevent intentional disruptions, we expect our network and infrastructure may experience attacks specifically designed to impede the performance of our products and services, misappropriate proprietary information or harm our reputation. Because the techniques used by hackers to access or sabotage networks change frequently and may not be recognized until launched against a target, we may be unable to anticipate them effectively. The theft, unauthorized use or publication of our trade secrets and other confidential business information as a result of such an event could adversely affect our competitive position, brand reputation and user base, and our users and customers may assert claims against us related to resulting losses arising from security breaches. Our business could be subject to significant disruption and our results of operations may be affected.

***We may not be able to regain our profitability in the future. In addition, we may not be able to obtain additional capital in a timely manner or on acceptable terms, or at all.***

We have incurred operating losses before and we may not be able to regain our profitability in the future as we continue to develop our internet business and invest in artificial intelligence. Our future revenue growth and profitability will depend on a variety of factors, many of which are beyond our control. These factors include our ability to successfully continue to timely anticipate and adequately address the evolving needs of our users, customers and business partners, as well as our ability to attract new users, increase user engagement, effectively design and implement monetization strategies, and compete effectively and successfully. Our ability to achieve and sustain profitability is also affected by market and regulatory development related to, among others, mobile applications, online marketing and artificial intelligence. In addition, if we are unable to achieve profitability again, it may become more difficult for us to raise sufficient capital to satisfy our anticipated capital expenditures and other cash needs, in which case our business, results of operations and financial condition may be materially adversely affected.

***We have granted, and may continue to grant, options, restricted shares and other types of share-based incentive awards, which may result in increased share-based compensation expenses.***

We adopted a share award scheme, or the 2011 Plan, in May 2011, a 2013 equity incentive plan, or the 2013 Plan, in January 2014, and a restricted shares plan, or the 2014 Plan, in April 2014 and several equity incentive plan of our subsidiaries, pursuant to which we are authorized to grant options, restricted shares and other awards to our directors, officers, other employees and consultants, as each plan may provide. In addition to our share incentive plans, we have also granted share-based incentive awards in connection with certain investments and acquisitions made by us. See “Item 6. Directors, Senior Management and Employees—B. Compensation—Share Incentive Awards.” In 2019, 2020 and 2021, we recorded RMB127.4 million, RMB81.0 million and RMB7.2 million (US\$1.1 million), respectively, of share-based compensation expenses. The amount of these expenses is based on the fair value of the share-based incentive awards we granted, and the recognition of unrecognized share-based compensation expenses will depend on the forfeiture rate of our unvested share-based awards. Expenses associated with share-based compensation have affected our net income and may reduce our net income in the future, and any additional securities issued pursuant to share-based incentive awards will dilute the ownership interests of our shareholders, including holders of the ADSs. We believe the granting of share-based incentive awards is of significant importance to our ability to attract and retain key personnel, employees and consultants, and we will continue to grant share-based incentive awards in the future. As a result, our share-based compensation expenses may increase, which may have an adverse effect on our results of operations.

***We may be the subject of anti-competitive, harassing or other detrimental conduct that could harm our reputation and cause us to lose users and customers and adversely affect the price of the ADSs.***

We may be the target of anti-competitive, harassing or other detrimental conduct by third parties. Allegations, directly or indirectly against us or any of our executive officers, may be posted on the internet, including in internet chat-rooms or on blogs or websites by anyone, whether or not well-founded, on an anonymous basis. In addition, third parties may file complaints, anonymous or otherwise, to regulatory agencies. We may be subject to regulatory or internal investigation as a result of such third-party conduct and may be required to expend significant time and incur substantial costs to address such third-party conduct, and there is no assurance that we will be able to conclusively refute each of the allegations within a reasonable period of time, or at all. Additionally, our reputation could be harmed as a result of the public dissemination of anonymous allegations or malicious statements about our business, which in turn may cause us to lose users and customers and adversely affect our business and results of operations.

***If we fail to implement effective system of internal controls to remediate our material weakness over financial reporting, we may be unable to accurately report our results of operations, meet our reporting obligations or prevent fraud, and investor confidence and the market price of the ADSs may be materially and adversely affected.***

We are subject to reporting obligations under the U.S. securities laws. The SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company to include a management report on our internal control over financial reporting in its annual report, which contains management’s assessment of the effectiveness of its internal control over financial reporting. In addition, an independent registered public accounting firm must attest to and report on the effectiveness of a company’s internal control over financial reporting. We have been subject to these requirements since the fiscal year ended December 31, 2015.

In connection with the preparation and external audit of our consolidated financial statements as of and for the years ended December 31, 2021, we and our independent registered public accounting firm concluded that our internal control over financial reporting was ineffective as of December 31, 2021 due to the material weakness in the Company's controls over the projected financial information used in the impairment assessment of an equity investment.

We intend to implement a number of measures to address the material weakness identified in 2021. See "Item 15. Controls and Procedures—Management's Annual Report on Internal Control over Financial Reporting."

However, we can give no assurance that the implementation of these measures will be sufficient to eliminate such material weakness or that material weaknesses in our internal control over financial reporting will not be identified in the future. Our failure to implement and maintain effective internal controls over financial reporting could result in errors in our financial statements that could result in a restatement of our financial statements, cause us to fail to meet our reporting obligations and cause investors to lose confidence in our reported financial information, which may result in volatility in and a decline in the market price of the ADSs.

***We have limited business insurance coverage. Any interruption of our business may result in substantial costs to us and the diversion of our resources, which could have an adverse effect on our financial condition and results of operations.***

Insurance products available in China currently are not as extensive as those offered in more developed economies. Consistent with customary industry practice in China, our business insurance is limited and we do not carry real property or business interruption insurance to cover our operations. We have determined that the costs of insuring for related risks and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. Any uninsured damage to our systems or disruption of our business operations could require us to incur substantial costs and divert our resources, which could have an adverse effect on our financial condition and results of operations.

***Any catastrophe, including natural catastrophes, outbreaks of health pandemics or other extraordinary events, could disrupt our business operations.***

Our operations may be vulnerable to interruption and damage from natural or other catastrophes, including earthquakes, fire, floods, hail, windstorms, severe winter weather (including snow, freezing water, ice storms and blizzards), environmental accidents, power loss, communications failures, explosions, man-made events such as terrorist attacks and similar events. We cannot predict the incidence, timing and severity of such events. If any catastrophe or extraordinary event occurs in the future, our ability to operate our business could be seriously impaired. Such events could make it difficult or impossible for us to deliver our services and products to our users and could decrease demand for our products. Because we do not carry property insurance and significant time could be required to resume our operations, our financial position and results of operations could be materially and adversely affected in the event of any major catastrophic event.



In addition to the impact of COVID-19, our business could be materially and adversely affected by the outbreak of other health pandemics, including influenza A, such as H7N9, severe acute respiratory syndrome (SARS) or other pandemics. Any occurrence of these pandemic diseases or other adverse public health developments in China and other countries where we operate or elsewhere could severely disrupt our staffing or the staffing of our customers or business partners and otherwise reduce the activity levels of our work force and the work force of our customers or business partners, causing a material and adverse effect on our business operations.

### **Risks Relating to Our Corporate Structure**

***If the PRC government finds that the structure we have adopted for our business operations does not comply with PRC governmental restrictions on foreign investment in internet businesses, or if these laws or regulations or interpretations of existing laws or regulations change in the future, we could be subject to severe penalties, including the shutting down of our platform and our business operations.***

Foreign ownership of internet-based, including mobile-based, businesses is subject to significant restrictions under current PRC laws and regulations. The PRC government regulates internet access, distribution of online information, online advertising, distribution and operation of online games through strict business licensing requirements and other government regulations. These laws and regulations also limit foreign ownership of PRC companies that provide internet information services. According to the Negative List (2021 Version), foreign investment in internet news information services, online publication services, online audio-visual program services, internet cultural business (except for music) are prohibited, and foreign equity share in a value-added telecommunication business shall not exceed 50% (excluding e-commerce, domestic multi-party communication, store-and-forward, and call center), and the basic telecommunication services shall be controlled by the Chinese party. In addition, according to the Several Opinions on the Introduction of Foreign Investment in the Cultural Industry promulgated by the MOC, the SARFT, the National Development and Reform Commission, or the NDRC, and the Ministry of Commerce, or the MOFCOM, in July 2005, foreign investors are prohibited from investing in or operating, among other things, any internet cultural operating entities. Companies providing mobile internet services such as ours are governed by these rules and regulations on internet companies in China.

Cheetah Mobile Inc. is a Cayman Islands holding company with no equity ownership in the VIEs, and we conduct part of our operations through the VIEs. The VIEs, together with their subsidiaries, contributed a portion of our consolidated revenues in the years ended December 31, 2019, 2020 and 2021. We consolidate the VIEs through a series of contractual arrangements that those entities and/or their shareholders signed with our company, our wholly-owned PRC subsidiaries, including but not limited to Beijing Kingsoft Internet Security Software Co., Ltd., or Beijing Security, Conew Network Technology (Beijing) Co., Ltd., or Conew Network. Our contractual arrangements with the VIEs and their shareholders enable us to consolidate the VIEs and give us the obligation to absorb losses and the right to receive benefits of the VIEs, enabling us to consolidate their operating results. For a detailed description of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with the VIEs.”

Holders of our Class A ordinary shares or the ADSs hold equity interest in a Cayman Islands holding company, but do not directly or indirectly hold equity interest in the VIEs or their subsidiaries. If the PRC government deems that our contractual arrangements with the consolidated variable interest entities do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change or are interpreted differently in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations. We may not be able to repay our indebtedness, and our shares may decline in value or become worthless, if we are unable to assert our contractual control rights over the assets of the consolidated variable interest entities, which contribute to 33.1% of our revenues in 2021. Our holding company in the Cayman Islands, the consolidated variable interest entities, and investors of our company face uncertainty about potential future actions by the PRC government that could affect the enforceability of the contractual arrangements with the consolidated variable interest entities and, consequently, significantly affect the financial performance of the consolidated variable interest entities and our company as a group.

Based on the advice of our PRC legal counsel, Global Law Office, the contractual arrangements among our PRC subsidiaries, the VIEs, their shareholders and us, as described in this annual report, are valid, legal and binding on each of the above-mentioned parties thereto in accordance with the terms of respective contractual arrangements. However, we were further advised by Global Law Office that there are substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations, and that these laws or regulations or interpretations of these laws or regulations may change in the future. Furthermore, the relevant government authorities have broad discretion in interpreting and implementing these laws and regulations. Accordingly, we cannot assure you that PRC government authorities will not ultimately take a view contrary to that of our PRC legal counsel.

If our corporate structure, contractual arrangements and businesses of our company, or our PRC entities, including our PRC subsidiaries and VIEs are found to be in violation of any existing or future PRC laws or regulations, the relevant governmental authorities would have broad discretion in dealing with such violation, including:

- levying fines or confiscating our income or the income of our PRC entities;
- revoking or suspending the business licenses or operating licenses of our PRC entities;
- shutting down our servers or blocking our platform, discontinuing or placing restrictions or onerous conditions on our operations;
- requiring us to discontinue or restrict our operations; and
- taking other regulatory or enforcement actions that could be harmful to our business.

The imposition of any of these penalties would result in a material and adverse effect on our ability to conduct our business. In addition, it is unclear what impact the PRC government actions would have on us and on our ability to consolidate the financial results of our variable interest entities in our consolidated financial statements, if the PRC government authorities were to find our legal structure and contractual arrangements to be in violation of PRC laws and regulations. If the imposition of any of these government actions causes us to lose our right to direct the activities of our variable interest entities or our right to receive substantially all the economic benefits and residual returns from our variable interest entities and we are not able to restructure our ownership structure and operations in a satisfactory manner, we would no longer be able to consolidate the financial results of our variable interest entities in our consolidated financial statements. Either of these results, or any other significant penalties that might be imposed on us in this event, would have a material adverse effect on our financial condition and results of operations.

Although we believe we, our PRC subsidiaries and the consolidated variable interest entities comply with current PRC laws and regulations, we cannot assure you that the PRC government would agree that our contractual arrangements comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. The PRC government has broad discretion in determining rectifiable or punitive measures for non-compliance with or violations of PRC laws and regulations. If the PRC government determines that we or the consolidated variable interest entities do not comply with applicable law, it could revoke the consolidated variable interest entities' business and operating licenses, require the consolidated variable interest entities to discontinue or restrict the consolidated variable interest entities' operations, restrict the consolidated variable interest entities' right to collect revenues, block the consolidated variable interest entities' websites, require the consolidated variable interest entities to restructure our operations, impose additional conditions or requirements with which the consolidated variable interest entities may not be able to comply, impose restrictions on the consolidated variable interest entities' business operations or on their customers, or take other regulatory or enforcement actions against the consolidated variable interest entities that could be harmful to their business. Any of these or similar occurrences could significantly disrupt our or the consolidated variable interest entities' business operations or restrict the consolidated variable interest entities from conducting a substantial portion of their business operations, which could materially and adversely affect the consolidated variable interest entities' business, financial condition and results of operations. If any of these occurrences results in our inability to direct the activities of any of the consolidated variable interest entities that most significantly impact its economic performance, and/or our failure to receive the economic benefits from any of the consolidated variable interest entities, we may not be able to consolidate these entities in our consolidated financial statements in accordance with U.S. GAAP.

***We rely on contractual arrangements with the VIEs and their shareholders for the operation of our business in China, which may not be as effective as direct ownership.***

Because of PRC restrictions on foreign ownership of internet businesses in China, we depend on contractual arrangements with the VIEs, in which we have no ownership interest, to conduct our business in China. These contractual arrangements are intended to provide us with effective control over these entities and allow us to obtain economic benefits from them. The shareholders of the VIEs include, but not limited to, Messrs. Sheng Fu, who is also our director, as well as Ms. Weiqin Qiu, Mr. Kun Wang and Mr. Wei Liu. For additional details on these ownership interests, see “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with the VIEs.” However, these contractual arrangements may not be as effective in providing control as direct ownership. For example, the VIEs and their shareholders could breach their contractual arrangements with us by, among other things, failing to operate our business in an acceptable manner or taking other actions that are detrimental to our interests. If we were the controlling shareholder of these VIEs with direct ownership, we would be able to exercise our rights as shareholders to effect changes to their board of directors, which in turn could implement changes at the management and operational level. However, under the current contractual arrangements, as a legal matter, if the VIEs or their shareholders fail to perform their obligations under these contractual arrangements, we may have to incur substantial costs to enforce such arrangements, and rely on legal remedies under PRC law, including contract remedies, which may be time-consuming, unpredictable and expensive. If we are unable to enforce these contractual arrangements, or if we suffer significant delay or other obstacles in the process of enforcing them, our business and operations could be severely disrupted, which could materially and adversely affect our results of operations and damage our reputation. See “—Risks Relating to Doing Business in China—Uncertainties in the interpretation and enforcement of Chinese laws and regulations could limit the legal protections available to you and us.”

***Substantial uncertainties exist with respect to the interpretation and implementation of PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.***

On March 15, 2019, the Foreign Investment Law, or the FIL, was adopted and approved by Second Session of the 13th National People’s Congress of China. On December 26, 2019, the Implementation Regulation for the Foreign Investment Law of the People’s Republic of China, or the FIL Implementing Regulations, was issued by the State Council. Both the FIL and the FIL Implementing Regulations came into force on January 1, 2020. The FIL and the FIL Implementing Regulations, upon taking effect, have replaced the three existing laws on foreign investment (collectively “Three FDI law”), namely, the Law on Sino-Foreign Equity Joint Ventures, the Law on Sino-Foreign Contractual Joint Ventures and the Law on Wholly Foreign Owned Enterprises, and become a fundamental law of China in the foreign investment area, setting forth the basic legal framework in this regard.

According to the FIL, foreign investment may be conducted through the following four ways: (i) foreign investor, independently or jointly with other investors, set up foreign-invested enterprises in China, (ii) foreign investors obtain shares, equities, property shares or other similar rights and interests of Chinese domestic enterprises, (iii) foreign investor, independently or jointly with other investors, invests in a new project (the “Project Investment”) and (iv) other forms stipulated under laws, administrative regulations and provisions of the State Council. It is worth noting that the FIL has removed the “variable interest equity” or VIE structure from the definition of foreign investment and cancelled the standard of “actual control” to identify the foreign investment as was introduced in the draft of the proposed Foreign Investment Law published by the MOFCOM in 2015, or the 2015 Draft.

Notwithstanding the above, the FIL stipulates that foreign investment include “other forms stipulated under laws and regulations”, a catch-all clause which needs to be further clarified as to whether the VIE structure will be interpreted to fall within it. There are possibilities that future laws, administrative regulations or provisions prescribed by the State Council may stipulate VIE structure as a form of foreign investment, at which time it will be uncertain whether the VIE structure through which we conduct our operations will be deemed to be in violation of the foreign investment access requirements and how the above-mentioned VIE structure will be handled.

The services we provide and businesses we operate through the VIEs, including the internet news information services, internet publication services and other related services are subject to the foreign investment restrictions or prohibitions set forth in the Negative List (2021 Version). Where a foreign investor invests in a field or sector that is prohibited under the Negative List, it will be ordered to stop the investment activities, dispose of the shares or assets or take other necessary measures within a specified time limit, and restore to the status to be prior to the occurrence of the aforesaid investment, and the gains of such foreign investor (if any) will be confiscated by competent authority.

If the VIE structure is deemed to be a form of foreign investment as interpreted by the FIL or future laws and regulations, we may be required to dispose of our subsidiaries, or have to take other actions to adjust our corporate structure and operations, which could have an adverse effect on our corporate structure, financial conditions and business operations.

The FIL also establishes several administration systems for foreign investment, amongst others, the information reporting system. Foreign investors or FIEs are required to submit investment information to the competent authorities through the system of enterprises registration and enterprise credibility disclosure. The FIL clearly stipulates that any company found to be non-compliant with these information reporting obligations is subject to fines and other penalties. On December 30, 2019, the MOFCOM and SAMR issued the Measures of Information Report of Foreign Investment, or the FI Information Report Measures, according to which foreign investors establishing foreign investment enterprises in China shall submit an initial report through the Enterprise Registration System at the time of completion of registration formalities for establishment of foreign investment enterprises.

Where there is a change in the information in the initial report which involves change registration (filing) of the enterprise, the foreign investment enterprise shall submit the change report through the enterprise registration system at the time of completion of change registration (filing) for the enterprise. Also, the FIEs are required to submit its annual report for the previous year through the National Enterprise Credit Information Publicity System from January 1 to June 30 each year. The MOFCOM and its local departments shall supervise and inspect the compliance with the FI Information Report Measures, through random inspection and other methods.

The Foreign Investment Law and the FI Information Report Measures may also impact our corporate governance practice and increase our compliance costs. For instance, the Foreign Investment Law imposes stringent ad hoc and periodic information reporting requirements on foreign investors and the applicable FIEs. Aside from investment initial report and change report that are required at each investment and alteration of investment specifics, an annual report is mandatory. Any company found to be non-compliant with these information reporting obligations may potentially be subject to fines and/or administrative or criminal liabilities, and the persons directly responsible may be subject to criminal liabilities.

***Our contractual arrangements with the VIEs may result in adverse tax consequences to us.***

As a result of our corporate structure and the contractual arrangements among our PRC subsidiaries, the VIEs, their shareholders and us, we are effectively subject to PRC value-added tax and related surcharges on revenues generated by our subsidiaries from our contractual arrangements with the VIEs. The PRC Enterprise Income Tax Law, or the EIT Law, requires every enterprise in China to submit its annual enterprise income tax return together with a report on transactions with its affiliates or related parties to the relevant tax authorities. These transactions may be subject to audit or challenge by the PRC tax authorities within ten years after the taxable year during which the transactions are conducted. In addition, on March 18, 2015, the State Administration of Taxation, or the SAT, issued the Bulletin Regarding the Enterprise Income Tax Matter in Relation to Enterprise's Payment of Fees to Overseas Affiliated Parties, or the Bulletin 16, to further regulate the transfer pricing issues in relation to the fees payment to affiliated parties. Among other things, the Bulletin 16 makes it clear that the fees paid to overseas affiliated parties in the following situations cannot be deducted from the taxable income when determining a PRC company's enterprise income tax: (a) the fees paid to an overseas affiliated party which has no substantial operating activities; (b) the fees paid to an overseas affiliated party for labor service that would bring direct or indirect economic interests; (c) royalties paid for intangible properties to which the affiliated party that charges the fees only has legal title but has made no contribution to the creation of the value of such properties; and (d) the fees paid under arrangements made for listing or financing purposes. Furthermore, on March 17, 2017, the SAT promulgated the Announcement of the State Administration of Taxation on Promulgating the Administrative Measures for Special Tax Investigation Adjustments and Mutual Agreement Procedures, or Bulletin 6, which become effective as of May 1, 2017. The Bulletin 6 specifies further the provisions in Bulletin 16, regulating the basic rules about the income distribution of intangible properties, payments for labor service and no substantial operating activities and so on. Meanwhile, it abolished the application of Bulletin 16 since May 1, 2017. We may be subject to adverse tax consequences if the PRC tax authorities were to determine that the contracts between us and the VIEs were not on an arm's length basis and therefore constituted improper transfer pricing arrangements. If this occurs, the PRC tax authorities could request that the VIEs and any of their respective subsidiaries adjust their taxable income upward for PRC tax purposes. Such a pricing adjustment could adversely affect us by reducing expense deductions recorded by such VIEs and thereby increasing these entities' tax liabilities, which could subject these entities to late payment fees and other penalties for the underpayment of taxes. Our consolidated net income may be adversely affected if the VIEs' tax liabilities increase or if they become subject to late payment fees or other penalties.

***The shareholders of the VIEs may have potential conflicts of interest with us, which may materially and adversely affect our business.***

The shareholders of the VIEs include, but not limited to, Messrs. Sheng Fu who is also our director, as well as Ms. Weiqin Qiu, Mr. Kun Wang and Mr. Wei Liu. Conflicts of interest may arise between their roles as shareholders, directors or officers of our company and as shareholders of the VIEs. We rely on these individuals to abide by the laws of the Cayman Islands, which provide that directors and officers owe a fiduciary duty to our company to act in good faith and in the best interest of our company and not to use their positions for personal gain. Although the shareholders of the VIEs have executed shareholder voting proxy agreements to irrevocably appoint our company or a person designated by our company to vote on their behalf and exercise voting rights as shareholders of the VIEs, we cannot assure you that when conflicts arise under those agreements or otherwise, the shareholders of the VIEs will act in the best interest of our company or that conflicts will be resolved in our favor. If we cannot resolve any conflicts of interest or disputes between us and these shareholders, we would have to rely on legal proceedings, which may be expensive, time-consuming and disruptive to our operations. There is also substantial uncertainty as to the outcome of any such legal proceedings.

***Kingsoft Corporation, one of our principal shareholders, and our founders have substantial influence over our company and their interests may not be aligned with the interests of our other shareholders, which may discourage, delay or prevent a change in control of our company and could deprive our shareholders of an opportunity to receive a premium for their securities.***

As of March 31, 2022, Kingsoft Corporation, one of our principal shareholders, and Mr. Sheng Fu, directly or through their holding vehicles, together beneficially own an aggregate of 54.5% of our total outstanding Class A and Class B shares, and 72.5% of the total voting power. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of any contemplated sale of our company and may reduce the price of our ADSs. Furthermore, in the event that the voting proxy agreement between Kingsoft Corporation and Mr. Sheng Fu is terminated, we may become a consolidated subsidiary of Kingsoft Corporation, which is a Cayman Islands company publicly listed on the Hong Kong Stock Exchange. As a result, we may be subject to rules and regulations promulgated by the Hong Kong Stock Exchange, and Kingsoft Corporation will be able to exert greater influence over us, which may lead to potential conflicts of interest between Kingsoft Corporation and us involving arrangement of our board composition, disposal of equity interest in our company and allocation of business opportunities, among other matters.

***We may lose the ability to use and enjoy vital assets held by the VIEs if they go bankrupt or become subject to a dissolution or liquidation proceeding.***

Some of the VIEs hold certain assets that are essential to the operations of our platform and important to the operation of our business in China, such as the ICP Licenses, Internet Culture Operation Licenses, patent applications and software copyrights for the proprietary technology. If any of these entities goes bankrupt and all or part of its assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. If any of such entities undergoes a voluntary or involuntary liquidation proceeding, the unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.

## **Risks Relating to Doing Business in China**

### ***Uncertainties in the interpretation and enforcement of Chinese laws and regulations could limit the legal protections available to you and us.***

The PRC legal system is based on written statutes and prior court decisions have limited value as precedents. Since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. However, any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to predict the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. Furthermore, the PRC legal system is based in part on government policies and internal rules (some of which are not published in a timely manner or at all) that may have retroactive effect. As a result, we may not be aware of any violation of these policies and rules until after such violation. Such unpredictability, including uncertainty as to the scope and effect of our contractual, property (including intellectual property) and procedural rights, could materially and adversely affect our business and impede our ability to continue our operations.

### ***The PRC government's significant oversight over our business operation could result in a material adverse change in our operations and the value of our ADSs.***

We conduct our business primarily through the consolidated variable interest entities and their subsidiaries in China. Our operations in China are governed by PRC laws and regulations. The PRC government has significant oversight over the conduct of our business, and may intervene or influence our operations as the government deems appropriate to advance regulatory and societal goals and policy positions. The PRC government has recently published new policies that significantly affected certain industries and we cannot rule out the possibility that it will in the future release regulations or policies that directly or indirectly affect our industry or require us to seek additional permission to continue our operations, which could result in a material adverse change in our operation and/or the value of our ADSs.

### ***The approval of and filing with the CSRC or other PRC government authorities may be required in connection with our future offshore offerings under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval or complete such filing.***

On April 2, 2022, CSRC issued the Provisions on Strengthening Confidentiality and Archives Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (the "Draft Confidentiality and Archives Administration Provisions") for public comment, according to which a domestic company that seeks to offer and list its securities in an overseas market shall strictly abide by applicable PRC laws and regulations, enhance legal awareness of keeping state secrets and strengthening archives administration, institute a sound confidentiality and archives administration system, and take necessary measures to fulfill confidentiality and archives administration obligations. As such Draft Confidentiality and Archives Administration Provisions have not been adopted and it remains unclear whether the formal version to be adopted in the future will have any further material changes, it is uncertain how such measures and provisions will be enacted, interpreted or implemented and how they will affect us.

On July 6, 2021, the relevant PRC government authorities issued Opinions on Lawfully and Severely Combating Illegal Securities Activities. These opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies. As a follow-up, on December 24, 2021, the State Council issued a draft of the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies, or the Draft Provisions, and the CSRC issued a draft of Administration Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies, or the Draft Administration Measures, for public comments.

The Draft Provisions and the Draft Administration Measures propose to establish a new filing-based regime to regulate overseas offerings and listings by domestic companies. According to the Draft Provisions and the Draft Administration Measures, an overseas offering and listing by a domestic company, whether directly or indirectly, shall be filed with the CSRC. Specifically, the examination and determination of an indirect offering and listing will be conducted on a substance-over-form basis, and an offering and listing shall be considered as an indirect overseas offering and listing by a domestic company if the issuer meets the following conditions: (i) the operating income, gross profit, total assets, or net assets of the domestic enterprise in the most recent fiscal year was more than 50% of the relevant line item in the issuer's audited consolidated financial statement for that year; and (ii) senior management personnel responsible for business operations and management are mostly PRC citizens or are ordinarily resident in the PRC, and the main place of business is in the PRC or carried out in the PRC. According to the Draft Administration Measures, the issuer or its affiliated domestic company, as the case may be, shall file with the CSRC for its initial public offering, follow-on offering and other equivalent offering activities. Particularly, the issuer shall submit the filing with respect to its initial public offering and listing within three business days after its initial filing of the listing application, and submit the filing with respect to its follow-on offering within three business days after completion of the follow-on offering. Failure to comply with the filing requirements may result in fines to the relevant domestic companies, suspension of their businesses, revocation of their business licenses and operation permits and fines on the controlling shareholder and other responsible persons. The Draft Administration Measures also sets forth certain regulatory red lines for overseas offerings and listings by domestic enterprises. For more details of the Draft Provisions and the Draft Administration Measures, please refer to "Regulation – Regulations on Overseas Offering and Listing."

As of the date of this annual report, the Draft Provisions and the Draft Administration Measures were released for public comment only. There are uncertainties as to whether the Draft Provisions and the Draft Administration Measures would be further amended, revised or updated. Substantial uncertainties exist with respect to the enactment timetable and final content of the Draft Provisions and the Draft Administration Measures. As the CSRC may formulate and publish guidelines for filings in the future, the Draft Administration Measures does not provide for detailed requirements of the substance and form of the filing documents. In a Q&A released on its official website, the respondent CSRC official indicated that the proposed new filing requirement will start with new companies and the existing companies seeking to carry out activities like follow-on financing. As for the filings for the existing companies, the regulator will grant adequate transition period and apply separate arrangements. The Q&A also addressed the contractual arrangements and pointed out that if relevant domestic laws and regulations have been observed, companies with compliant VIE structure may seek overseas listing after completion of the CSRC filings. Nevertheless, it does not specify what qualify as compliant VIE structures and what relevant domestic laws and regulations are required to be complied with. Given the substantial uncertainties surrounding the latest CSRC filing requirements at this stage, we cannot assure you that we will be able to complete the filings and fully comply with the relevant new rules on a timely basis, if at all. If the Draft Provisions and the Draft Administration Measures become effective in their current form, we may be required to complete the filing procedures with the CSRC with respect to our overseas issuance of securities or other relative behaviors, including change of control, overseas supervision or investigation and punishment by relevant supervisors, voluntary termination of listing or forced termination of listing, etc. Furthermore, if our business has an adverse impact on Chinese security, we will face the risk of being required by the relevant competent authorities of the State Council to divest the business and assets of domestic enterprises or take other effective measures.

Relatedly, on December 27, 2021, the NDRC and the Ministry of Finance, or the MOC, jointly issued the Special Administrative Measures (Negative List) for Foreign Investment Access (2021 Version), or the 2021 Negative List, which will become effective on January 1, 2022. Pursuant to such Special Administrative Measures, if a domestic company engaging in the prohibited business stipulated in the 2021 Negative List seeks an overseas offering and listing, it shall obtain the approval from the competent governmental authorities. Besides, the foreign investors of the company shall not be involved in the company's operation and management, and their shareholding percentage shall be subject, mutatis mutandis, to the relevant regulations on the domestic securities investments by foreign investors. As the 2021 Negative List is relatively new, there remain substantial uncertainties as to the interpretation and implementation of these new requirements, and it is unclear as to whether and to what extent listed companies like us will be subject to these new requirements. If we are required to comply with these requirements and fail to do so on a timely basis, if at all, our business operation, financial conditions and business prospect may be adversely and materially affected.

On December 28, 2021, twelve regulatory authorities jointly released the Cybersecurity Review Measures, which became effective on February 15, 2022. The Cybersecurity Review Measures provides that a critical information infrastructure operator purchasing network products and services, and platform operators carrying out data processing activities which affect or may affect national security, must apply for cybersecurity review. The Cybersecurity Review Measures also provides that a platform operator with more than one million users' personal information aiming to list abroad must apply for cybersecurity review. New York Stock Exchange fall within the definition of "abroad" in the provision, however, we are already listed on the New York Stock Exchange, therefore, there can be no assurance if we are required to follow the cybersecurity review or the security assessment procedures, and if so, whether we would be able to complete the applicable cybersecurity review or the security assessment procedures in a timely manner.

In addition, we cannot assure you that any new rules or regulations promulgated in the future will not impose additional requirements on us. If it is determined in the future that approval and filing from the CSRC or other regulatory authorities or other procedures, including the cybersecurity review under the Cybersecurity Review Measures and the draft of Regulations on the Network Data Security, are required for our offshore offerings, it is uncertain whether we can or how long it will take us to obtain such approval or complete such filing procedures and any such approval or filing could be rescinded or rejected. Any failure to obtain or delay in obtaining such approval or completing such filing procedures for our offshore offerings, or a rescission of any such approval or filing if obtained by us, would subject us to sanctions by the CSRC or other PRC regulatory authorities for failure to seek CSRC approval or filing or other government authorization for our offshore offerings. These regulatory authorities may impose fines and penalties on our operations in China, limit our ability to pay dividends outside of China, limit our operating privileges in China, delay or restrict the repatriation of the proceeds from our offshore offerings into China or take other actions that could materially and adversely affect our business, financial condition, results of operations, and prospects, as well as the trading price of our listed securities. The CSRC or other PRC regulatory authorities also may take actions requiring us, or making it advisable for us, to halt our offshore offerings before settlement and delivery of the shares offered. Consequently, if investors engage in market trading or other activities in anticipation of and prior to settlement and delivery, they do so at the risk that settlement and delivery may not occur. In addition, if the CSRC or other regulatory authorities later promulgate new rules or explanations requiring that we obtain their approvals or accomplish the required filing or other regulatory procedures for our prior offshore offerings, we may be unable to obtain a waiver of such approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties or negative publicity regarding such approval requirement could materially and adversely affect our business, prospects, financial condition, reputation, and the trading price of our listed securities.

***A severe or prolonged downturn in the global economy could materially and adversely affect our business and financial condition.***

COVID-19 has had a severe and negative impact on the Chinese and the global economy since 2020. Since the outbreak of COVID-19 in early 2020, the Chinese government had, and may continue to, take certain emergency measures, including implementation of travel bans, blockade of certain roads, regional shutdown, and stay-at-home orders, to control the spread of COVID-19. Especially, the situation became more severe since 2022 due to the higher infectivity of COVID-19 Omicron. Our operating efficiency and capacity have been adversely affected by the COVID-19 pandemic. Although Chinese economy recovered to some degree in 2021, there remains substantial uncertainty about the dynamic of the COVID-19 pandemic, which may have potential continuing impacts on subsequent periods, if the global pandemic and the resulting disruption were to extend over a prolonged period, or if a wide spread of COVID-19 happens again in China. The global spread of COVID-19 pandemic in major countries of the world may also result in global economic distress, and the extent to which it may affect our results of operations will depend on future developments of the COVID-19 pandemic, which are highly uncertain and difficult to predict.

Even before the outbreak of COVID-19, the global macroeconomic environment was facing numerous challenges. The growth rate of the Chinese economy had already been slowing since 2010. There is considerable uncertainty over the long- term effects of the expansionary monetary and fiscal policies which had been adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and China, even before 2020. The conflicts in Ukraine and the imposition of broad economic sanctions on Russia could raise energy prices and disrupt global markets. Unrest, terrorist threats and the potential for war in the Middle East and elsewhere may increase market volatility across the globe. There have also been concerns about the relationship between China and other countries, including the surrounding Asian countries, which may potentially have economic effects. In particular, there is significant uncertainty about the future relationship between the United States and China with respect to trade policies, treaties, government regulations and tariffs. Any severe or prolonged slowdown in the global economy may materially and adversely affect our business, results of operations and financial condition.



*We may be adversely affected by the complexity of, and uncertainties and changes in, PRC regulation on mobile and PC internet businesses and companies.*

The PRC government extensively regulates the internet industry, including foreign ownership of, and the licensing and permit requirements pertaining to, companies in the internet industry, including mobile internet companies. These internet-related laws and regulations are evolving, and their interpretation and enforcement involve significant uncertainty. As a result, in certain circumstances it may be difficult to determine what actions or omissions may be deemed to be in violations of applicable laws and regulations. Issues, risks and uncertainties relating to PRC regulation of the internet business include, but are not limited to, the following:

On July 13, 2006, the MIIT issued the Circular of the Ministry of Information Industry on Strengthening the Administration of Foreign Investment in Value-added Telecommunications Services. This circular requires foreign investors can only operate a telecommunications business in China through establishing a telecommunications enterprise with a valid telecommunications business operation license, and prohibits domestic telecommunication service providers from leasing, transferring or selling telecommunication business operating licenses to any foreign investor in any form, or providing any resources, sites or facilities to any foreign investor for their illegal operation of a telecommunication business in China. According to this circular, either the holder of a value-added telecommunications business operation license or its shareholders must directly own the domain names and trademarks used by such license holders in their provision of value-added telecommunications services. The circular also requires each license holder to have the necessary facilities, including servers, for its approved business operations and to maintain such facilities in the regions covered by its license. However, due to the lack of any additional interpretation from the regulatory authorities, it remains unclear what impact such circular will have on us or the other PRC internet companies with similar corporate and contractual structures.

There is uncertainty relating to the evolving licensing practices and the requirement for real-name registrations. For example, we were previously required under the PRC law to request users to provide their real names and personal information only in regard to the bulletin board system services that we provide in support of our applications and online game operations. However, pursuant to the Administrative Measure on Usernames of Internet Users' Accounts, which became effective in March 2015, we are required to request users to provide their real names and personal information for user registration regardless of the kind of internet information services that we provide. We cannot assure you that PRC regulators would not require us to implement compulsory real-name registration in the future. Furthermore, we may fail to obtain or renew permits or licenses that are or may be deemed necessary for our operations. See “—Risks Relating to Our Business and Industry—If we fail to obtain and maintain the requisite licenses and approvals or otherwise comply with the laws and regulations under the complex regulatory environment applicable to our businesses in China, or if we are required to take actions that are time-consuming or costly, our business, financial condition and results of operations may be materially and adversely affected” and “Item 4. Information on the Company— B. Business Overview—Regulations.”

The evolving PRC regulatory system for the internet industry may lead to establishment of new regulatory agencies. For example, in August 2014, the CAC took over the administrative role to supervise internet content management in China. Since then, new laws, regulations or policies have been promulgated or announced that regulate internet activities, including internet publication and online advertising businesses, and we may not be able to fully and timely comply with such new laws, regulations or policies. If these new laws, regulations or policies are promulgated, additional licenses may be required for our operations. If our operations do not comply with these new regulations after they become effective, or if we fail to obtain any licenses required under these new laws and regulations, we could be subject to penalties.

In August 2021, the SAMR issued the Provisions on Preventing Unfair Online Competition (Drafts for Public Comments), or the Draft Provisions on Preventing Unfair Online Competition, which detailed the implementation of the PRC Anti-Unfair Competition Law, including specified certain online unfair competition behavior that shall be prohibited. As of the date of this annual report, the Draft Provisions on Preventing Unfair Online Competition has not been formally adopted, and due to the lack of further clarifications, there are still uncertainties regarding the interpretation and implementation of the Draft Provisions on Preventing Unfair Online Competition.

The interpretation and application of existing PRC laws, regulations and policies and possible new laws, regulations or policies relating to the internet industry have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, mobile and PC internet businesses in China, including our business. There are also risks that we may be found to have violated existing or future laws and regulations given the uncertainty and complexity of China's regulation of internet business.

***Content posted or displayed on our mobile and PC platforms and applications such as [duba.com](http://duba.com), including advertisements, may be found objectionable by PRC regulatory authorities and may subject us to penalties and other severe consequences.***

The PRC government has adopted regulations governing internet and wireless access and the distribution of information over the internet and wireless telecommunication networks. Under these regulations, internet content providers and internet publishers are prohibited from posting or displaying over the internet or wireless networks content that, among other things, violates PRC laws and regulations, impairs the national dignity of China or the public interest, or is obscene, superstitious, fraudulent or defamatory. Furthermore, internet content providers are also prohibited from displaying content that may be deemed by relevant government authorities as "socially destabilizing" or leaking "state secrets" of the PRC. Meanwhile, the network information content service platforms are required to fulfill their primary responsibilities for management of information contents, and are required not to disseminate any illegal information as mentioned in the Provisions on Governance of the Network Information Content Ecology released by the CAC on December 15, 2019, with effect from March 1, 2020. Failure to comply with these requirements may result in the revocation of licenses to provide internet content or other licenses, the closure of the concerned platforms and reputational harm. The operator may also be held liable for any censored information displayed on or linked to their platform, and hence we may also be subject to potential liability for any unlawful actions by our users or customers on our platform. For a detailed discussion, see "Item 4. Information on the Company—B. Business Overview—Regulations."

Since our inception, we have worked to monitor the content on our platform and applications and to make the utmost effort to comply with relevant laws and regulations. However, it may not be possible to determine in all cases the types of content that could result in our liability as a distributor of such content and, if any of the content posted or displayed on our mobile and PC platforms and applications is deemed by the PRC government to violate any content restrictions, we would not be able to continue to display such content and could become subject to penalties, including confiscation of income, fines, suspension of business and revocation of required licenses, which could materially and adversely affect our business, financial condition and results of operations. The costs of monitoring the content on our platform and applications may also continue to increase as a result of more content being made available by an increasing number of users and customers on our mobile and PC applications.

In addition, under PRC advertising laws and regulations, we are obligated to monitor the advertising content shown on our platform and applications to ensure that such content is true, accurate and in full compliance with applicable laws and regulations. Where a special government review is required for specific types of advertisements prior to internet posting, such as advertisements relating to pharmaceuticals, medical instruments, agrochemicals and veterinary pharmaceuticals, we are obligated to confirm that such review has been performed and approval has been obtained.

Violation of these laws and regulations may subject us to penalties, including fines, confiscation of our advertising income, orders to cease dissemination of the advertisements and orders to publish an announcement correcting the misleading information. In circumstances involving serious violations by us, PRC governmental authorities may force us to terminate our advertising operations or revoke our licenses.

While we have made significant efforts to ensure that the advertisements shown on our mobile and PC platforms and applications are in full compliance with applicable PRC laws and regulations, we cannot assure you that all the content contained in such advertisements or offers is true and accurate as required by the advertising laws and regulations, especially given the uncertainty in the interpretation of these PRC laws and regulations. If we are found to be in violation of applicable PRC advertising laws and regulations, we may be subject to penalties and our reputation may be harmed, which may have a material and adverse effect on our business, financial condition, results of operations and prospects.

***You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing actions in China against us or our management named in this annual report based on foreign laws.***

We are an exempted company incorporated under the laws of the Cayman Islands. However, we conduct most of our operations in China and substantially all of our assets are located in China. In addition, all our senior executive officers reside within China and all of them are PRC nationals. As a result, it may be difficult for you to effect service of process upon us or our management residing in China. In addition, China does not have treaties providing for reciprocal recognition and enforcement of judgments of courts with the Cayman Islands and many other countries and regions. Therefore, recognition and enforcement in China of judgments of a court in any of these non-PRC jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

***It may be difficult for overseas regulators to conduct investigation, collect evidence, or obtain materials or data within China.***

Shareholder claims or regulatory investigation that are common in the United States generally are difficult to pursue as a matter of law or practicality in China. For example, in China, there are significant legal and other obstacles to providing information needed for regulatory investigations or litigation initiated outside China. Although the authorities in China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, such cooperation with the securities regulatory authorities in the United States may not be efficient in the absence of mutual and practical cooperation mechanism.

According to Article 177 of the PRC Securities Law, or Article 177, which became effective in March 2020, no overseas securities regulator is allowed to directly conduct investigation or evidence collection activities within the territory of the PRC. Without the consent of the securities authorities and the relevant competent authorities of the State Council, no entity or individual may provide documents or materials relating to securities business activities to overseas. Also, according to Article 36 of the Data Security Law, which became effective in September 2021, the competent authority of the People's Republic of China shall, in accordance with the relevant laws or the international treaties and agreements concluded or acceded to by the People's Republic of China, or on the principle of equality and reciprocity, handle the requests for provision of data from foreign judicial or law enforcement organizations. Without the approval of the competent authorities of the People's Republic of China, no organization or individual shall provide the data stored within the territory of the People's Republic of China to foreign judicial or law enforcement organizations. While detailed interpretation of or implementation rules have yet to be promulgated, the inability for an overseas securities regulator to directly conduct investigation, evidence collection, or data acquisition activities within China may further increase difficulties faced by you in protecting your interests. See also “—Risks Relating to the ADSs—You may face difficulties in protecting your interests, and your ability to protect your rights through U.S. courts may be limited, because we are incorporated under Cayman Islands law” for risks associated with investing in us as a Cayman Islands company.

***Under the PRC Enterprise Income Tax Law, we may be classified as a PRC “resident enterprise,” which could result in unfavorable tax consequences to us and our shareholders and have a material adverse effect on our results of operations and the value of your investment.***

Under the EIT Law, which became effective on January 1, 2008 and as amended and being effective since December 2018, an enterprise established outside the PRC with “de facto management bodies” within the PRC is considered a “resident enterprise” for PRC enterprise income tax purposes and is generally subject to a uniform 25% enterprise income tax rate on its worldwide income. On April 22, 2009, the SAT issued the Notice Regarding the Determination of Chinese-Controlled Overseas Incorporated Enterprises as PRC Tax Resident Enterprise on the Basis of De Facto Management Bodies, or SAT Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Further to SAT Circular 82, on July 27, 2011, the SAT issued the Administrative Measures for Enterprise Income Tax of Chinese-Controlled Offshore Incorporated Resident Enterprises (Trial), or SAT Bulletin 45, to provide more guidance on the implementation of SAT Circular 82; the bulletin became effective on September 1, 2011. The SAT Bulletin 45 clarified certain issues in the areas of resident status determination, post-determination administration and competent tax authorities' procedures.

According to SAT Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be considered as a PRC tax resident enterprise by virtue of having its “de facto management body” in China and will be subject to PRC enterprise income tax on its worldwide income only if all of the following conditions are met: (a) the senior management and core management departments in charge of its daily operations function have their presence mainly in the PRC; (b) its financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (c) its major assets, accounting books, company seals, and minutes and files of its board and shareholders' meetings are located or kept in the PRC; and (d) more than half of the enterprise's directors or senior management with voting rights habitually reside in the PRC. SAT Bulletin 45 specifies that, when provided with a copy of Chinese tax resident determination certificate from a resident Chinese controlled offshore incorporated enterprise, the payer should not withhold 10% income tax when paying the Chinese-sourced dividends, interest, royalties, etc. to the Chinese controlled offshore incorporated enterprise.

Although SAT Circular 82 and SAT Bulletin 45 only apply to offshore incorporated enterprises controlled by PRC enterprises or PRC enterprise groups and not those controlled by PRC individuals or foreigners, the determination criteria set forth therein may reflect the SAT's general position on how the term "de facto management body" could be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises, individuals or foreigners.

If the PRC tax authorities determine that we or any of our non-PRC subsidiaries is a PRC resident enterprise for PRC enterprise income tax purposes, then we or any such non-PRC subsidiary could be subject to PRC tax at a rate of 25% on its worldwide income, which could materially reduce our net income. In addition, we will also be subject to PRC enterprise income tax reporting obligations.

In that case, although dividends paid by one PRC tax resident to another PRC tax resident should qualify as "tax-exempt income" under the EIT Law, we cannot assure you that dividends by our PRC subsidiaries to our non-PRC holding companies will not be subject to a 10% withholding tax, as the PRC foreign exchange control authorities and the PRC tax authorities have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes.

If the PRC tax authorities determine that our company is a PRC resident enterprise for PRC enterprise income tax purposes, dividends paid by us to non-PRC holders may be subject to PRC withholding tax, and gains realized on the sale or other disposition of ADSs or ordinary shares may be subject to PRC tax, at a rate of 10% in the case of non-PRC enterprises or 20% in the case of non-PRC individuals (in each case, subject to the provisions of any applicable tax treaty), if such dividends or gains are deemed to be from PRC sources. Any such tax may reduce the returns on your investment in the ADSs.

***We face uncertainties with respect to indirect transfer of assets or equity interest in PRC resident enterprises by their non-PRC holding companies.***

We face uncertainties regarding the reporting on and consequences of private equity financing transactions, share exchange or other transactions involving the transfer of shares in our company by investors that are non-PRC resident enterprises, or sale or purchase of shares in other non-PRC resident companies or other taxable assets by us. According to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises issued by the PRC State Administration of Taxation on December 10, 2009, with retroactive effect from January 1, 2008, or SAT Circular 698, where a non-resident enterprise transfers the equity interests in a PRC resident enterprise indirectly through a disposition of equity interests in an overseas holding company (other than a purchase and sale of shares issued by a PRC resident enterprise in public securities market), PRC tax reporting and payment obligations may be triggered. On February 3, 2015, SAT issued a new guidance (Bulletin [2015] No. 7), or SAT Bulletin 7, on the PRC tax treatment of an indirect transfer of assets by a non-resident enterprise. Bulletin 7 is the latest regulatory instrument on indirect transfers, extending to not only the indirect transfer of equity interests in PRC resident enterprises but also to assets attributed to an establishment in China and immovable property in China or, collectively, Chinese Taxable Assets. Further, on October 17, 2017, SAT issued the Matters Regarding Withholding Corporate Income Tax at Source from Non-resident Enterprises (Bulletin [2017] No. 37), or SAT Bulletin 37, which replaced SAT Circular 698 and further specified the withhold obligation of the transferees. According to SAT Bulletin 7 and SAT Bulletin 37, when a non-resident enterprise engages in an indirect transfer of Chinese Taxable Assets, or Indirect Transfer, through an arrangement that does not have a bona fide commercial purpose in order to avoid paying enterprise income tax, the transaction should be re-characterized as a direct transfer of the Chinese assets and becomes taxable in China under the EIT Law, and gains derived from such indirect transfer may be subject to the PRC withholding tax at a rate of up to 10%, and the party who is obligated to make the transfer payments has the withholding obligation. SAT Bulletin 7 and Bulletin 37 have replaced SAT Circular 698 in its entirety. They provide more comprehensive guidelines on a number of issues. Among other things, SAT Bulletin 7 and 37 substantially changes the reporting requirements in SAT Circular 698, provides more detailed guidance on how to determine a bona fide commercial purpose, and also provides for a safe harbor for certain situations, including purchase and sale of shares in an offshore listed enterprise on a public market by a non-resident enterprise, which may not be subject to the PRC enterprise income tax. In addition, SAT Circular 698 has been abolished by Announcement of the State Administration of Taxation on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source issued by the PRC State Administration of Taxation on October 17, 2017, with retroactive effect from December 1, 2017, or SAT Circular 37. There is uncertainty as to the application of SAT Bulletin 7 and 37. SAT Bulletin 7 and 37 may be determined by the tax authorities to be applicable to the transfer of shares of our company by non-PRC resident investors, or the sale or purchase of shares in other non-PRC resident companies or other taxable assets by us, if any of such transactions were determined by the tax authorities to lack any reasonable commercial purpose. As a result, depending on whether we are the transferor or transferee in such transactions, we or the non-resident investors may become at risk of being taxed under SAT Bulletin 7 and 37, and we may have to incur expenses to comply with SAT Bulletin 7 and 37, including the withholding and reporting obligations thereunder, or to establish that we should not be taxed under the general anti-avoidance rule of the EIT Law, which may have a material adverse effect on our financial condition and results of operations or such non-resident investors' investments in us.

***If our preferential tax treatments are revoked, become unavailable or if the calculation of our tax liability is successfully challenged by the PRC tax authorities, we may be required to pay tax, interest and penalties in excess of our tax provisions, and our results of operations could be materially and adversely affected.***

The Chinese government has provided various tax incentives to our subsidiaries and VIEs in China. These incentives include reduced enterprise income tax rates. For example, under the EIT Law and its implementation rules, the statutory enterprise income tax rate is 25%. However, an enterprise holding a valid certificate of new software enterprise or animation enterprise is entitled to an exemption of enterprise income tax for the first two years and a 50% reduction of enterprise income tax for the subsequent three years, commencing from the first profit-making year, while an enterprise qualified as key software enterprise can enjoy a preferential EIT rate of 10%. In addition, enterprises that are granted the high and new technology enterprises status shall enjoy a favorable income tax rate of 15%. Certain of our PRC subsidiaries and VIEs were eligible for preferential tax treatments as new software enterprises, animation enterprise and/or high and new technology enterprises. See “Item 5. Operating and Financial Review and Prospects—A. Operating Results—Taxation.” Any increase in the enterprise income tax rate applicable to our PRC entities in China, or any discontinuation or retroactive or future reduction of any of the preferential tax treatments currently enjoyed by our PRC entities in China, could adversely affect our business, financial condition and results of operations. In addition, in the ordinary course of our business, we are subject to complex income tax and other tax regulations and significant judgment is required in the determination of a provision for income taxes. Although we believe our tax provisions are reasonable, if the PRC tax authorities successfully challenge our position and we are required to pay tax, interest and penalties in excess of our tax provisions, our financial condition and results of operations would be materially and adversely affected.

***China’s M&A Rules and certain other PRC regulations establish complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.***

The Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, and other recently adopted regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. For example, the M&A Rules require that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, if (i) any important industry is concerned, (ii) such transaction involves factors that impact or may impact national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honored brand.

The M&A Rules requires that mergers and acquisitions of domestic enterprises by foreign investors shall be subject to the approval of the MOFCOM or its delegates at provincial level. In the event that any domestic company, enterprise or natural person merges or acquires a domestic company that has affiliated relationship with it through an overseas company legally established or controlled by such domestic company, enterprise or natural person (the “Affiliated M&A”), the merger and acquisition applications shall be submitted to the MOFCOM for approval. Any circumvention on the requirement including domestic re-investment of a foreign invested enterprise is not allowed.

After the implementation of the FI Information Report Measures on January 1, 2020, where a foreign investor acquires a domestic non-foreign-invested enterprise by equity, it shall submit an initial report through the enterprise registration system when handling the change registration for the acquired enterprise instead of obtaining the approval of the MOFCOM or its delegates at provincial level. However, regarding the affiliated M&A, according to the Negative List (2021 Version), a M&A of affiliated domestic companies by domestic companies, enterprises or natural persons via the companies legally established or controlled overseas, it shall still be subject to the approval by the MOFCOM under the M&A Rules.

In addition, on February 3, 2011, the General Office of the State Council promulgated a Notice on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the Circular 6, which officially established a security review system for mergers and acquisitions of domestic enterprises by foreign investors. Further, on August 25, 2011, MOFCOM promulgated the Regulations on Implementation of Security Review System for the Merger and Acquisition of Domestic Enterprises by Foreign Investors, or the MOFCOM Security Review Regulations, which became effective on September 1, 2011, to implement the Circular 6. Under Circular 6, a security review is required for mergers and acquisitions by foreign investors having “national defense and security” concerns and mergers and acquisitions by which foreign investors may acquire the “de facto control” of domestic enterprises with “national security” concerns. Under the MOFCOM Security Review Regulations, the MOFCOM will focus on the substance and actual impact of the transaction when deciding whether a specific merger or acquisition is subject to security review. If the MOFCOM decides that a specific merger or acquisition is subject to security review, it will submit it to the Inter-Ministerial Panel, an authority established under the Circular 6 led by the NDRC and the MOFCOM under the leadership of the State Council, to carry out security review. Prior the promulgation of the Foreign Investment Law or the FIL, only principal provisions are scattered and mentioned in few articles of regulations. In this context, FIL officially established safety review system for foreign investment at the level of law for the first time. Article 35 of the FIL stipulates that the State establishes a foreign investment security review system to conduct security review on foreign investments which have or may have an impact on national security. The safety review decision made in accordance with the law is final.

The regulations prohibit foreign investors from bypassing the security review by structuring transactions through trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions. There is no explicit provision or official interpretation stating that the merging or acquisition of a company engaged in online marketing or mobile games business requires security review, and there is no requirement that acquisitions completed prior to the promulgation of the Security Review Circular are subject to MOFCOM review.

On December 19, 2020, the NDRC and the MOFCOM promulgated Measures for Security Review of Foreign Investment, or the Security Review Measures, being effective from January 18, 2021. According to the Security Review Measures, the state shall establish a working mechanism for the security review of foreign investment (the “Security Review Mechanism”) in charge of organization, coordination, and guidance of foreign investment security review. A working mechanism office shall be established under the NDRC and led by the NDRC and the MOFCOM to undertake routine work on the security review of foreign investment. According to the Security Review Measures, in terms of foreign investments falling in the scope such as important cultural products and services, important information technologies and Internet products and services, important financial services, key technologies and other important fields that concern state security while obtaining the actual control over the enterprises invested in, a foreign investor or a party concerned in the PRC shall take the initiative to make a declaration to the working mechanism office prior to making the investment.

We have grown and may continue to grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the MOFCOM or its local counterparts may delay or inhibit our ability to complete such transactions. It is unclear whether our business would be deemed to be in an industry that raises “national defense and security” or “national security” concerns. However, the MOFCOM or other government agencies may publish explanations in the future determining that our business is in an industry subject to the security review, in which case our future acquisitions in the PRC, including those by entering into contractual control arrangements with target entities, may be closely scrutinized or prohibited. Our ability to expand our business or maintain or expand our market share through future acquisitions would as such be materially and adversely affected.

***PRC regulations relating to offshore investment activities by PRC residents may limit our PRC subsidiaries' ability to increase their registered capital or distribute profits to us or otherwise expose us to liability and penalties under PRC law.***

The SAFE promulgated the Circular on Relevant Issues Relating to Domestic Resident's Investment and Financing and Round-trip Investment through Special Purpose Vehicles, or SAFE Circular 37, in July 2014, which repealed SAFE Circular 75 effective from July 4, 2014. SAFE Circular 37 requires PRC residents that directly establish or indirectly control offshore special purpose vehicles, or SPVs, for the purpose of seeking offshore investment and financing and conducting round trip investment in China, to register with the SAFE or its local branch in connection with their ownership in the SPVs, and to amend the SAFE registrations to reflect any subsequent changes thereof.

To our knowledge, all our significant individual PRC shareholders have completed foreign exchange registration. However, we may not be fully informed of the identities of all our beneficial owners who are PRC citizens or residents, and we cannot compel our beneficial owners to comply with SAFE registration requirements. As a result, we cannot assure you that all of our shareholders or beneficial owners who are PRC citizens or residents have complied with and will in the future make or obtain any applicable registrations or approvals required by, SAFE regulations. If our shareholders or beneficial owners who are PRC citizens or residents fail to complete their SAFE registration, our PRC subsidiaries may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to us, and we may be restricted in our ability to contribute additional capital to our PRC subsidiaries. Moreover, failure to comply with the SAFE registration and amendment requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

***Failure to comply with PRC regulations regarding the registration requirements for employee stock ownership plans or share option plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.***

On February 15, 2012, the SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies, or the Stock Option Rules, which replaced the Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Ownership Plans or Stock Option Plans of Overseas Publicly-Listed Companies issued by the SAFE on March 28, 2007. Under the Stock Option Rules and other relevant rules and regulations, PRC residents who participate in stock incentive plan in an overseas publicly-listed company are required to register with the SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of such overseas publicly listed company or another qualified institution selected by such PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. We and our PRC employees who have been granted stock options have been subject to these regulations upon the completion of the initial public offering in May 2014. Failure of our PRC stock option holders to complete their SAFE registrations may subject these PRC residents to fines and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute dividends to us, or otherwise materially adversely affect our business.

***PRC regulation of loans to, and direct investment in, PRC entities by offshore holding companies and governmental control of currency conversion may restrict or prevent us from loans to our PRC entities or to make additional capital contributions to our PRC subsidiaries, which may materially and adversely affect our liquidity and our ability to fund and expand our business.***

We are an offshore holding company conducting our operations in China through our PRC entities, including PRC subsidiaries and VIEs. We may make loans to our PRC entities, or we may make additional capital contributions to our PRC subsidiaries, or we may establish new PRC subsidiaries and make capital contributions to these new PRC subsidiaries, or we may acquire offshore entities with business operations in China in an offshore transaction.

Most of these financing means are subject to PRC regulations and approvals. For example, loans by us to our wholly-owned PRC subsidiaries to finance their activities cannot exceed statutory limits and must be registered with the local counterpart of the SAFE. Due to the restrictions imposed on loans in foreign currencies extended to any PRC domestic companies, we are not likely to make such loans to the VIEs, which are PRC domestic companies. Further, we are not likely to finance the activities of the VIEs by means of capital contributions due to regulatory restrictions relating to foreign investment in PRC domestic enterprises engaged in mobile internet services, online advertising, online games and related businesses.

On August 29, 2008, the SAFE promulgated the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or SAFE Circular 142, regulating the conversion by a foreign-invested enterprise of foreign currency registered capital into Renminbi by restricting how the converted Renminbi may be used. SAFE Circular 142 provides that Renminbi capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC. In addition, the SAFE strengthened its oversight of the flow and use of the Renminbi capital converted from the foreign currency registered capital of a foreign-invested company. The use of such Renminbi capital may not be altered without SAFE approval, and such Renminbi capital may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been used. Such requirements are also known as “payment-based foreign currency settlement system” established under the SAFE Circular 142. Violations of SAFE Circular 142 could result in severe monetary or other penalties. Furthermore, the SAFE promulgated a circular on November 9, 2010, known as Circular 59, and another supplemental circular on July 18, 2011, known as Circular 88, which both tighten the examination of the authenticity of settlement of foreign currency capital or net proceeds from overseas listings. The SAFE further promulgated the Circular on Further Clarification and Regulation of the Issues Concerning the Administration of Certain Capital Account Foreign Exchange Businesses, or Circular 45, on November 9, 2011, which expressly prohibits foreign-invested enterprises from using registered capital settled in Renminbi converted from foreign currencies to grant loans through entrustment arrangements with a bank, repay intercompany loans or repay bank loans that have been transferred to a third party. Circular 142, Circular 59, Circular 88 and Circular 45 may significantly limit our ability to make loans or capital contributions to our PRC subsidiaries and to convert such proceeds into Renminbi, which may adversely affect our liquidity and our ability to fund and expand our business in the PRC.



Furthermore, on March 30, 2015, the SAFE promulgated the Circular on the Reform of the Administrative Method of the Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or Circular 19, which became effective as of June 1, 2015. This Circular 19 is to implement the so-called “conversion-at-will” of foreign currency in capital account, which was established under a circular issued by the SAFE on August 4, 2014, or Circular 36, and was implemented in 16 designated industrial parks as a reform pilot. The Circular 19 now implements the conversion-at-will of foreign currency settlement system nationally, and it abolished the application of Circular 142, Circular 88 and Circular 36 starting from June 1, 2015. Among other things, under Circular 19, foreign-invested enterprises may either continue to follow the payment-based foreign currency settlement system or elect to follow the conversion-at-will of foreign currency settlement system. Where a foreign-invested enterprise follows the conversion-at-will of foreign currency settlement system, it may convert any or 100% amount of the foreign currency in its capital account into RMB at any time. The converted RMB will be kept in a designated account known as “Settled but Pending Payment Account,” and if the foreign-invested enterprise needs to make further payment from such designated account, it still needs to provide supporting documents and go through the review process with its bank. If under special circumstances the foreign-invested enterprise cannot provide supporting documents in time, Circular 19 grants the banks the power to provide a grace period to the enterprise and make the payment before receiving the supporting documents. The foreign-invested enterprise will then need to submit the supporting documents within 20 working days after payment. In addition, foreign-invested enterprises are now allowed to use their converted RMB to make equity investments in China under Circular 19. However, foreign-invested enterprises are still required to use the converted RMB in the designated account within their approved business scope under the principle of authenticity and self-use. On October 23, 2019, the SAFE promulgated the Notice of Foreign Exchange of Further Facilitating Cross-border Trade and Investment, or SAFE Circular 28, and the Notice of the State Administration of Foreign Exchange on Reducing Foreign Exchange Accounts, or SAFE Circular 29, clearly cancelling the restrictions on domestic equity investment of capital funds by ordinary foreign-invested enterprises. Operational Guidance for Handling Relevant Foreign Exchange Business under Capital Account by Banks, or the “Operational Guidance”, which is the appendix of SAFE Circular 29, further provides that the foreign exchange receipts under capital accounts of domestic institutions and the RMB funds obtained from foreign exchange settlement may be used by domestic institutions for expenditures under current accounts within their business scope, or for expenditures under capital accounts permitted by laws and regulations. However, the following expenditures are prohibited: (i) shall not be directly or indirectly used for expenditures beyond the business scope of an enterprise or expenditures prohibited by laws and regulations of the State; (ii) shall not be directly or indirectly used for securities investments or other investments or wealth management other than banks’ principal-protected products, unless otherwise expressly provided by laws and regulations; (iii) shall not be used for granting loans to non-affiliated enterprises, unless expressly permitted in the business scope; and (iv) shall not be used for constructing or purchasing real estate not for self-use (except for real estate enterprises). On April 10, 2020, the SAFE issued the Circular on Optimizing Administration of Foreign Exchange to Support the Development of Foreign-related Business, being effective from the same date. The Circular optimized foreign exchange business management, such as promoting the facilitation reform of capital account income payment throughout the country. For detailed information, please see “Item 4. Regulations—Regulations of Foreign Currency Exchange, Foreign Debt and Dividend Distribution”.

In light of the various requirements imposed by PRC regulations on loans to and direct investment in PRC entities by offshore holding companies as discussed above, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, or at all, with respect to future loans by us to our PRC entities or with respect to future capital contributions by us to our PRC subsidiaries. If we fail to complete such registrations or obtain such approvals, our ability to capitalize or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

***We may rely on dividends paid by our subsidiaries, including PRC subsidiaries, to fund any cash and financing requirements we may have. Any limitation on the ability of our subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business and to pay dividends to holders of the ADSs and our ordinary shares.***

We are a holding company, and we rely on a significant amount of dividends from our subsidiaries, including our PRC subsidiaries, for our cash requirements, including the funds necessary to pay dividends and other cash distributions to the holders of the ADSs and our ordinary shares and service any debt we may incur. If our subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us.

With respect to our PRC subsidiaries, under PRC laws and regulations, wholly foreign-owned enterprises in the PRC, such as Conew Network and Zhuhai Juntian Electronic Technology Co., Ltd., or Zhuhai Juntian, may pay dividends only out of its accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise is required to set aside at least 10% of its after-tax profits each year, after making up previous years’ accumulated losses, if any, to fund certain statutory reserve funds, until the aggregate amount of such a fund reaches 50% of its registered capital. At the discretion of the board of directors of the wholly foreign-owned enterprise, it may allocate a portion of its after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends. On March 15, 2019, the National People’s Congress adopted the Foreign Investment Law of the People’s Republic of China, or FIL, which became effective on January 1, 2020. Upon the implementation of the FIL, Law on Wholly Foreign Owned Enterprise was repealed. The FIL sets out that the business forms, structures, and rules of activities of foreign-funded enterprises shall be governed by the Company Law of the People’s Republic of China, the Partnership Law of the People’s Republic of China, and other laws. Foreign-funded enterprises formed under the Law on Sino-Foreign Equity Joint Ventures, the Law on Sino-Foreign Contractual Joint Ventures and the Law on Wholly Foreign Owned Enterprises before the implementation of FIL Law may maintain their original business forms, among others, for five years after FIL Law comes into force.

According to the Company Law, if the aggregate balance of our statutory common reserve is not enough to make up for the losses of the previous year, the current year's profits shall first be used for making up the losses before the statutory common reserve is drawn according to the provisions of the preceding paragraph. After we have drawn statutory common reserve, which is 10% of the after-tax profit, from the after-tax profits, it may, upon a resolution made by the shareholders' meeting, draw a discretionary common reserve from the after-tax profits. After the losses have been made up and common reserves have been drawn, the remaining profits shall be distributed to shareholders in proportion to the actual capital contribution actually paid by them, unless otherwise agreed upon by all the shareholders. We may stop drawing the profits if the aggregate balance of the statutory common reserve has already accounted for over 50% of our registered capital. See "Item 4. Information on the Company—B. Business Overview—Regulations—Regulations of Foreign Currency Exchange, Foreign Debt and Dividend Distribution" for further details.

Any limitation on the ability of our wholly-owned PRC subsidiaries to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

In addition, the EIT Law and its implementation rules provide that withholding tax rate of 10% will be applicable to dividends payable by Chinese companies to non-PRC-resident enterprises unless otherwise exempted or reduced according to treaties or arrangements between the PRC central government and governments of other countries or regions where the non-PRC-resident enterprises are incorporated.

***Fluctuations in exchange rates could have a material and adverse effect on our results of operations and the value of your investment.***

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. The value of Renminbi against the U.S. dollar and other currencies is affected by changes in China's political and economic conditions and by China's foreign exchange policies, among other things. We cannot assure you that Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between Renminbi and the U.S. dollar in the future.

Any significant appreciation or depreciation of Renminbi may materially and adversely affect our revenues, earnings and financial position, and the value of, and any dividends payable on, our ADSs in U.S. dollars. For example, to the extent that we need to convert U.S. dollars we receive from our initial public offerings or convertible senior notes offering into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, if we decide to convert our Renminbi into

U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us.

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to adequately hedge our exposure or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currency. As a result, fluctuations in exchange rates may have a material adverse effect on your investment.

***Governmental control of currency conversion may limit our ability to utilize our cash balance effectively and affect the value of your investment.***

The PRC government imposes control on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive part of our revenues in Renminbi. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior SAFE approval by complying with certain procedural requirements. Therefore, our PRC subsidiaries are able to pay dividends in foreign currencies to us without prior approval from the SAFE. However, approval from or registration with appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access to foreign currencies for current account transactions in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of the ADSs.

***Increases in labor costs in the PRC may adversely affect our business and our profitability.***

China has experienced increases in labor costs in recent years. China's overall economy and the average wage in China are expected to continue to grow. The average wage level for our employees has also increased in recent years.

In addition, we have been subject to stricter regulatory requirements in terms of entering into labor contracts with our employees and paying various statutory employee benefits, including pensions, housing allowance, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to designated government agencies for the benefit of our employees. Pursuant to the PRC Labor Contract Law, or the Labor Contract Law, which became effective in January 2008 and its implementation rules effective as of September 2008, and was respectively amended on July 1, 2013, employers are subject to stricter requirements in terms of signing labor contracts, minimum wages, paying remuneration, determining the term of employees' probation and unilaterally terminating labor contracts. In the event that we decide to terminate some of our employees or otherwise change our employment or labor practices, the Labor Contract Law and its implementation rules may limit our ability to effect those changes in a desirable or cost-effective manner, which could adversely affect our business and results of operations. On October 28, 2010, the Standing Committee of the National People's Congress promulgated the PRC Social Insurance Law, or the Social Insurance Law, which became effective on July 1, 2011, and was respectively amended on December 29, 2018. According to the Social Insurance Law, employees must participate in pension insurance, work-related injury insurance, medical insurance, unemployment insurance and maternity insurance and the employers must, together with their employees or separately, pay the social insurance premiums for such employees.

As the interpretation and implementation of labor-related laws and regulations are still evolving, we cannot assure you that our employment practices do not and will not violate labor-related laws and regulations in China, which may subject us to labor disputes or government investigations. If we are deemed to have violated relevant labor laws and regulations, we could be required to provide additional compensation to our employees, and our business, financial condition and results of operations could be materially and adversely affected.

***If the custodians or authorized users of controlling non-tangible assets of our company, including our corporate chops and seals, fail to fulfill their responsibilities, or misappropriate or misuse these assets, our business and operations could be materially and adversely affected.***

Under PRC law, legal documents for corporate transactions are executed using the chops or seals of the signing entity, or with the signature of a legal representative whose designation is registered and filed with the relevant branch of the State Administration for Industry and Commerce, or the SAIC which has been restructured and named to the State Administration for Market Regulation, or the SAMR.

Although we usually utilize chops to enter into contracts, the designated legal representatives of each of our PRC entities have the apparent authority to enter into contracts on behalf of such entities without chops and bind such entities. Some designated legal representatives of our PRC entities are members of our senior management team who have signed employment undertaking letters with us or our PRC entities under which they agree to abide by various duties they owe to us. In order to maintain the physical security of our chops and the chops of our PRC entities, we generally store these items in secured locations accessible only by the authorized personnel of each of our PRC entities. Although we monitor such authorized personnel, there is no assurance such procedures will prevent all instances of abuse or negligence. Accordingly, if any of our authorized personnel misuse or misappropriate our corporate chops or seals, we could encounter difficulties in maintaining control over the relevant entities and experience significant disruption to our operations. If a designated legal representative obtains control of the chops in an effort to obtain control over any of our PRC entities, we or our PRC entities would need to pass a new shareholder or board resolution to designate a new legal representative and we would need to take legal action to seek the return of the chops, apply for new chops with the relevant authorities, or otherwise seek legal redress for the violation of the representative's fiduciary duties to us, which could involve significant time and resources and divert management attention away from our regular business. In addition, the affected entity may not be able to recover corporate assets that are sold or transferred out of our control in the event of such a misappropriation if a transferee relies on the apparent authority of the representative and acts in good faith.

***The PCAOB is currently unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections over our auditor deprives our investors with the benefits of such inspections.***

Our auditor, the independent registered public accounting firm that issues the audit report included elsewhere in this annual report, as an auditor of companies that are traded publicly in the United States and a firm registered with the PCAOB, is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. Since our auditor is located in China, a jurisdiction where the PCAOB has been unable to conduct inspections without the approval of the Chinese authorities, our auditor is not currently inspected by the PCAOB.

As a result, we and investors in the ADSs are deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our independent registered public accounting firm's audit procedures or quality control procedures as compared to auditors outside of China that are subject to the PCAOB inspections, which could cause investors and potential investors in the ADSs to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

***The ADSs will be prohibited from trading in the United States under the HFCAA in 2024 if the PCAOB is unable to inspect or fully investigate auditors located in China, or in 2023 if proposed changes to the law are enacted. The delisting of the ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment.***

The Holding Foreign Companies Accountable Act, or the HFCAA, was signed into law on December 18, 2020. The HFCAA states if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspection for the PCAOB for three consecutive years beginning in 2021, the SEC shall prohibit our shares or ADSs from being traded on a national securities exchange or in the over-the-counter trading market in the United States. On December 16, 2021, the PCAOB issued a report to notify the SEC of its determination that the PCAOB is unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong. The PCAOB identified our auditor as one of the registered public accounting firms that the PCAOB is unable to inspect or investigate completely.

Whether the PCAOB will be able to conduct inspections of our auditor before the issuance of our financial statements on Form 20-F for the year ending December 31, 2023 which is due by April 30, 2024, or at all, is subject to substantial uncertainty and depends on a number of factors out of our, and our auditor's, control. The prohibition of our ordinary shares and ADSs from trading in the United States would substantially impair your ability to sell or purchase the ADSs when you wish to do so, and the risk and uncertainty associated with delisting would have a negative impact on the price of the ADSs. Also, such a prohibition would significantly affect our ability to raise capital on terms acceptable to us, or at all, which would have a material adverse impact on our business, financial condition, and prospects.

On June 22, 2021, the U.S. Senate passed a bill which would reduce the number of consecutive non-inspection years required for triggering the prohibitions under the HFCAA from three years to two. On February 4, 2022, the U.S. House of Representatives passed a bill which contained, among other things, an identical provision. If this provision is enacted into law and the number of consecutive non-inspection years required for triggering the prohibitions under the HFCAA is reduced from three years to two, then our shares and ADSs could be prohibited from trading in the United States in 2023.

## Risks Relating to the ADSs

*The trading price of our ADSs has been volatile and may continue to be volatile regardless of our operating performance.*

The trading price of our ADSs has been and may continue to be subject to wide and sudden fluctuations due to factors including the following:

- variations in our revenues, earnings and cash flow;
- announcements of new investments, acquisitions, strategic partnerships, or joint ventures by us or our competitors;
- announcements of disposal of business or assets;
- announcements of new services and expansions by us or our competitors;
- announcement of termination of partnership by important customers/vendors;
- changes in financial estimates by securities analysts;
- fluctuations in our user or other operating metrics;
- fluctuations in the stock price of Kingsoft Corporation, one of our principal shareholders, or news about Kingsoft Corporation that has an impact on us;
- failure on our part to realize monetization opportunities as expected;
- changes in revenues generated from our top customers;
- additions or departures of key personnel;
- detrimental negative publicity about us, our management, our competitors or our industry;
- short seller reports that make allegations against us or our affiliates, even if unfounded;
- regulatory developments affecting us or our industry; and
- potential litigation or regulatory investigations.

The Staff of the Division of Enforcement of the SEC is conducting an investigation relating to our disclosures for fiscal year 2015 regarding our relationship with one of our advertising business partners. The SEC investigation also relates to Rule 10b5-1 trading plans entered into by certain of our current and former officers and directors and sales of our ADS under those plans in 2015 and 2016. We and our current and former officers and directors have been fully cooperating with the SEC and are in discussions with the SEC concerning the potential outcome of the investigation. While we believe the SEC investigation is nearing conclusion, the exact duration and outcome of the SEC matter cannot be predicted at this time. A settlement or litigation with the SEC could include allegations by the SEC of violations of the U.S. securities laws against us and/or our current and former officers and directors involved, seeking various remedies, including penalties, fines, injunctive relief, a cease and desist order, officer and director bars, certain compliance undertakings, and other limitations or sanctions under the U.S. securities laws. See “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings.”

In addition, the price of the ADSs may fluctuate due to broad market and industry factors, such as the performance and fluctuation in the market prices or the underperformance or deteriorating financial results of other similarly situated companies in China that have listed their securities in the United States in recent years. The securities of some of these companies have experienced significant volatility since their initial public offerings, including, in some cases, substantial declines in trading price. The trading performance of these Chinese companies' securities after their offerings, including the securities of companies in the mobile and PC internet businesses, may affect the attitudes of investors toward Chinese companies listed in the United States, which consequently may impact the trading performance of the ADSs, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting or other practices at other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have engaged in such practices. In addition, securities markets may from time to time experience significant price and volume fluctuations that are not related to our operating performance, such as the large decline in share prices in the United States, China and other jurisdictions between late 2008 and 2012, which may have a material adverse effect on the market price of the ADSs.

***Our ADSs may be delisted from the New York Stock Exchange as a result of our failure of meeting the New York Stock Exchange continued listing requirements.***

We are required to meet certain quantitative tests as well as corporate governance and other qualitative standards to maintain the listing of our ADSs on the NYSE. It is possible that we could fail to satisfy one or more of these requirements.

Pursuant to NYSE rule 802.01C, a company is considered to be below compliance standards if the average closing price of a security as reported on the consolidated tape is less than \$1.00 over a consecutive 30 trading-day period. We received a letter from the NYSE dated April 15, 2022, notifying us that we were below the foregoing compliance standard. Pursuant to NYSE rule 802.01C, once notified, a company must bring its share price and average share price back above \$1.00 within six months following receipt of the notification. If on the last trading day of any calendar month during the cure period the company has a closing share price of at least \$1.00 and an average closing share price of at least \$1.00 over the 30 trading-day period ending on the last trading day of that month, then the company can regain compliance at any time during the six-month cure period. In the event that at the expiration of the six-month cure period, both a \$1.00 closing share price on the last trading day of the cure period and a \$1.00 average closing share price over the 30 trading-day period ending on the last trading day of the cure period are not attained, the NYSE will commence suspension and delisting procedures. To address this issue, we are monitoring the market conditions of our listed securities and are still considering our options. There can be no assurance that we can cure the price deficiency in time to regain compliance.

Furthermore, there can be no assurance that we will be able to maintain compliance with any other continued listing requirements of the NYSE. In the event of deficiency or non-compliance, we could receive notices from the NYSE and suffer loss of investor confidence and trading price decline. If we fail to regain compliance in time, we could face trading suspension or even delisting from the NYSE, which could make it more difficult to obtain accurate quotations of and to buy or sell our securities, and the price of our securities could suffer further significant decline. Delisting may also impair our ability to raise capital and harm our reputation.

***If securities or industry analysts cease to publish research or reports about our business, or if they adversely change their recommendations regarding the ADSs, the market price for the ADSs and trading volume could decline.***

The trading market for the ADSs may be influenced by research or reports that industry or securities analysts publish about our business. If one or more analysts who cover us downgrade the ADSs, the market price for the ADSs would likely decline. If one or more of these analysts cease to cover us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume for the ADSs to decline.

***The sale or perceived sale of substantial amounts of our ADSs or ordinary shares could adversely affect their market price.***

Sales of substantial amounts of our ADSs in the public market, sales of our ordinary shares, or the perception that these sales could occur, could adversely affect the market price of the ADSs and could materially impair our ability to raise capital through equity offerings in the future. Ordinary shares held by our pre-IPO shareholders may be sold in the public market subject to the restrictions in Rule 144 under the Securities Act. In addition, ordinary shares issued pursuant to our share incentive plans are eligible for sale in the public market subject to restrictions of Rule 144 under the Securities Act or through registration under the Securities Act, as applicable. In addition, we have granted certain shareholders Form F-3 registration rights and the piggyback registration rights. Registration of these shares under the Securities Act may result in these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. Any market sales of securities held by our significant shareholders or any other shareholder may have an adverse impact on the market price of the ADSs.

***Our articles of association contain anti-takeover provisions that could have a material adverse effect on the rights of holders of our ordinary shares and ADSs.***

Our currently effective fourth amended and restated articles of association contain provisions to limit the ability of others to acquire control of our company or cause us to engage in change-of-control transactions. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction. For example, our board of directors has the authority, without further action by our shareholders, to issue preferred shares in one or more series and to fix their designations, powers, preferences, privileges, and relative participating, optional or special rights, and the qualifications, limitations or restrictions, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our ordinary shares, represented by ADSs or otherwise. Preferred shares could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. If our board of directors decides to issue preferred shares, the price of the ADSs may fall and the voting and other rights of the holders of our ordinary shares and the ADSs may be materially and adversely affected.

***As a company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the NYSE corporate governance rules; these practices may afford less protection to shareholders than they would enjoy if we comply fully with the NYSE corporate governance rules. In addition, we are also a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to U.S. domestic public companies.***

The NYSE corporate governance rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the NYSE corporate governance rules. As we rely on the home country practice exemption as described above, our investors may have less protection afforded to shareholders of companies that fully comply with NYSE corporate governance requirements. We may also opt to rely on additional home country practice exemptions in the future.

Furthermore, because we qualify as a foreign private issuer under the Securities Exchange Act of 1934, as amended, or the Exchange Act, we are exempt from certain provisions of the Exchange Act that are applicable to U.S. public companies, including (i) the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations in respect of a security registered under the Exchange Act, (ii) the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time, and (iii) the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q containing unaudited financial and other specified information, or current reports on Form 8-K, upon the occurrence of specified significant events. As a result, you may not be provided with the same benefits as a shareholder of a U.S. domestic company.

***You may face difficulties in protecting your interests, and your ability to protect your rights through U.S. courts may be limited, because we are incorporated under Cayman Islands law.***

We are an exempted company with limited liability incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our memorandum and articles of association, as amended from time to time, the Companies Act (As Revised) of the Cayman Islands and the common law of the Cayman Islands. The rights of shareholders to take action against our directors, actions by minority shareholders and the fiduciary duties of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our shareholders and the fiduciary duties of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States. Some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States.

Shareholders of Cayman Islands exempted companies like us have no general rights under Cayman Islands law to inspect corporate records or to obtain copies of lists of shareholders of these companies. Our directors have discretion under our existing articles of association to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

Certain corporate governance practices in the Cayman Islands, which is our home country, differ significantly from requirements for companies incorporated in other jurisdictions such as the United States. Currently, we do not plan to rely on home country practice with respect to any corporate governance matter. However, if we choose to follow home country practice in the future, our shareholders may be afforded less protection than they otherwise would under rules and regulations applicable to U.S. domestic issuers.

As a result of all of the above, public shareholders may have more difficulty in protecting their interests in the face of actions taken by our management, members of our board of directors or our controlling shareholders than they would as public shareholders of a company incorporated in the United States.

***Judgments obtained against us by our shareholders may not be enforceable in our home jurisdiction.***

We are an exempted company incorporated in the Cayman Islands and a substantial majority of our assets are located outside of the United States. A significant percentage of our current operations are conducted in China. In addition, a significant majority of our current directors and officers are nationals and residents of countries other than the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the United States in the event that you believe that your rights have been infringed under the United States federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

There are uncertainties as to whether Cayman Islands courts would:

- recognize or enforce against us judgments of courts of the United States based on certain civil liability provisions of U.S. securities laws; and
- impose liabilities against us, in original actions brought in the Cayman Islands, based on certain civil liability provisions of U.S. securities laws that are penal in nature.

There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will in certain circumstances recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits.



***The voting rights of holders of ADSs are limited by the terms of the deposit agreement, and you may not be able to exercise your right to direct how the Class A ordinary shares underlying your ADSs are voted.***

Holders of ADSs do not have the same rights as our registered shareholders. As a holder of our ADSs, you will not have any direct right to attend general meetings of our shareholders or to cast any votes at such meetings. You will only be able to exercise the voting rights which are carried by the underlying Class A ordinary shares represented by your ADSs indirectly by giving voting instructions to the depositary in accordance with the provisions of the deposit agreement. Under the deposit agreement, you may vote only by giving voting instructions to the depositary. Upon receipt of your voting instructions, the depositary will vote the Class A ordinary shares underlying your ADSs in accordance with these instructions. You will not be able to directly exercise your right to vote with respect to the underlying ordinary shares unless you withdraw the shares and become the registered holder of such shares prior to the record date for the general meeting. Under our fourth amended and restated memorandum and articles of association, the minimum notice period required to be given by our company to our registered shareholders to convene a general meeting is fourteen calendar days. When a general meeting is convened, you may not receive sufficient advance notice of the meeting to permit you to withdraw the Class A ordinary shares underlying your ADSs and become the registered holder of such shares to allow you to attend the general meeting and to cast your vote directly with respect to any specific matter or resolution to be considered and voted upon at the general meeting. Furthermore, under our fourth amended and restated memorandum and articles of association, for the purposes of determining those shareholders who are entitled to attend and vote at any general meeting, our directors may close our register of members and/or fix in advance a record date for such meeting, and such closure of our register of members or the setting of such a record date may prevent you from withdrawing the Class A ordinary shares underlying your ADSs and becoming the registered holder of such shares prior to the record date, so that you would not be able to attend the general meeting or to vote directly. If we ask for your instructions, the depositary will notify you of the upcoming vote and will arrange to deliver our voting materials to you. We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote the Class A ordinary shares underlying your ADSs. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for their manner of carrying out your voting instructions. This means that you may not be able to exercise your right to direct how the Class A ordinary shares underlying your ADSs are voted, and you may have no legal remedy if the Class A ordinary shares underlying your ADSs are not voted as you requested. In addition, in your capacity as an ADS holder, you will not be able to call a shareholders' meeting.

***The depositary for the ADSs will give us a discretionary proxy to vote the Class A ordinary shares underlying your ADSs if you do not give voting instructions to the depositary to direct how the Class A ordinary shares underlying your ADSs are voted, except in limited circumstances, which could adversely affect your interests.***

Under the deposit agreement for the ADSs, if you do not give voting instructions to the depositary to direct how the Class A ordinary shares underlying your ADSs are voted, the depositary will give us a discretionary proxy to vote the Class A ordinary shares underlying your ADSs at shareholders' meetings unless:

- we have failed to timely provide the depositary with notice of meeting and related voting materials;
- we have instructed the depositary that we do not wish a discretionary proxy to be given;
- we have informed the depositary that there is substantial opposition as to a matter to be voted on at the meeting;
- a matter to be voted on at the meeting would have a material adverse impact on shareholders; or
- the voting at the meeting is to be made on a show of hands.

The effect of this discretionary proxy is that if you do not give voting instructions to the depositary to direct how the Class A ordinary shares underlying your ADSs are voted, you cannot prevent the Class A ordinary shares underlying your ADSs from being voted, except under the circumstances described above. This may make it more difficult for shareholders to influence the management of our company. Holders of our Class A and Class B ordinary shares are not subject to this discretionary proxy.

***Because we do not expect to pay dividends in the foreseeable future, you must rely on price appreciation of the ADSs for return on your investment.***

We currently intend to retain most, if not all, of our available funds and any future earnings to fund the development and growth of our business. As a result, we do not expect to pay any cash dividends in the foreseeable future. Therefore, you should not rely on an investment in the ADSs as a source for any future dividend income.

Our board of directors has discretion as to whether to distribute dividends, subject to applicable laws. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. Under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in our being unable to pay its debts as they fall due in the ordinary course of business. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors.

Accordingly, the return on your investment in the ADSs will likely depend entirely upon any future price appreciation of the ADSs. There is no guarantee that the ADSs will appreciate in value or even maintain the price at which you purchased the ADSs. You may not realize a return on your investment in the ADSs and you may even lose your entire investment in the ADSs.

***You may not receive dividends or other distributions on our Class A ordinary shares and you may not receive any value for them, if it is illegal or impractical to make them available to you.***

The depositary of the ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on Class A ordinary shares or other deposited securities underlying the ADSs, after deducting its fees and expenses. You will receive these distributions in proportion to the number of Class A ordinary shares your ADSs represent. However, the depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act but that are not properly registered or distributed under an applicable exemption from registration. The depositary may also determine that it is not feasible to distribute certain property through the mail. Additionally, the value of certain distributions may be less than the cost of mailing them. In these cases, the depositary may determine not to distribute such property. We have no obligation to register under U.S. securities laws any ADSs, ordinary shares, rights or other securities received through such distributions. We also have no obligation to take any other action to permit the distribution of ADSs, ordinary shares, rights or anything else to holders of ADSs. This means that you may not receive distributions we make on our Class A ordinary shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may cause a material decline in the value of the ADSs.

***You may not be able to participate in rights offerings and may experience dilution of your holdings.***

We may, from time to time, distribute rights to our shareholders, including rights to acquire securities. Under the deposit agreement, the depositary will not distribute rights to holders of ADSs unless the distribution and sale of rights and the securities to which these rights relate are either exempt from registration under the Securities Act with respect to all holders of ADSs, or are registered under the provisions of the Securities Act. The depositary may, but is not required to, attempt to sell these undistributed rights to third parties, and may allow the rights to lapse. We may be unable to establish an exemption from registration under the Securities Act, and we are under no obligation to file a registration statement with respect to these rights or underlying securities or to endeavor to have a registration statement declared effective. Accordingly, holders of ADSs may be unable to participate in our rights offerings and may experience dilution of their holdings as a result.

***Our dual-class voting structure will limit your ability to influence corporate matters, and could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and the ADSs may view as beneficial.***

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to ten votes per share. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof, while Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Save for certain limited exceptions, upon any transfer of Class B ordinary shares by a holder thereof to any person or entity which is not an affiliate of such holder, such Class B ordinary shares shall be automatically and immediately converted into the equal number of Class A ordinary shares. All of the ordinary shares held by our shareholders prior to the completion of the initial public offering were re-designated as Class B ordinary shares upon completion of the offering. Kingsoft Corporation, one of our principal shareholders, and Mr. Sheng Fu, directly or through their holding vehicles, beneficially own an aggregate of 54.5% of our total outstanding shares, representing 72.5% of our total voting power as of March 31, 2022, which give them considerable influence over matters requiring shareholders' approval, including election of directors and significant corporate transactions, such as a merger or sale of our company or our assets. This concentrated control will limit your ability to influence corporate matters and could discourage others from pursuing any potential merger, takeover or other change of control transactions that holders of Class A ordinary shares and ADSs may view as beneficial.

***You may be subject to limitations on transfer of your ADSs.***

Your ADSs are transferable on the books of the depository. However, the depository may close its books at any time or from time to time when it deems expedient in connection with the performance of its duties. The depository may close its books from time to time for a number of reasons, including in connection with corporate events such as a rights offering, during which time the depository needs to maintain an exact number of ADSs on its books for a specified period. The depository may also close its books in emergencies, and on weekends and public holidays. The depository may refuse to deliver, transfer or register transfers of ADSs generally when our share register or the books of the depository are closed, or at any time if we or the depository thinks that it is advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason in accordance with the terms of the deposit agreement. As a result, you may be unable to transfer your ADSs when you wish to.

***We have incurred increased costs as a result of being a public company, and the costs may continue to increase in the future.***

As a public company, we have incurred significant legal, accounting and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the Securities and Exchange Commission, or the SEC, and the NYSE, impose various requirements on the corporate governance practices of public companies. These rules and regulations increase our legal and financial compliance costs and some corporate activities more time-consuming and costly. For example, in comparison with a private company, we need an increased number of independent directors and have to adopt policies regarding internal controls and disclosure controls and procedures. In addition, we incur additional costs associated with our public company reporting requirements. We expect to continue to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and the other rules and regulations of the SEC and the NYSE.

We may from time to time be subject to various legal or administrative claims and proceedings arising in the ordinary course of business.

We and certain of our current and former officers have been named as defendants in two putative securities class actions filed on June 25, 2020 and July 31, 2020 respectively in the U.S. District Court for the Central District of California. On August 24, 2020, the Court consolidated the two cases under the caption *In Re: Cheetah Mobile, Inc. Securities Litigation* (Case No. 2:20-cv-05696). On March 15, 2021, an amended complaint was filed. According to the amended complaint, the action is purportedly brought on behalf of a class of persons who allegedly suffered damages as a result of their trading in our ADRs between April 26, 2017 and March 24, 2020. The action alleges that we made false or misleading statements regarding our business and operations in violation of the Sections 10(b) and 20(a) of the U.S. Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder. Briefing on our motion to dismiss the complaint was completed in July 2021. On March 30, 2022, the Court granted the Company's motion to dismiss, with leave for Plaintiffs to amend the complaint. On May 6, 2022, the parties reached a stipulation, pursuant to which Plaintiffs voluntarily dismissed the claims asserted in the action, and agreed that they would not amend the complaint or appeal the Court's order. The case is now closed. Lawsuits such as this could divert a significant amount of our management's attention and other resources from our business and operations, which could harm our results of operations and require us to incur significant expenses to defend the lawsuit. Any such lawsuit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations. Furthermore, there can be no assurance that our insurance carriers will cover all or part of the defense costs, or any liabilities that may arise from these matters. We also may be subject to claims for indemnification related to these matters, and we cannot predict the impact that indemnification claims may have on our business, financial condition or results of operations.

*We believe that we were a passive foreign investment company, or PFIC, for United States federal income tax purposes for the taxable year ended December 31, 2021, which could subject United States investors in the ADSs or Class A ordinary shares to significant adverse United States income tax consequences.*

We will be a “passive foreign investment company,” or “PFIC,” if, in the case of any particular taxable year, either (a) 75% or more of our gross income for such year consists of certain types of “passive” income or (b) 50% or more of the value of our assets (generally determined on the basis of a quarterly average) during such year produce or are held for the production of passive income. Although the law in this regard is unclear, we treat the VIEs as being owned by us for United States federal income tax purposes, not only because we consolidate the operation of such entities but also because we are entitled to substantially all of their economic benefits, and, as a result, we consolidate their results of operations in our consolidated financial statements.

Based on the market price of our ADSs and the composition of our assets (in particular the substantial amount of cash and investments), we believe that we were a PFIC for United States federal income tax purposes for the taxable year ended December 31, 2021, and we will likely be a PFIC for our current taxable year unless the market price of our ADSs increases and/or we invest a substantial amount of the cash and other passive assets we hold in assets that produce or are held for the production of active income.

If we are a PFIC in any taxable year, a U.S. holder (as defined in “Item 10. Additional Information— E. Taxation—United States Federal Income Taxation”) may incur significantly increased United States income tax on gain recognized on the sale or other disposition of the ADSs or Class A ordinary shares and on the receipt of distributions on the ADSs or Class A ordinary shares to the extent such gain or distribution is treated as an “excess distribution” under the United States federal income tax rules and such holders may be subject to burdensome reporting requirements. Further, if we are a PFIC for any year during which a U.S. holder holds the ADSs or our Class A ordinary shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. holder holds the ADSs or our Class A ordinary shares. For more information see “Item 10. Additional Information—E. Taxation—United States Federal Income Taxation—Passive Foreign Investment Company Considerations.”

#### **Item 4. Information on the Company**

##### **A. History and Development of the Company**

Our company is a holding company incorporated in the Cayman Islands in July 2009 as a wholly-owned subsidiary of Kingsoft Corporation, a Cayman Islands company publicly listed on the Hong Kong Stock Exchange (Stock Code: 3888) since October 2007. We changed our name from the previous Kingsoft Internet Software Holdings Limited to Cheetah Mobile Inc. in March 2014.

In August 2009, we established our wholly-owned Hong Kong subsidiary, Cheetah Technology Corporation Limited, or Cheetah Technology.

Following our incorporation in July 2009, we underwent a series of restructuring transactions in 2009 and 2010. After the restructuring, Zhuhai Juntian, which was originally a wholly-owned subsidiary of Kingsoft Corporation in China, became a wholly-owned subsidiary of Cheetah Technology in December 2009. Zhuhai Juntian incorporated Beijing Security as its wholly-owned subsidiary in China in November 2009. Through a series of VIE contractual arrangements established in January 2011, Beijing Cheetah Mobile Technology Co., Ltd., or Beijing Mobile, an entity previously consolidated in Kingsoft Corporation’s group, became our VIE. We established Cheetah Mobile America, Inc. in the United States in November 2012.

In October 2010, we acquired 100% equity interest in Conew.com Corporation, a company incorporated in the British Virgin Islands in October 2008. As part of the acquisition, we acquired 100% equity interest in Conew Network and obtained effective control over Beijing Conew through contractual arrangements among Conew Network, Beijing Conew and Beijing Conew’s shareholders.

Beijing Cheetah Network Technology Co., Ltd., or Beijing Network, was incorporated in China in July 2012 as our VIE and has been consolidated in our financial statements since its incorporation. We consolidate the VIEs, such as Beijing Mobile and Beijing Network, through contractual arrangements among them, their shareholders and our applicable PRC subsidiaries, Beijing Security and Conew Network. For a detailed description of our contractual arrangements with the VIEs, see “—C. Organizational Structure— Contractual Arrangements with the VIEs.”

In May 2014, we completed our initial public offering, in which we offered and sold 138,000,000 Class A ordinary shares represented by ADSs.

The ADSs are listed on the NYSE under the symbol “CMCM.”

Since September 2016, we have incorporated Live.me Inc. (“Live.me”), a Cayman Islands company, and several subsidiaries including Hong Kong Live.Me Corporation Limited, to operate our live streaming business. In December 2016, Live.me Inc. entered into an agreement to issue certain number of shares to one of its management members. In April 2017, Live.me Inc. raised an aggregate of US\$60 million from a group of investors as well as our company. In November 2017, Live.me Inc. raised US\$50 million from Bytedance Ltd. as its Series B financing. Following the foregoing transactions, we held approximately 52.1% equity interest in Live.me Inc., and have retained control over the LiveMe business. On September 30, 2019, Live.me amended its share incentive plan to (i) increase the number of shares to be issued under the current plan and (ii) issue shares under the plan into a trust for the benefit of current and future recipients of Live.me share incentive awards. Subsequent to the deconsolidation, we held 49.6% equity interest of Live.me. The remaining interests is accounted for equity investment using the fair value option in accordance with ASC825-10.

During 2017, we completed a business combination, which we expected to enhance our expertise in hardware services. The total purchase consideration was RMB41.5 million.

In September 2017, Beijing Security completed capital injection into Beijing OrionStar, an artificial intelligence company incorporated in China and controlled by Mr. Sheng Fu, the chief executive officer and director of our company. As a result, we, through Beijing Security, hold approximately 29.6% of then equity interest in Beijing OrionStar and have a two-year warrant to subscribe to additional equity interests amounted to US\$62 million at the same valuation of our capital injection in September 2017. In July and September 2018, Beijing Security acquired additional equity interest in Beijing OrionStar through exercising part of the foregoing warrant. In 2019, Beijing Security fully exercised its warrant in Beijing OrionStar. Subsequent to the consummation of the transaction, we, through Beijing Security, hold 38.7% equity interest in Beijing OrionStar. In 2021, Beijing Security provided a convertible loan with principal amount of RMB100 million to Beijing OrionStar, according to which, upon the satisfaction of certain terms, Beijing Security shall have the right to convert all or part of the principal and the accrued interest into Beijing OrionStar’s equity interest.

In 2017, we acquired certain equity interest in Bytedance Ltd. during a transaction. In 2018, we disposed certain portion of the equity ownership in Bytedance Ltd, which resulted in a disposal gain of investment of approximately RMB300.2 million and a cash inflow of approximately RMB473.6 million. The remaining equity interest in Bytedance Ltd was remeasured and we recognized a fair value gain of RMB300.2 million in “Other income”. In May 2020, we sold all the remaining equity ownership in Bytedance Ltd. This transaction resulted in a disposal gain of investment of approximately RMB465.9 million and a cash inflow of approximately RMB949.8 million.

Since July 2018, we have incorporated Cheetah Mobile Seal Inc., a Cayman Islands company, and several subsidiaries including Zhuhai Baoqu Technology Co., Ltd., to operate our PC business. In August 2018, Cheetah Mobile Seal Inc. entered into an agreement to issue certain number of shares to several management members who run such PC business.

In January 2019, we established CheePop Holding Inc., a Cayman Islands company, together with its subsidiaries to focus on certain games developed and operated by one of our game teams.

During 2019, we completed a business combination, which enhanced our expertise in hardware services. The total purchase consideration was RMB25.0 million. We have grown organically and through acquisitions, partnerships and investments in recent years.

During 2020, we disposed certain internet business which resulted in a disposal gain of approximately RMB394.2 million. Subsequent to the deconsolidation, we own 0% to 47.1% voting rights of those disposed business. Remaining interests is accounted for equity investment using the equity method or measurement alternative.

In 2019, 2020 and 2021, we have paid for investments and acquisitions in an aggregate amount of RMB523.1 million, RMB186.2 million and RMB9.5 million (US\$1.5 million), respectively.

In September 2018, our board of directors had approved a share repurchase program of up to US\$100 million of our outstanding ADSs for a period not to exceed 12 months. We funded repurchases made under this program from its available cash balance. In 2019, we had repurchased approximately 4.5 million ADSs for approximately US\$32 million under this program. We cancelled all the repurchased Cheetah ADSs. In 2019, our board of directors approved a special cash dividend of US\$0.50 per American Depositary Share (“ADS”), or US\$0.05 per ordinary share in August 2019. In May 2020, our board of directors approved a special cash dividend of US\$1.44 per American Depositary Share (“ADS”), or US\$0.14 per ordinary share paid out in July 2020. The aggregate amount of cash dividends were approximately US\$272 million, which was funded by cash on our balance sheet.

Our principal executive offices are located at Building No. 11 Wandong Science and Technology Cultural Innovation Park No.7 Sanjianfangnanli, Chaoyang District, Beijing 100024, People’s Republic of China. Our telephone number at this address is +86-10-6292-7779. Our registered office in the Cayman Islands is located at the offices of Maples Corporate Services Limited at PO Box 309, Uglund House, Grand Cayman, KY1-1104, Cayman Islands.

#### **Voting Proxy Agreement between Kingsoft Corporation and Mr. Fu**

On February 12, 2017, Kingsoft Corporation entered into a voting proxy agreement with Mr. Sheng Fu, our chief executive officer and director, pursuant to which Kingsoft Corporation agreed to delegate voting rights pertaining to up to 399,445,025 Class B ordinary shares of our company that it owns to Mr. Fu. Upon Kingsoft Corporation’s shareholder approval and signing of a definitive agreement between Mr. Fu and our company in relation to our acquisition of equity interest in Beijing OrionStar, Kingsoft Corporation have delegated approximately 39.4% voting power of our company held by Kingsoft Corporation to Mr. Sheng Fu, effective October 1, 2017. The voting proxy agreement also provides for additional rights and obligations of Kingsoft Corporation and Mr. Fu, including, among other things, (a) prohibitions on Mr. Fu from participation or investment in any businesses competing with the principal businesses of our company and Kingsoft Corporation, (b) Mr. Fu’s obligation to use best efforts to retain our core management team, (c) Kingsoft Corporation’s right to revoke the voting proxy in the event that Mr. Fu breaches the aforementioned undertakings, and (d) agreement to increase the size and change the composition of our then nine-member board of directors, such that there would be at that time 11 directors, including three directors from our management, one director designated by Kingsoft Corporation, one director designated by Tencent Holdings Limited, and six independent directors.

The voting proxy agreement may be terminated upon (i) revocation by Kingsoft Corporation based on a breach of certain undertakings by Mr. Fu, among other things, undertakings (a) and (b) in the above paragraph, (ii) mutual agreement by both parties, or (iii) disposal by Kingsoft Corporation of all of its equity interest in our company.

#### **B. Business Overview**

We are a leading IT company. We have attracted hundreds of millions of users through an array of internet products such as Clean Master released in 2012, Security Master released in 2014, and several casual mobile games.

Our large user base presents monetization opportunities for us and our customers. We generate revenues from our internet products primarily by providing advertising services to advertisers worldwide, and also by selling advertisements and referring user traffic on our mobile and PC platforms. To deliver superior user experience, we have introduced some premium membership services since 2019.

We currently focus on deploying AI robots in some shopping malls in China’s tier one and tier two cities. Through voice interaction and AI technologies, these robots are able to integrate celebrity and entertainment marketing campaigns to amplify partner promotions and build brand recognition. In 2021, we started a business model of shopping-mall coupon-selling robots, which is a brand-new inside-shopping-mall marketing mode to effectively attract customers for merchants. We applied both offline and online marketing strategies to expand the business. Offline, we use our robots which have been deployed in the shopping malls. Online, we use our own Wechat mini program – Quanduoduo, some other local network communities as well as some mainstream third-party platforms. Although this business has made good progress in 2021, it is still at the early stage and revenue generated for this business is not material, we do not expect significant revenue inflows from it in the near future.

## **Our Core Offerings for Users and Customers**

### **Internet Products**

#### ***Clean Master***

Clean Master is a junk file cleaning, memory boosting and privacy protection tool we launched in September 2012 for mobile devices. Clean Master also features application management functions.

Clean Master utilizes our cloud-based application behavior library to identify junk files associated with the applications installed on users' end devices. Our data analytics engine can also identify junk files generated by unknown applications, which allow Clean Master to effectively clean these junk files.

As our cloud-based data analytics engines continue to evolve, Clean Master becomes more precise in identifying and cleaning junk files. Since 2019, we began to provide premium services in Clean Master allowing subscribers to enjoy an ad-free and more superior experience.

#### ***Security Master***

Security Master, an upgraded version of CM Security launched in January 2014 on the Android platform, is an anti-virus and security application for mobile devices. It also features junk file cleanup and unwanted call blocking functions.

Powered by the dual-mode local and cloud-based application behavior library and our security threats library, CM Security is able to efficiently identify junk files and threats installed on users' mobile devices. Our data analytics engines also enable CM Security to identify threats not previously indexed in our application behavior and security threats libraries.

#### ***Duba Anti-virus***

Duba Anti-virus is an internet security application which incorporates anti-virus, anti-malware, anti-phishing, malicious website blocking and secure online shopping in a single lightweight installation package and leverages the power of our cloud-based data analytics engines to protect our users against known and unknown security threats and malicious applications.

*Anti-virus and anti-malware.* Duba Anti-virus can perform periodic or on-demand scan of program files and processes present on our users' devices and test them against our cloud-based whitelisted and blacklisted security threats library. Program files that match the blacklist will be removed or quarantined automatically by Duba Anti-virus.

Program files that do not match any of the samples included in the cloud-based security threats library will be further analyzed using our cloud-based data analytics engines which can effectively identify unknown threats by employing a heuristic, or experience-based, approach to analyze the code and behavior of the unknown program files. By functioning as a sensor for our cloud-based data analytics engines, Duba Anti-virus can leverage the discovery of an unknown security threat on a single user's device to protect the devices of our entire user community.

*K+ defense.* Duba Anti-virus includes a K+ defense system that integrates with our analytic engines and protects against a broad range of security threats to users' computers.

*System protection.* The K+ defense system protects against malicious alteration of system configurations, prevents remote intrusion by hackers, blocks malicious websites, automatically scans downloaded files for malwares and protects web browsers from unauthorized alternation.

Online shopping protection. The K+ defense system blocks phishing and malicious shopping websites, prevents online shopping webpages from being altered or login information being intercepted by Trojan horses installed on users' computers and provides security module plug-in to enhance browser security. Critical processes such as online payments can be conducted in a secure virtual environment free of interference by malware.

*Vulnerability fixing.* Duba Anti-virus provides a one-click solution to scan and fix vulnerabilities in computer configurations that could create an elevated risk level of system intrusions.

*Membership Services.* To deliver a superior user experience, since 2019 we began to introduce membership services in Duba Anti-virus and more superior experience.

### ***Mobile Games***

Leveraging our massive user base, we developed several casual mobile games, such as *Piano Tiles 2*, *Rolling Sky* and *Dancing Line*. These games enable users to enjoy a dual audio-visual experience. In 2020, we disposed major gaming-related business. As a result, we expect the revenue contribution from our mobile game business to decrease in the foreseeable future.

### ***Value-added Products***

To better serve our customers, along with our main PC and mobile products, we also developed several value-added products such as Wallpaper, Office optimization software and so on.

### **AI and Other Business**

#### ***E-Coupon vending robot***

E-Coupon vending robot is a reception and marketing robot which is developed by Beijing OrionStar. We have deployed E-Coupon vending robots in some shopping malls in China's tier one and tier two cities. Through voice interaction and AI technologies, these robots are able to integrate celebrity and entertainment marketing campaigns to amplify partner promotions and build brand recognition.

### ***Global To B Services***

We also provide services to leverage our overseas experience and resources to empower Chinese companies to develop business outside China, including multi-cloud management platform and overseas advertising agency service.

### **Products and Services for Our Customers**

#### ***Mobile advertising publisher***

Our portfolio of internet products attracted a wide user base, which enabled us to become one of the leading mobile advertising publishers. We aggregated ads from Baidu, Tencent, Bytedance and other mobile advertising networks on our mobile advertising operations. Our ad serving technology helps determine the best available ad to show based on comparison of bids from different ad networks.

#### ***Duba.com personal start page***

Our *duba.com* personal start page provides a convenient starting point for the online experience of our users. It aggregates a large collection of popular online resources and provides users quick access to most of their online destinations such as online shopping, video, online game, travel and local information. It also incorporates search functions provided by our customers. Our large user base has turned our *duba.com* personal start page into a hub of third-party search traffic to e-commerce companies and search engine providers.

Users can click on links on the *duba.com* start page to access our customers' websites or search information using their selected search engine. We charge fees to our customers based on different criteria such as cost per sale, cost per click, cost over a time period and cost per installation for transactions or other activities that originate from our *duba.com* start page. The unit price is subject to negotiation based on the traffic we bring to the customers.



### ***Premium Membership Services***

Our premium membership services help subscribers to manage their equipment, protect their privacy as well as enable them to enjoy our products ad-free and more superior experience. Currently, these services are available on both our PC and mobile internet products.

### ***Our Artificial Intelligence Technologies***

We have made significant investments in artificial intelligence and machine learning technologies. Since 2018, we strengthened our capacity in AI by investing in Beijing OrionStar, an artificial intelligence tech company. In 2020, we optimized our operation for our AI business by focusing on deploying our AI-robots in shopping malls. Leveraging voice interaction and AI technologies, the shopping mall robots can integrate celebrity and entertainment marketing campaigns to amplify partner promotions and build brand recognition.

### ***Our Global To B Services***

Our global to B services mainly include two parts: multi-cloud management platform and overseas advertising agency service.

We provide multi-cloud management service to our customers through our platform which provides one-stop multi-cloud resource management solutions, conduct comprehensive management of multi-cloud resources and environment, and provide various solutions that can be implemented in the cloud, including platforms for backup and disaster recovery, machine learning, cost optimization and monitoring alarm.

Our overseas advertising agency service assists domestic companies to launch advertisement on large overseas advertising platforms, such as Facebook.

### ***Our Customers***

Our customers primarily comprise of customers who place advertisements on our application offerings and individual customers who subscribe premium services or purchase virtual items used in our applications. For our advertising services, our customers comprise direct advertisers including mobile application developers, mobile game developers and e-commerce companies, search engines and our partnering mobile advertising networks through which advertisers place advertisements on our applications, such as Tencent, Baidu, and Bytedance. For our global to B services, our customers mainly comprise Chinese companies who are interested in developing business in overseas market. In 2019, 2020 and 2021, our five largest customers in aggregate contributed approximately 35.0%, 28.0% and 35.6% of our revenues, respectively.

In December 2018, Facebook suspended the advertising collaborations with us. The suspension does not impact our role as a Facebook advertising reseller. The reason cited by Facebook was that our company's certain apps were not in compliance with Facebook's policies. The suspension was pending a full review of our recent activities by Facebook. Since then, we had been actively communicating with and working with Facebook following receiving the notification of the suspension of collaboration and in Facebook's full review of our recent activities in an effort to resume the normal business relationship with Facebook. These actions including having direct email communication with Facebook's contact persons, providing written materials to demonstrate that we were indeed in compliance with Facebook's policies, having face to face meeting with Facebook personnel to explain our business activities, and engaging a third party data auditing firm agreed by Facebook to conduct an internal review of our handling of Facebook user data in response to Facebook's request. The review concluded that our handling of Facebook user data is compliant with the relevant data protection requirements in relevant Facebook policies. Unfortunately, Facebook has not resumed the collaboration with us.

In February 2020, our Google Play Store, Google AdMob and Google AdManager accounts were disabled by Google. According to Google, the decision was made because some of our apps had not been compliant with Google policies, resulting in certain invalid traffic. Since February 20, 2020, we have been in continuous communication with Google to appeal the decision, clarify any misunderstanding, and adopt any requisite remedial measures to restore the disabled accounts. However, we were notified that Google was unable to reinstate our accounts after reviewing our appeal and additional information we provided.

See “Item 3. Key Information— D. Risk Factors—Risks Relating to Our Business and Industry—Because a limited number of customers contribute to a significant portion of our revenues, our revenues and results of operations could be materially and adversely affected if we were to lose a significant customer or a significant portion of its business.”

## Marketing

We remain focused on driving organic growth for our products and services by improving user experience. We use social networks, online campaigns and offline events to promote our brand, products and services. We promote our brand, products and services across major social platforms such as Youku, WeChat and DouYin. Over the past years, our creative team has produced a number of products and branding videos for video sharing sites such as DouYin, Youku and YouTube.

We currently acquire users through continued online promotion. We also grow our traffic organically through cross-promotion.

We have implemented a number of marketing initiatives designed to promote our brand among potential users. For example, in December 2020, our robotic products were displayed at Go! streamers, a competition show co-sponsored by Youku and Taobao.

## Competition

We face intense competition in all lines of our business. For our internet business, we generally compete with other mobile application developers that offer products performing similar functions as our applications, such as Clean Master and Security Master. In the internet space, we mainly compete with 360 in China’s internet security and anti-virus market. For our AI and other business, we compete with other companies offering similar AI product in China and compete with other companies offering similar multi-cloud management or advertising agency service globally. In addition, we compete with all major internet companies for user attention and advertising spend.

## Intellectual Property

Our trademarks, patents, copyrights, domain names, proprietary technology, know-how and other intellectual property are vital to the success of our business. We protect our intellectual property rights through patent, trademark, copyright and trade secret protection laws in the PRC, Hong Kong, Japan, the United States and other jurisdictions. In addition, we enter into confidentiality and non-disclosure agreements with our employees and customers. The agreements we enter into with our employees also provide that all software, inventions, developments, works of authorship and trade secrets created by them during the course of their employment are our property.

**Patents.** As of March 31, 2022, we had 1,954 patents in China and 138 patents outside China relating to our software and other proprietary technology. Of such total 2,092 patents, 1,902 patents were either independently or jointly held by Zhuhai Juntian, Beijing Security, Conew Network and our other wholly-owned or controlled subsidiaries. 166 patents were either independently or jointly held by Beijing Mobile, Beijing Network, and our other VIEs, and 24 patents were jointly owned by our wholly-owned subsidiaries and VIEs. The 2,092 patents will expire between December 2023 and March 2040. In addition to the aforementioned patents, as of March 31, 2022, we had a total of 579 patent applications in China and 32 patents applications outside China. Among such patent applications, in relation to the proprietary technologies that are essential to the operations of our platform and important to our business, our wholly-owned or controlled subsidiaries, had independently filed 572 patent applications, and the VIEs, had independently or jointly filed 39 patent applications. Once approved, depending on the type of patents, the patents that are in the process of application by the VIEs will normally expire 10 or 20 years after the date of application.

**Copyrights.** As of March 31, 2022, we had registered 643 copyrights, including 596 software copyrights and 47 artwork copyrights. In relation to our core proprietary technologies, Beijing Mobile and Beijing Network, and our other VIEs, independently or jointly owned 209 software copyrights, and jointly owned an additional 39 software copyrights together with Cheetah Technology, Zhuhai Juntian, Beijing Security, Conew Network and our other wholly-owned or controlled subsidiaries. Among the 643 copyrights, 348 copyrights were either independently or jointly registered under the name of Cheetah Technology, Zhuhai Juntian, Beijing Security, Conew Network and our other wholly-owned or controlled subsidiaries. All the software copyrights owned by the VIEs (excluding Beijing Conew) have been published between December 2012 and March 2022. Software copyrights are protected until the end of the 50th calendar year starting from the date of first publication.

**Trademarks.** As of March 31, 2022, we had registered 2,097 trademarks in China. In addition, we currently had filed 38 trademark applications in China. We had 1036 registered trademarks outside China, and we had filed 121 trademark applications outside China.

**Domain names.** As of March 31, 2022, we had registered 281 domain names, including [www.cmc.com](http://www.cmc.com), [www.duba.com](http://www.duba.com), [www.ijinshan.com](http://www.ijinshan.com), [www.duba.net](http://www.duba.net) and [liebao.cn](http://liebao.cn).

As the VIEs hold a significant amount of patents and copyrights essential to our business operations, if we lose control over any of them or if any of them goes bankrupt, our business operations may be severely interrupted. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure—We may lose the ability to use and enjoy vital assets held by the VIEs if they go bankrupt or become subject to a dissolution or liquidation proceeding.”

We have established policies and procedures to monitor certain key patents and trademarks for infringement or other unauthorized use, and a team of dedicated employees from the intellectual property, legal and marketing groups conduct daily searches and monitor our patents, as well as third-party patents and distribution platforms, for infringing technology and software. See “Item 3. Key Information—D. Risk Factors—Risks Relating to our Business and Industry—We may not be able to prevent unauthorized use of our intellectual property, which could harm our business and competitive position” and “Item 3. Key Information—D. Risk Factors—Risks Relating to our Business and Industry—We may be subject to intellectual property infringement lawsuits which could result in our payment of substantial damages or license fees, disruption to our product and service offerings and reputational harm.”

## **Regulations**

We are subject to a number of PRC and foreign laws and regulations that affect companies conducting business on the internet. We are subject to a variety of laws and regulations in foreign jurisdictions that involve matters central to our business, including privacy and data protection, rights of publicity, content, intellectual property, advertising, marketing, distribution, data security, data retention and deletion, personal information, national security, electronic contracts and other communications, virtual currencies, competition, protection of minors, consumer protection, telecommunications, taxation, and economic or other trade prohibitions or sanctions. These foreign laws and regulations are constantly evolving and can be subject to significant change. As a result, the application, interpretation, and enforcement of these laws and regulations are often uncertain, particularly in the new and rapidly evolving industry in which we operate, and may be interpreted and applied inconsistently from country to country and inconsistently with our current policies and practices. For further details, see “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—Our business is subject to complex and evolving laws and regulations regarding privacy, data protection, and other matters both within and outside China. Many of these laws and regulations are subject to change and uncertain interpretation, and could result in claims, changes to our business practices, monetary penalties, increased cost of operations, or declines in user growth or engagement, or otherwise harm our business.”

As a significant portion of our business operations are conducted in China, we are materially affected by the laws and regulations in China. This section summarizes the principal PRC laws and regulations relevant to our current businesses, including online marketing, online game (including online mobile and PC games) operations and advertising agency, as well as foreign currency exchange and dividend distributions.

### ***Regulations on Telecommunications Services and Foreign Ownership Restrictions***

The Telecommunications Regulations, which became effective on September 25, 2000 and were respectively amended on July 29, 2014 and on February 6, 2016, and Administrative Measures on Telecommunications Business Permits (2017), which became effective since September 1, 2017, are the core regulations on telecommunications services in China. The Telecommunications Regulations set out basic guidelines on different types of telecommunications business activities, including the distinction between “basic telecommunications services” and “value-added telecommunications services.” Administrative Measures on Telecommunications Business Permits (2017) set out the standards regarding the application, examination and approval, use and administration of telecommunications business permits in China. According to the Classified Catalog of Telecommunications Business (2015 Version), implemented on March 1, 2016, amended on June 6, 2019 and attached to the Telecommunications Regulations, internet information services are deemed a type of value-added telecommunications services. The Telecommunications Regulations require the operators of value-added telecommunications services to obtain value-added telecommunications business operation licenses from the Ministry of Industry and Information Technology, or MIIT, or its provincial delegates prior to the commencement of such services.

The Regulations on the Administration of Foreign-Invested Telecommunications Enterprises, or the FITE Regulations, which took effect on January 1, 2002 and were respectively amended on September 10, 2008, on February 6, 2016 and on May 1, 2022, are the major rules on foreign investment in telecommunications companies in China. The FITE Regulations stipulate that the foreign investor of a telecommunications enterprise is prohibited from holding more than 50% of the equity interest in a foreign-invested enterprise that provides value-added telecommunications services, including internet information services. Moreover, such foreign investor shall demonstrate a good track record and experience in operating value-added telecommunications services when applying for the value-added telecommunications business operation license from the MIIT.

On July 13, 2006, the MIIT issued the Circular on Strengthening the Administration of Foreign Investment in Value-added Telecommunications Services, or the MIIT Circular 2006, which requires that (a) foreign investors can only operate a telecommunications business in China through establishing a telecommunications enterprise with a valid telecommunications business operation license; (b) domestic license holders are prohibited from leasing, transferring or selling telecommunications business operation licenses to foreign investors in any form, or providing any resources, sites or facilities to foreign investors to facilitate the unlicensed operation of telecommunications business in China; (c) value-added telecommunications service providers or their shareholders must directly own the domain names and registered trademarks they use in their daily operations; (d) each value-added telecommunications service provider must have the necessary facilities for its approved business operations and maintain such facilities in the geographic regions covered by its license; and (e) all value-added telecommunications service providers should improve network and information security, enact relevant information safety administration regulations and set up emergency plans to ensure network and information safety. The provincial communications administration bureaus, as local authorities in charge of regulating telecommunications services, (a) are required to ensure that existing qualified value-added telecommunications service providers will conduct a self-assessment of their compliance with the MIIT Circular 2006; and (b) may revoke the value-added telecommunications business operation licenses of those that fail to comply with the above requirements or fail to rectify such non-compliance within specified time limits. Due to the lack of any additional interpretation from the regulatory authorities, it remains unclear what impact MIIT Circular 2006 will have on us or the other PRC internet companies with similar corporate and contractual structures.

On October 15, 2020, the MIIT issued the Circular of the Ministry of Industry and Information Technology on Strengthening the Regulation of Foreign-invested Telecommunications Enterprises during and after the Investment, or the MIIT Circular 2020. MIIT Circular 2020 clarifies that (a) MIIT shall cease to issue the Decision on Approving a Foreign Investment in Telecommunications Business (the “Decision”) from the date of promulgation of the Decision of the State Council on the Cancellation or Delegation of a Number of Administrative Licensing Items (Guo Fa [2020] No.13) (the “Date”), and the examination of corresponding foreign investments will be included in the licensing process for telecommunications business; (b) restrictions on shareholding percentage and other admission policies and requirements for foreign investors shall still be subject to the Negative List and other relevant provisions; (c) after obtaining a telecommunications business license, a foreign-invested telecommunications enterprise shall strictly abide by the Administrative Measures on Telecommunications Business Permits (2017) and other requirements, perform its obligation of submitting an annual report on its telecommunications operations in a timely manner, submit relevant telecommunications market monitoring information in compliance with regulations, and accept and cooperate with the regulation under the “double-random inspection and one disclosure” mechanism, any targeted regulation, the regulation on credit standing or other regulator activities carried out by telecommunications authorities under the law.

To comply with such foreign ownership restrictions, we operate our businesses in China through Beijing Mobile, Beijing Network, Beijing Conew and other companies, the VIEs or their subsidiaries. The VIEs are directly or indirectly owned by PRC citizens. Each of these entities is controlled by our company through a series of contractual arrangements. See “Item 4. Information on the Company— C. Organizational Structure—Contractual Arrangements with the VIEs.” Based on our PRC legal counsel, Global Law Office’s understanding of the current PRC laws, rules and regulations, our corporate structure complies with all applicable PRC laws, and does not violate, breach, contravene or circumvent or otherwise conflict with any applicable PRC laws. However, we were further advised by our PRC legal counsel that there are substantial uncertainties with respect to the interpretation and application of existing or future PRC laws and regulations and thus there is no assurance that Chinese governmental authorities would take a view consistent with the opinions of our PRC legal counsel.

### ***Internet Information Services***

The Administrative Measures on Internet Information Services, or the ICP Measures, issued by the State Council on September 25, 2000 and amended on January 8, 2011, regulate the provision of internet information services. According to the ICP Measures, “internet information services” refer to services that provide internet information to online users, and are categorized as either commercial services or non-commercial services. Pursuant to the ICP Measures, internet information commercial service providers shall obtain an ICP License, a sub-category of the value-added telecommunications business operation license, from the relevant local authorities before engaging in the provision of any commercial internet information services in China. In addition, if the internet information services involve provision of news, publication, education, medicine, health, pharmaceuticals, medical equipment and other services that statutorily require approvals from other additional governmental authorities, such approvals must be obtained before applying for the ICP License.

We currently, through Beijing Network and other companies, the VIEs or their subsidiaries, hold valid ICP Licenses, covering the provision of internet information services, issued by the Beijing, Guangdong or Hainan branch of the MIIT. Besides, the ICP Measures and other relevant measures also ban the internet activities that constitute publication of any content that propagates obscenity, pornography, gambling and violence, incite the commission of crimes or infringe upon the lawful rights and interests of third parties, among others. If an internet information service provider detects information transmitted on their system that falls within the specifically prohibited scope, such provider must terminate such transmission, delete such information immediately, keep records and report to the governmental authorities in charge. Any provider’s violation of these prescriptions will lead to the revocation of its ICP License and, in serious cases, the shutting down of its internet systems. On January 8, 2021, CAC promulgated Circular on Seeking Public Comments on the Administrative Measures on Internet Information Services (Revised Draft for Comment), further stipulate that those engaged in Internet news and information services should apply to the CAC, and the Internet news and information service practitioners should obtain the corresponding qualifications and accept the corresponding training and assessment according to law. The deadline for submitting comments is February 7, 2021, this Circular has already been solicited for public opinions so far.

On November 27, 2017, MIIT promulgated Notice of the Ministry of Industry and Information Technology on Regulating the Use of Domain Names for Internet Information Services, which became effective on January 1, 2018. The notice provides that the domain name used by an Internet information service provider for providing Internet information services shall be a domain name registered and owned thereby pursuant to laws and regulations. Where an entity provides Internet information services, the domain name registrant shall be the entity (including a company shareholder), or the primary person in charge of, or a senior management person of, the entity. When providing access services for Internet information service providers, an Internet access service provider shall examine and verify the real identity information of domain name registrants via the Record-filing System, and shall not provide access services for those who fail to provide real identity information or whose identity information provided is inaccurate or incomplete. The foregoing provisions shall not apply to domain names that have already been record-filed in the Record-filing System prior to the effective date hereof. Nevertheless, abovementioned regulations do not prescribe any legal liability of violating such regulations.

### ***Internet News Information Services***

Under currently effective rules and regulations in the PRC, to provide internet news information services in China, including the relevant news reporting and commentary on politics, economy, military affairs, diplomacy, public emergencies and other public affairs, the service provider is required to obtain an internet news information service license, or an INIS License. Pursuant to the Provisions on the Administration of Internet News Information Services, which were jointly promulgated by the SCIO and the then Ministry of Information Industry (the predecessor of the MIIT) in September 2005 and were repealed in October 2017, internet news information service providers which are established by “non-news work units” and which republish news information, provide current event electronic bulletin services, and transmit to the public current event news report information are required to apply for an INIS License in order to provide internet news information services on current affairs and politics. On May 2, 2017, the Cyberspace Administration of China, or the CAC, promulgated Provisions on Administration over the Internet News Information Services, or the Internet News Provisions, which became effective on June 1, 2017. Pursuant to the Internet News Provisions, INIS License shall be obtained for providing to the public Internet news information services, including providing Internet news information collection and editing services, reprinting services and communication platform services, through the Internet website, application program, forum, blog, microblog, public account, instant messaging tool, Internet live streaming and other methods. It is prohibited to conduct Internet news information service activities without license or beyond the licensed scope. The collection and editing business and operational business of an Internet news information service provider shall be separated and non-public assets shall not be involved in the Internet news information collection and editing business. Any violation of the Internet News Provisions may result in penalties, including discontinuation of operations, warnings, orders to make correction within the prescribed time period, and imposition of fines and even criminal liabilities.

The CAC promulgated the Implementation Rules for the Administration of the Licensing for Internet News Information Services on May 22, 2017 and Administrative Measures on Content Management Practitioners in Internet News Information Service Providers on October 30, 2017, further prescribing more details regarding the application and administration of the INIS License.

### ***Internet Publication and Cultural Activities***

The Tentative Measures for Internet Publication Administration, or Internet Publication Measures, were jointly promulgated by the GAPP and the MIIT on June 27, 2002 and became effective on August 1, 2002. The Internet Publication Measures imposed a license requirement for any company that engages in internet publishing, which means any act by an internet information service provider to select, edit and process works (including books, newspaper, magazines, audio/video products, or edited literature, art or works on natural science, social science, engineering etc.) produced by such provider or others, and make such works publicly available on the internet or send such works to the end users through internet, so that the public can browse, read, use or download such works. The Internet Publication Measures also require the professional editorial personnel of an Internet publishing entity to examine the published content to ensure that it complies with applicable laws. Failure to do so may subject us to fines and other penalties. The provision of online games is deemed an internet publication activity; therefore, an online game operator must (i) obtain an Internet Publishing License so that it can directly offer its online games to the public in the PRC, or (ii) publish its online games through a qualified press entity by entering into an entrustment agreement. On February 4, 2016, the SARFT and the MIIT jointly promulgated the Administrative Measures on Internet Publication, which took effect on March 10, 2016 and superseded the Internet Publication Measures. The Administrative Measures on Internet Publication further strengthened and expanded the supervision and management of internet publication activities.

The Rules for the Administration of Electronic Publication, or the Electronic Publication Rules, was issued by the GAPP on February 21, 2008 and became effective on April 15, 2008 and amended on August 28, 2015. Under the Electronic Publication Rules and other regulations issued by the GAPP, online games are classified as a kind of electronic publication, and publishing of online games is required to be conducted by licensed electronic publishing entities that have been issued standard publication codes.

On May 10, 2003, the Ministry of Culture, or the MOC, promulgated the Tentative Measures for the Administration of Online Culture, or the Online Cultural Measures, which became effective on July 1, 2003 and subsequently amended on July 1, 2004, on April 1, 2011 and on December 15, 2017 respectively. According to the Online Cultural Measures, internet information services providers engaging in online cultural activities, which include the dissemination and operation of gaming products, shall either obtain a license from the provincial branches of the MOC if such activities are commercial, or complete a filing of records with the provincial branches of the MOC if such activities are non-commercial. Specifically, entities are required to obtain online cultural operating licenses from the provincial branches of the MOC if they intend to commercially engage in any of the following activities: (a) production, duplication, import, publishing or broadcasting of online cultural products; (b) publishing of online cultural products on the internet or transmission thereof via the internet or mobile telecommunication networks to computers, fixed-line or mobile phones, television sets, gaming consoles or Internet café for online users to browse, review, use or download such products; or (c) exhibitions or contests related to online cultural products. If internet information services providers engage in commercial online cultural activities but fail to obtain online cultural operating licenses, they may be ordered to shut down their websites and subject to fines and penalties of confiscating illegal gain.

On February 15, 2007, the MOC, the People’s Bank of China, or the PBOC and other relevant government authorities jointly issued the Notice on Strengthening the Administration of Internet Cafes and Online Games, or Circular 10. The Circular 10 authorizes PBOC to strengthen the administration of virtual currency in web games in order to avoid any adverse impact on the economy and financial system. This notice strictly limits the total amount of virtual currency that a web game operator can issue and an individual game player can purchase. It also distinguishes virtual transactions from real transactions through electronic commerce and that specifies virtual currency should only be used to purchase virtual items.

The Notice on Strengthening the Administration of Online Game Virtual Currency, or the Virtual Currency Notice, jointly issued by the MOC and the MOFCOM on June 4, 2009, defines the meaning of the term “virtual currency” and places a set of restrictions on the trading and issuance of virtual currency. The Virtual Currency Notice also states that online game operators are not allowed to give out virtual items or virtual currency through lottery-base activities, such as lucky draws, betting or random computer sampling, in exchange for cash or virtual money of the players.

We, through Beijing Network and other companies, the VIEs or their subsidiaries have obtained the Internet Culture Operation Licenses from the Beijing or Hainan branch of the MOC (later the MCT) or MCT (formerly the MOC), which collectively cover the business scope of operating gaming products through the internet (including the issuance of virtual currency). However, among the above Internet Culture Operation Licenses, those covering the business scope of operating gaming products through the internet (including the issuance of virtual currency) are not required for operators of online games, due to the abolishment of the Provisional Administration Measures of Online Games, pursuant to a decision by Ministry of Culture and Tourism (“MCT”) on July 10, 2019. For detailed information. See “Item 4. Regulations—Regulations on Online Games and Foreign Ownership Restrictions” for further details.

### ***Regulations on Online Games and Foreign Ownership Restrictions***

On June 3, 2010, the MOC promulgated the Provisional Administration Measures of Online Games, or the Online Game Measures, which came into effect on August 1, 2010 and were subsequently amended on December 15, 2017. The Online Game Measures governs the research, development and operation of online games. It specifies that the MOC is responsible for the censorship of imported online games and the filing of records of domestic online games. The procedures for the filing of records of domestic online games must be conducted with the MOC within 30 days after the commencement date of the operation of such online games.

All operators of online games, or Online Game Business Operators, used to be required by the Online Game Measures to obtain Internet Culture Operation Licenses. An Internet Culture Operation License is valid for three years and in case of renewal, the renewal application should be submitted 30 days prior to the expiry date of such license. An Online Game Business Operator should request the valid identity certificate of game users for registration, and notify the public 60 days ahead of the termination of any online game operations or the transfer of online game operational rights. Online Game Business Operators are also prohibited from (a) setting compulsory combat in the online games without game users’ consent; (b) advertising or promoting the online games in a way that contains prohibited content, such as anything that compromises state security or divulges state secrets; and (c) inducing game users to input legal currencies or virtual currencies to gain online game products or services, by way of random draw or other incidental means. Pursuant to the Online Game Measures, the service agreements between the Online Game Business Operators and users shall contain all the clauses of a standard online game service agreement, which was issued by MOC on July 29, 2010, with no conflicts with the rest of clauses in such service agreements. We, through Beijing Mobile, Beijing Network and other companies, the VIEs or their subsidiaries, have obtained Internet Culture Operation Licenses from the Beijing, Guangdong and Hainan branch of the MOC or MCT, which collectively cover the business scope of operating music entertainment products through the internet, and operating gaming products through the internet, including the issuance of virtual currency.

However, pursuant to the Decision of Ministry of Culture and Tourism (“MCT”) on Abolishing Provisional Administration Measures of Online Games and the Measures for the Administration of Tourism Development Plans, which was promulgated by the MCT on 10 July 2019, the Online Game Measures was abolished.

On May 14, 2019, the general office of MCT promulgated the Notice on Adjustment of the Approval Scope of Internet Cultural Operation Licenses and Further Regulating the Approval Work, or the No. 81 Notice. According to the No. 81 Notice, the MCT no longer assumes the online game industry management responsibility. Upon receiving the No. 81 Notice, the provincial cultural and tourism administrative departments no longer approve and issue the Internet Culture Operation Licenses covering business scope of “operating gaming products through the internet” or “operating gaming products through the internet, including the issuance of virtual currency”. The Internet Culture Operation Licenses covering the afore-mentioned business scope which were issued before the No. 81 Notice and during the valid period shall continue to be valid. Such Internet Culture Operation Licenses will not need to be renewed upon expiry.

On March 10, 2020, Beijing Municipal Bureau of Culture and Tourism issued the Special Tips on Application for the Internet Culture Operation Licenses. Pursuant to the Special Tips, the approval scope of Internet Culture Operation Licenses shall include online music, online dramas and programs, online performance, online art, online animation and exhibition, competition activities. Internet Culture Operation Licenses shall not be issued to applicants engaged in other internet operation businesses not within the afore-mentioned approval scope.

According to the aforementioned regulations, Internet Culture Operation Licenses of Beijing Network and other companies, with the business scope of operating gaming products through the internet, may not need to be renewed upon expiry. On the other hand, our Culture Operation Licenses concerning business scope other than operating gaming products through the internet that remain being subject to the approval and administration by MCT will need to be renewed upon expiry.

On July 11, 2008, the General Office of the State Council promulgated the Regulation on Main Functions, Internal Organization and Staffing of the GAPP, or the Regulation on Three Provisions. On September 7, 2009, the Central Organization Establishment Commission issued the corresponding interpretations, or the Interpretations on Three Provisions. The Regulation on Three Provisions stipulates that the MOC is authorized to regulate the online game industry, while the State Administration of Press, Publication, Radio, Film and Television, or SARFT, is authorized to approve the publication of online games before their launch on the internet. The Interpretation on Three Provisions further provides that once an online game is launched on the internet, it will be completely under the administration of the MOC, and that if an online game is launched on the internet without obtaining prior approval from the SARFT, the MOC, instead of the SARFT, is directly responsible for investigation and punishment. On July 11, 2013, the General Office of the State Council promulgated the Provisions on the Main Responsibilities, Internal Institutions and Staffing of GAPP, or the Three-Decision Provisions, which reiterates the restrictions stipulated in the Regulation on Three Provisions. Although the aforementioned provisions or regulations remain valid, according to the No. 81 Notice, the MCT (formerly the MOC) no longer assumes the online game industry management responsibility.

On September 28, 2009, the GAPP, the National Copyright Administration, or the NCA, and the Office of the National Working Group for Combating Pornography and Illegal Publications jointly issued a Notice on Implementing the Provisions of the State Council on “Three Determinations” and the Relevant Explanations of the State Commission Office for Public Sector Reform and Further Strengthening the Administration of the Pre-approval of Online Games and Examination and Approval of Imported Online Games, or Circular 13. Circular 13 explicitly prohibits foreign investors from directly or indirectly engaging in online gaming business in China, including through variable interest entity structures, or VIE Structures. Foreign investors are not allowed to indirectly control or participate in PRC operating companies’ online games (including online mobile and PC games) operations, whether (a) by establishing other joint ventures, entering into contractual arrangements or providing technical support for such operating companies; or (b) in a disguised form such as by incorporating or directing user registration, user account management or game card consumption into online gaming platforms that are ultimately controlled or owned by foreign companies. Violations of Circular 13 will result in severe penalties. However, it is uncertain whether the above prohibitions imposed by SARFT are within its authorization as stipulated in the Regulation on Three Provisions and its interpretations. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—We may be adversely affected by the complexity of, and uncertainties and changes in, PRC regulation on mobile and PC internet businesses and companies.”

#### ***Regulations on Anti-fatigue Compliance System and Real-name Registration System***

On April 15, 2007, in order to curb addictive online game-playing by minors, eight PRC government authorities, including the GAPP, the Ministry of Education, the Ministry of Public Security and the MIIT, jointly issued a circular requiring the implementation of an anti-fatigue compliance system and a real-name registration system by all PRC online games (including online mobile and PC games) operators. Under the anti-fatigue compliance system, three hours or less of continuous playing by minors, defined as game players under 18 years of age, is considered to be “healthy,” three to five hours is deemed “fatiguing,” and five hours or more is deemed “unhealthy.” Game operators are required to reduce the value of in-game benefits to a game player by half if it discovers that the amount of a time a game player spends online has reached the “fatiguing” level, and to zero in the case of the “unhealthy” level.



To identify whether a game player is a minor and thus subject to the anti-fatigue compliance system, a real-name registration system should be adopted to require online games (including online mobile and PC games) players to register their real identity information before playing online games. Pursuant to the Notice on the Commencement of Anti-fatigue and Real-name Registration of Online Games, issued by the relevant eight government authorities on July 1, 2011, which came into effect on October 1, 2011, online games (including online mobile and PC games) operators must submit the identity information of game players to the National Citizen Identity Information Center, a subordinate public institution of the Ministry of Public Security, for verification.

Pursuant to the Administrative Measures on Usernames of Internet Users' Accounts promulgated by the CAC on February 4, 2014, which became effective on March 1, 2015, users of internet information services are required to have their identity information authenticated in order to register user accounts. The internet information service providers are required to (i) improve user service agreement, clearly indicating users not to include any illegal or malicious information in account names, head portraits, profiles or any other registration information, and (ii) be equipped with the professionals and examine the account names, head portraits and other registration information submitted by the internet users. We cannot assure you that PRC regulators would not require us to implement much stricter real-name registration in the future. See "Item 3. Key Information—Risk Factors—Risks Relating to Doing Business in China—We may be adversely affected by the complexity of, and uncertainties and changes in, PRC regulation on mobile and PC internet businesses and companies." In addition, we require our mobile and PC game developers to comply with the requirements under the PRC law, but we cannot assure you that such commercial partners will effectively implement the anti-fatigue rules, and any noncompliance on the part of such commercial partners may cause potential liabilities to us and in turn disrupt our operations. See "Item 3. Key Information—Risk Factors—Risks Relating to Our Business and Industry— Non-compliance on the part of third parties with whom we conduct business could disrupt our business and adversely affect our results of operations."

On December 1, 2016, the MOC promulgated the Circular on Regulating the Operation of Online Games and Strengthening the Interim and Ex Post Supervision, or Circular 32, which became effective on May 1, 2017. The Circular 32 sets requirements in relation to the following aspects of online games: (i) clarifying the scope of online game operation; (ii) regulating services for issuance of virtual props of online games; (iii) strengthening the protection of the rights and interests online game users; (iv) strengthening the interim and ex post supervision of online game operation; and (v) seriously investigating and punishing illegal operating activities. According to the Circular 32, online game publishers shall require online game users to register their real names with valid identity documents, and keep user registration information, and shall not provide recharge or consumer services in game for online game users who login as visitors and also requires that the online game publishers shall fully comply with the relevant provisions of the Parents' Guardian Project for Minors Playing Online Games, based on which, online game operators shall impose money and time limits for minor users in game and take technical measures to screen the scenes and functions not appropriate for minors. The Circular 32 has been repealed on August 19, 2019 according to the Announcement on the Review Results of Administrative Documents issue by the MCT on August 19, 2019.

On October 25, 2019, the Notice on Preventing Minors from Indulging in Online Games, or the Notice, was issued by National Press and Publication Administration and came into effect on the same day. The Notice requests online game companies to implement the real-name registration system. All online game users must use valid identity information to register their game accounts. Online game companies must require existing users to complete the real-name registration within 2 months from the date of implementation of this notice and stop providing game service to users who cannot complete real-name registration within the prescribed period. The time and duration used by minors shall be strictly controlled. Online game companies are banned from providing game services to minors in any form between 10 p.m. and 8 a.m. The length of time that online game companies provide game services to minors shall not exceed 3 hours per day for statutory holidays and 1.5 hours for other days. Paid services provided to minors shall be regulated. Online game companies shall not provide paid game services for users under the age of 8 years old. As for the paid game services provided by the same online game company, for users who are over 8 years old and under 16 years old, the single recharge amount shall not exceed RMB50, the monthly recharge amount shall not exceed RMB200; for users over 16 years old and under 18 years old, the amount of one single recharge shall not exceed RMB100, and the monthly recharge amount shall not exceed RMB400. Furthermore, on August 30, 2021, the National Press and Publication Administration issued a Circular of the National Press and Publication Administration on Further Strengthening Regulation to Effectively Prevent Online Gaming Addictions among Minors, or the Circular. The circular came into effect on September 1, 2021. Where is any inconsistency between the Circular and the Notice, the Circular shall prevail. Pursuant to the circular, which became effective on September 1, 2021, the time of providing online game services to minors shall be strictly limited. Since the effective date of this Circular, all online game companies can only provide one hour of online game services to minors between 8pm and 9pm on Fridays, Saturdays, Sundays and legal holidays, and are not allowed to provide online game services in any form to minors in any other time. The circular requires for real real-name registration and login of online game user accounts shall be strictly implemented. All online games must be connected to the National Press and Publication Administration's real-name verification system for anti-addiction to online games. All online game users must use their real and valid identity information to register for game accounts and log in to online games. Online game companies shall not provide game services in any form (including visitor experience mode) to users without real-name registration and login.

On January 22, 2021, the CAC issued the Administrative Provisions on Official Account Information Services for Internet Users, or the Provisions, which came into effect on February 22, 2021. The Provisions requests that official account information service platforms shall take composite verification and other measures to authenticate the real identity information of Internet users who apply for the registration of official accounts based on their mobile phone numbers, resident ID numbers, unified social credit codes or in other ways, to improve authentication. Official Account Information Services for Internet Users shall not provide relevant services for users who do not submit their real identity information or falsely register with the real identity information of other organizations or people.

#### ***Regulations on Computer Information System Security Special Products***

Pursuant to the Provisions for Security Protection of Computer Information Systems promulgated by the State Council on February 18, 1994 and subsequently amended in 2011, and the Measures for Administration of Detection and Sales Permits for Computer Information System Security Special Products promulgated by the MPS on December 12, 1997, producers of security special products, including hardware and software products, shall have such products detected and recognized by qualified institutions, and obtain a sales license. A new sales license is required if an approved security product has any functional changes. "Security special products" refers to special hardware and software that is used for protecting the security of computer information system. The valid term of each sales permit is two years and the extension application shall be submitted to the competent branches of the Ministry of Public Security 30 days prior to the expiration of such term. Besides, as the upgrades of our software become more frequent and such examination and approval by the MPS may be time-consuming, we may not be able to obtain such permits for all upgrades in a timely manner, which may subject us to various penalties and adversely affect our business and results of operations.

#### ***Regulations on Mobile Application Information Services***

On June 28, 2016, the CAC, promulgated the Administrative Provisions on Information Services of Mobile Internet Application Programs, or the Mobile Application Provisions, which became effective on August 1, 2016. The Mobile Application Provisions were promulgated to strengthen the administration of information services provided by mobile applications. On January 5, 2022, the CAC released the Administrative Provisions on Mobile Internet Applications Information Services (Draft for Comment) for public comments.

Pursuant to the Mobile Application Provisions, mobile applications refer to application software obtained through pre-installation, download or other means and which operate on smart mobile devices to provide information services to users. Mobile application information service providers shall be responsible for the supervision and administration of mobile application information required by laws and regulations and implement the information security management responsibilities strictly, including but not limited to: (i) authenticating the identity information of the registered users based on mobile phone numbers and other identity information; (ii) protecting user information and using users' personal information in a lawful and proper manner, and obtaining users' consents for collection of personal information; (iii) establishing information content audit and management mechanism, and taking measures against any users who publish information content in violation of laws or regulations depending on circumstances, such as issuing warnings and suspension of users' accounts; (iv) allowing users to opt out from certain functions on mobile applications, and obtaining users' consents before accessing users' locations, address books, cameras and recordings; (v) protecting the intellectual property rights of others and shall not develop and publish mobile applications that infringe upon the intellectual property rights of others; and (vi) recording users' log information and keep it for 60 days.

## ***Regulations on Advertising Business***

State Administration for Market Regulation, or the SAMR, which is the successor of SAIC, is the primary governmental authority regulating advertising activities in China. Regulations that apply to advertising business primarily include:

- Advertisement Law of the People's Republic of China, promulgated by the Standing Committee of the National People's Congress on October 27, 1994 and effective since February 1, 1995, the latest version of which became effective on April 29, 2021;
- Administrative Regulations for Advertising, promulgated by the State Council on October 26, 1987 and effective since December 1, 1987; and
- Interim Measures for the Administration of Internet Advertisements, promulgated by the SAIC on July 4, 2016 and effective on September 1, 2016.

According to the above regulations, companies that engage in advertising activities including those conducted through the internet must each obtain, from the SAMR (formerly the SAIC) or its local branches, a business license which specifically includes operating an advertising business in its business scope. An enterprise engaging in advertising business within the specifications in its business scope does not need to apply for an advertising operation registration, provided that such enterprise is not a radio station, television station, newspaper or periodical publisher. Enterprises conducting advertising activities without such a license may be subject to penalties, including fines, confiscation of advertising income and orders to cease advertising operations pursuant to Advertisement Law. The business license of an advertising company is valid for the duration of its existence, unless the license is suspended or revoked due to a violation of any relevant laws or regulations. For the enterprise which is not a radio station, television station, newspaper or periodical publisher, the term of validity of the registration of advertisement publication shall be consistent with the term of validity of the approval document for relevant media.

PRC advertising laws and regulations set certain content requirements for advertisements in China, including, among other things, prohibitions on false or misleading content, superlative wording, socially destabilizing content or content involving obscenities, superstition, violence, discrimination or infringement of the public interest. Advertisers, advertising agencies and advertising distributors are required to ensure that the content of the advertisements they prepare or distribute is true and in complete compliance with applicable laws. In providing advertising services, advertising operators and advertising distributors must review the supporting documents provided by advertisers for advertisements and verify that the content of the advertisements complies with applicable PRC laws and regulations. Prior to distributing advertisements that are subject to government censorship and approval, advertising distributors are obligated to verify that such censorship has been performed and approval has been obtained. The Interim Measures for the Administration of Internet Advertisements set new requirements for internet advertising, which refers to commercial advertising that directly or indirectly promotes goods or services through websites, webpages, internet applications or other internet media in text, picture, audio, video or other forms. The Interim Measures require internet advertising publishers and advertising operators to, among other things, (i) clearly identify all internet advertising as such and distinguish paid search results from natural search results; (ii) refrain from interrupting normal internet use with advertisements, or inducing users to open an advertisement in a deceptive manner; and (iii) establish an advertising business management system and review advertisement content as required by applicable laws. The following activities are prohibited under the Interim Measures: (a) providing or using applications and hardware to block, filter, skip over, tamper with, or cover up lawful advertisements provided by others; (b) using network access, network equipment and applications to disrupt the normal transmission of lawful advertisements provided by others or adding or uploading advertisements without permission; and (c) harming the interests of others by using fake statistics or traffic data. Violation of these regulations may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. Where serious violations occur, the SAIC or its local branches may revoke such offenders' licenses or permits for their advertising business operations.

On February 9, 2018, the SAIC, currently known as SMAR, issued a Notice on Launching Special Rectification on Internet Advertising, the rectification priorities specified therein are: (i) illegal internet advertisement relating to orientation administration, politically sensitive problems or harming national interests; (ii) internet advertisement for food, dietary supplements, medical care, drugs, and medical devices, which contain false or illegal content that may harm personal safety; (iii) false and illegal Internet advertising for financial investment, business attraction, and collections, among others, containing content deceiving or misleading consumers; (iv) false and illegal Internet advertising interfering with public order, contrary to the good social customs, having an adverse social impact, or harming the physical and mental health of minors.

On November 26, 2021, the SAIC, currently known as SMAR has publicly solicited opinions on the Measures for the Administration of Online Advertising (Draft for Comments) (the Draft Internet Advertising Measures), which states that all Internet Advertising activities will be regulated and clearly states that livestreaming room operators and livestreaming marketers must abide by the responsibilities and obligations of Internet Advertising operators. The Draft Internet Advertising Measures also provides that Internet advertisement publishers should not publish advertisements on vehicles or intelligence household electronic appliances without the users' permission or request. The Draft Internet Advertising Measures further strengthens the one-click-to-close requirement and prohibits advertisements for certain items on Internet media that targets minors, including, among others, advertisements related to online games that are harmful to the physical or mental health of minors. The deadline for submitting comments is December 25, 2021, the SAMR solicited comments on this Draft Internet Advertising Measures, but it has not been formally adopted.

### ***Regulations on Broadcasting Audio/Video Programs through the Internet***

National Radio and Television Administration, or NRTA, the successor of SARFT is the primary governmental authority regulating activities involving broadcasting audio/video programs and services in China. Regulations that apply to broadcasting audio/video programs primarily include:

- Administrative Measures for Broadcasting Audio/Video Programs through the Internet and Other Information Networks, or the Audio/Video Broadcasting Measures, issued by SARFT on July 6, 2004, effective since October 11, 2004 and updated in August 2015 (SARFT Order [2015] No. 3), which were superseded by Administrative Measures for Private Network and Directional Broadcast Audio/Video Program Service (SARFT Order [2016] No. 6 or Order 6), which was promulgated on April 25, 2016 and became effective on June 1, 2016 and subsequently amended on March 23, 2021;
- Administrative Provisions for Internet Audio/Video Program Service, commonly known as Circular 56, jointly promulgated by the SARFT and the MIIT on December 20, 2007, effective since January 31, 2008 and updated in August 2015 (SARFT Order [2015] No. 3);
- Notice on Issuing the “Catalogue of Classification of Internet Audio/Video Program Services (Provisional)”, or the Classification Catalogue, promulgated by the SARFT on March 17, 2010, effective since then and updated in March 2017 (SARFT Announcement [2017] No. 1); and
- Notice on Strengthening the Administration of Internet Audio/Video Content, or the Internet Audio/Video Content Notice, promulgated by SARFT on March 31, 2009 and effective since then.

Pursuant to the Classification Catalogue, category I internet audio/video program services relate to internet audio/video program services operated through radio stations or television stations. Category II internet audio/ video program services relate to the transmission of audio/video programs on current political news and the hosting, production, reporting and broadcasting of audio/video programs on literature and art, entertainment, science and technology, finance and economics, sports, education and other topics. Category III internet audio/ video program services refer to the activities of editing or arranging the information pertaining to audio/video programs broadcasted on the Internet on the same website and providing the public with the service of program searching or viewing or refer to the service of providing users with a special channel for uploading programs or information so that users can pass their source or others' source of programs to the public via the information broadcasting system or viewing interface of the website for on-demand broadcasting to the public. Category IV internet audio/video program services relate to the transmission of radio or television program channels, internet audio/video program channels, or live streaming of online audio/video programs.

According to the above regulations, companies that engage in services relating to internet audio/video programs, which refer to the production, editing and aggregation of audio/video programs, the supply of audio/ video programs to the public via the internet, and the provision of services to third parties for upload and transmission of audio/video programs, are required to obtain an internet audio/video program transmission license issued by the SARFT and to operate the relevant business within the scope as provided in such license. Order 6 explicitly provided that foreign invested enterprises (including wholly foreign owned enterprises, joint ventures and cooperative joint ventures) shall not engage in such business in China. Pursuant to Circular 56 and the Internet Audio/Video Content Notice, internet audio/visual program service providers shall examine and ensure that the contents that they publish comply with applicable laws. Violation of these regulations may result in penalties, including warnings, orders compelling modification of operations or imposition of fines, or even criminal liabilities.

On November 18, 2019, CAC, MCT and NRTA jointly promulgated the Circular on Issuing the Administrative Provisions on Online Audio-visual Information Services (CAC Order [2019] No. 3), which was effective on January 1, 2020. According to the CAC Order [2019] No. 3, online audio-visual information services refer to the audio-visual information production, release and dissemination services provided for the public through internet sites, application programs and other online platforms. Online audio-visual information services refer to the organizations or individuals that provide the public with online audio-visual information services. Online audio-visual information service users refer to the organizations or individuals that use online audio-visual information services. An online audio-visual information service provider shall certify the real identity of each user by checking its organization code or his or her identity card number or mobile phone number or otherwise. If the user does not provide authentic identity information, the online audio-visual information service provider shall not provide the information release services for the user. An online audio-visual information service provider shall establish and improve a rumor refuting mechanism. If the provider finds that an online audiovisual information service user has produced, released or disseminated rumors by use of false images or audio and video generation technologies based on deep learning and virtual reality, the provider shall take appropriate rumor refuting measures in a timely manner, and report the relevant information to the departments of cyberspace, culture and tourism, and radio and television for the record.

### ***Regulations on Robot Product Selling***

SAMR is the primary governmental authority regulating activities involving robot product selling in China. Regulations that apply to robot product selling primarily include:

- Product Quality Law of the PRC, which was promulgated by the Standing Committee of the National People's Congress of the People's Republic of China on February 22, 1993 and subsequently amended on July 8, 2000, August 27, 2009 and December 29, 2018;
- E-Commerce Law of the People's Republic of China, which was promulgated by the Standing Committee of the National People's Congress of the People's Republic of China on August 31, 2018 and became effective on January 1, 2019,
- Measures for the Administration of the Recall of Defective Consumer Goods, which was promulgated by the General Administration of Quality Supervision, Inspection and Quarantine (having been restructured and named to the SAMR), on October 21, 2015 and became effective on January 1, 2016,
- Interim Provisions on the Administration of Recall of Consumer Goods, which was promulgated by the SAMR on November 21, 2019 and became effective on January 1, 2020 Measures for the Administration of the Restricted Use of the Hazardous Substances Contained in Electrical and Electronic Products, which was promulgated by the National Development and Reform Commission, the Ministry of Science and Technology, the Ministry of Finance, the Ministry of Environmental Protection, the Ministry of Commerce, the General Administration of Customs and the General Administration of Quality Supervision, Inspection and Quarantine on January 6, 2016 and became effective on July 1, 2016,
- Civil Code of the PRC, which was promulgated by the National People's Congress on May 28, 2020 and became effective on January 1, 2021,
- Measures for the Supervision and Administration of Online Transactions, which was promulgated by the State Administration for Market Regulation on March 15, 2021 and became effective on May 1, 2021.

Pursuant to the above regulations, the sale of products that do not meet applicable health and safety standards and requirements is prohibited. Products shall not pose unreasonable dangers to human or property. Where a defective product causes physical injury to a person or damage to property, the aggrieved party may make a claim for compensation from the seller of the product. Sellers who selling non-compliant products may be ordered to cease production and sale of such products, or subject to fines and/or revocation of business license. Non-compliant products as well as earnings attributable to the sales of such products may also be confiscated. Where sellers are informed that there might be defects in consumer goods, sellers shall immediately notify the manufacturers and report to the provincial quality inspection departments at the places where they are located, and sellers shall immediately stop selling, leasing out and using defective consumer goods, and assisting manufacturers in implementing a recall. Otherwise the seller will be liable for tort claims.

Selling robot products is subject to a variety of consumer protection laws, including the PRC Consumer Rights and Interests Protection Law, as amended on October 25, 2013 and taking effect since March 15, 2014, which imposes obligations on business sellers. Failure to comply with these consumer protection laws could subject us to administrative sanctions, such as the issuance of warning, confiscation of income, imposition of fines, order to cease business operations, revocation of business licenses, as well as potential civil and criminal liabilities.

### ***Intellectual Property Rights***

*Software Registration.* The State Council and the NCA have promulgated various rules and regulations and rules relating to protection of software in China, including the Regulations on Protection of Computer Software promulgated by State Council on January 30, 2013 and effective since March 1, 2013, and the Measures for Registration of Copyright of Computer Software promulgated by NCA on February 20, 2002, amended on June 18, 2004 and effective since the same date. According to these rules and regulations, software owners, licensees and transferees may register their rights in software with the China Copyright Protection Center or its local branches and obtain software copyright registration certificates. Although such registration is not mandatory under PRC law, software owners, licensees and transferees are encouraged to go through the registration process and registered software rights may be entitled to better protections.

*Patent.* The National People's Congress adopted the Patent Law of the People's Republic of China in 1984 and amended it in 1992, 2000, 2008 and 2020 (came into effect on June 1, 2021), respectively. A patentable invention, utility model or design must meet three conditions: novelty, inventiveness and practical applicability. Patents cannot be granted for scientific discoveries, rules and methods for intellectual activities, methods used to diagnose or treat diseases, animal and plant breeds, nuclear transformation or substances obtained by means of nuclear transformation. The Patent Office under the State Intellectual Property Office is responsible for receiving, examining and approving patent applications. A patent is valid for a twenty-year term for an invention and a ten-year term for a utility model and fifteen-year for a or design, starting from the application date. Except under certain specific circumstances provided by law, any third-party user must obtain consent or a proper license from the patent owner to use the patent, or else the use will constitute an infringement of the rights of the patent holder.

*Copyright.* The Copyright Law of the People's Republic of China, promulgated in 1990 and amended in 2001 and, 2010 and 2020 (came into effect on June 1, 2021), or the Copyright Law, and its related implementing regulations, promulgated in 1991 and amended in 2013 are the principal laws and regulations governing the copyright related matters. The amended Copyright Law covers internet activities, products disseminated over the internet and software products (including the original copy and reproduced copy), among the subjects entitled to copyright protections. Registration of copyright is voluntary, and is administrated by the China Copyright Protection Center.

On December 20, 2001, the State Council promulgated the new Regulations on Computer Software Protection, effective from January 1, 2002 and amended in March 2013, which are intended to protect the rights and interests of the computer software copyright holders and encourage the development of software industry and information economy. In the PRC, software developed by PRC citizens, legal persons or other organizations is automatically copyright protected immediately after its development, without an application or approval. Software copyright may be registered with the designated agency and if registered, the certificate of registration issued by the software registration agency will be the primary evidence of the ownership of the copyright and other registered matters. On February 20, 2002, the National Copyright Administration of the PRC introduced the Measures on Computer Software Copyright Registration, which outline the operational procedures for registration of software copyright, as well as registration of software copyright license and transfer contracts. The Copyright Protection Center of China, or the CPCC, is mandated as the software registration agency under the regulations. The Measures on Computer Software Copyright Registration was subsequently amended on June 18, 2004, which allows the CPCC to establish local branches for software registration.

To address the problem of copyright infringement related to content posted or transmitted on the internet, the NCA and the MIIT jointly promulgated the Measures for Administrative Protection of Copyright Related to Internet on April 29, 2005. These measures, which became effective on May 30, 2005, apply to acts of automatically providing services such as uploading, storing, linking or searching works, audio or video products, or other contents through the internet based on the instructions of internet users who publish contents on the internet, or the Internet Content Providers, without editing, amending or selecting any stored or transmitted content.

On May 18, 2006, the State Council issued the Regulations on Protection of the Right of Communication through Information Network, which took effect on July 1, 2006 and was amended on January 30, 2013.

Since 2005, the NCA, together with certain other PRC governmental authorities, have jointly launched annual campaigns specifically aimed to crack down on internet copyright infringement and piracy in China; these campaigns normally last for three to four months every year. According to the Notice of 2013 Campaign to Crack Down on Internet Infringement and Piracy promulgated by the NCA, the Ministry of Public Security and the MIIT on July 19, 2013, the 2013 campaign mainly targeted key internet publications such as literature, music, movies and TV series, games, cartoons, software in key areas, to strengthen the supervision of audio and video websites and e-commerce platforms and strictly crack down all kinds of internet piracy.

*Domain Name.* In September 2002, the CNNIC issued the Implementing Rules for Domain Name Registration setting forth detailed rules for registration of domain names, which were amended on May 29, 2012. On June 18, 2019, the CNNIC issued the Notice of the Issuance and Implementation of the “the Implementing Rules for Top-level Domain Name Registration” Series of Regulations, or the Notice, which became effective from the same date. The Implementing Rules for Top-level Domain Name Registration, mentioned in the Notice, superseded the Implementing Rules for Domain Name Registration. According to the Notice, the applicant shall sign a domain name registration agreement with the registrar and submit the materials in written or electronic form on their application. The maximum period of validity of domain name registration shall not exceed ten years, and the longest period from the renewal date to the expiration date after the renewal shall not exceed ten years. On November 5, 2004, the MIIT promulgated the Measures for Administration of Domain Names for the Chinese Internet, which were subsequently superseded by Administrative Measures for Internet Domain Names, effective on November 1, 2017, or the Domain Name Measures. The Domain Name Measures shall apply to Internet domain name services and related operation, maintenance, supervision and management, and other related activities that are carried out within the territory of the People’s Republic of China. According to the Domain Name Measures, the registration of domain names in PRC is on a “first-apply-first registration” basis. A domain name applicant will become the domain name holder upon the completion of the application procedure. In February 2006, the CNNIC issued the Measures on Domain Name Dispute Resolution, which were subsequently amended in June 2012, in November and in September 2014 and in June 2019 and relevant implementing rules, pursuant to which the CNNIC can authorize a domain name dispute resolution institution to decide disputes.

*Trademark.* The PRC Trademark Law, adopted in 1982 and amended in 1993, 2001, 2013 and 2019, with its implementation rules adopted in 2002 and amended in 2014, protects registered trademarks. The Trademark Office of the SAIC handles trademark registrations and grants a protection term of ten years to registered trademarks. Trademark license agreements must be filed with the Trademark Office for record. On December 13, 2021, for the purposes of enhancing trademark administration, strengthening the business guidance for trademark law enforcement China National Intellectual Property Administration issued the Standards for Determining General Trademark Violations, or the Circular 34, which became effective on January 1, 2022. The Circular 34 provides standards for the investigation and punishment of general trademark violations by departments in charge of trademark law enforcement.

### ***Internet Infringement***

On May 26, 2020, the National People’s Congress promulgated the Civil Code of the People’s Republic of China, or the Civil Code, which became effective on January 1, 2021. Under the Civil Code, an internet user or an internet service provider that infringes upon the civil rights or interests of others through using the internet assumes tort liability. If an internet user infringes upon the civil rights or interests of another through using the internet, the person being infringed upon has the right to notify and request the internet service provider whose internet services are facilitating the infringement to take necessary measures including the deletion, blocking or disconnection of an internet link. After receiving the notice, the network service provider shall promptly forward the notice to the relevant network user and take necessary measures in light of the preliminary evidence of infringement and the type of service; if the network service provider fails to take necessary action after being notified, it shall assume joint and several liability with the network user with regard to the aggravated part of the damage. If the network user or network service provider is damaged due to wrong notice, the right holder shall assume tort liability. Where it is otherwise prescribed in law, such provisions shall prevail. If, after being notified, the internet service provider fails to take necessary measures in a timely manner to end the infringement, it will be jointly and severally liable for any additional harm caused by its failure to act. According to the Civil Code Tort Law, civil rights and interests include the personal rights and rights of property, such as the right to life, right to health, right to name, right to reputation, right to honor, right of portraiture, right of privacy, right of marital autonomy, right of guardianship, right to ownership, right to usufruct, right to security interests, copyright, patent right, exclusive right to use trademarks, right to discovery, right to equity interests and right of heritage, among others.

On May 8, 2017, the Supreme People's Court and the Supreme People's Procuratorate released an Interpretation on Several Issues Concerning the Application of Law in the Handling of Criminal Cases Involving Infringement of Citizens' Personal Information, or the Interpretation. The Interpretation clarified several concepts, including "citizen's personal information," "provision", and "unlawful acquisition", in relation to the crime of "infringement of citizens' personal information" stipulated in the Criminal Law. Pursuant to the Interpretation, "citizen's personal information" refers to all kinds of information recorded in electronic form or any other form, which can be used, independently or in combination with other information, to identify a specific natural person's personal identity or reflect a specific natural person's activities, including the natural person's name, identity certificate number, communication and contact information, address, account password, property status, and whereabouts, among others.

### ***Regulations of Internet Content and Network Security***

The PRC government has promulgated measures relating to internet content through a number of governmental agencies, including the MIIT, the MOC and the SARFT. These measures specifically prohibit internet activities, such as the operation of online games, that result in the publication of any content which is found to contain, among others, propagate obscenity, gambling or violence, instigate crimes, undermine public morality or the cultural traditions of the PRC, or compromise state security or secrets. If an ICP License holder violates these measures, its ICP License may be revoked and its websites may be shut down by the relevant government agencies.

### ***Information Content and Censorship***

Internet content in China is regulated and restricted from a state security standpoint. Internet companies in China are required to complete security filing procedures and regularly update information security and censorship systems for their websites with local public security bureau. The PRC Law on Preservation of State Secrets, which became effective on October 1, 2010 requires an internet information services provider to immediately stop disseminating any information that may be deemed to be leaked state secrets and to report such incidents in a timely manner to the state security and public security authorities. Failure to do so in a timely and adequate manner may subject the internet information services providers to liability and certain penalties given by the Ministry of State Security, the Ministry of Public Security and/or the MIIT or their respective local branches.

On December 13, 2005, the Ministry of Public Security promulgated Provisions on Technological Measures for Internet Security Protection, or the Internet Protection Measures, which took effect on March 1, 2006. The Internet Protection Measures require all internet information services operators to take proper measures including anti-virus, data back-up and other related measures, and keep records of certain information about their users (including user registration information, log-in and log-out time, IP address, content and time of posts by users) for at least 60 days and submit the above information as required by laws and regulations.

The National People's Congress, China's national legislative body, enacted the Decisions on the Maintenance of Internet Security on December 28, 2000, which was subsequently amended and took effect on August 27, 2009, pursuant to which the following types of conduct may subject persons to criminal liabilities in China: (a) conduct that may pose a threat to security of internet, including gaining improper entry into a computer or system of strategic importance, or disseminate virus and similar destructive programs; (b) conduct that may adversely affect national security and social stability, including disseminate politically disruptive information and leaking state secrets; (c) conduct that may disrupt economic and social administrative order, including spreading false commercial information and infringing upon intellectual property rights; and (d) conduct that may violate the legal interests of any other person, including infringing upon privacy.



On December 11, 1997, the State Council approved the Administration Measures on the Security Protection of Computer Information Network with Internationally Connections, which was issued by the Ministry of Public Security on December 26, 1997, and became effective on December 30, 1997, and amended on January 8, 2011. The measures require internet service providers to provide a report of certain user information to the public security authority and assist the public security authority in investigating incidents involving breach of laws and regulations on the Internet security, and prohibit using the internet in ways which, among others, result in a leakage of state secrets or a spread of socially destabilizing content. The Ministry of Public Security has supervision and inspection powers in this regard, and relevant local security bureaus may also have jurisdiction. If an ICP License holder violates these measures, the PRC government may revoke its ICP License and shut down its websites.

On February 4, 2015, the CAC promulgated the Provisions on the Administration of Usernames of Internet Users' Accounts, which took effect on March 1, 2015 and require internet operators like us to censor usernames, icons and profiles provided by internet users and to refuse registration of non-compliant usernames or icons.

Measures for Security Review of Network Products and Services (Trial Implementation), or the Trial Security Review Measures, was promulgated by CAC on May 2, 2017, and effective on June 1, 2017, pursuant to which important network products and services purchased for the network and information system concerning national security shall go through network security review by the Cyber Security Review Committee. The Trial Security Review Measures were repealed by the Measures for Cybersecurity Review, or the Measures, which was issued by the CAC, the MIIT, the NDRC and other government sector on April 13, 2020, and came into effect on June 1, 2020. On December 28, 2021, twelve regulatory authorities jointly released the Cybersecurity Review Measures, which became effective on February 15, 2022 and repeal the Measures for Cybersecurity Review issued on April 13, 2020. The Cybersecurity Review Measures provides that a critical information infrastructure operator purchasing network products and services, and platform operators carrying out data processing activities which affect or may affect national security, must apply for cybersecurity review. The Cybersecurity Review Measures also provides that a platform operator with more than one million users' personal information aiming to list abroad must apply for cybersecurity review. New York Stock Exchange fall within the definition of "abroad" in the provision, however, we are already listed on the New York Stock Exchange, therefore, there can be no assurance if we are required to follow the cybersecurity review or the security assessment procedures, and if so, whether we would be able to complete the applicable cybersecurity review or the security assessment procedures in a timely manner.

On November 15, 2018, the CAC promulgated the Provisions on the Safety Assessment for Internet Information Services Capable of Creating Public Opinions or Social Mobilization, which took effect on November 30, 2018. For the purpose of the Provisions, Internet information services capable of creating public opinions or social mobilization include: (i) launching information services such as forums, blogs, microblogs, chat rooms, communication groups, public accounts, short videos, webcasts, information sharing, small programs, etc. or setting up the corresponding additional functions; and (ii) launching other Internet information services that provide channels for the public to express their opinions or are capable of mobilizing the public to engage in specific activities. An Internet information service provider should conduct safety assessment for itself and be responsible for the assessment results, if it falls under any of the following circumstances: (i) where it launches an Internet information service capable of creating public opinions or social mobilization, or adds relevant functions to its information service; (ii) where it uses a new technology or application leading to a major change in the functional attributes, technical realization methods, or basic resource allocation of its information service, thus causing a major change in its capability of creating public opinions or social mobilization; (iii) where the size of users significantly changes, leading to a major change in the information service's capability of creating public opinions or social mobilization; (iv) where illegal or harmful information is spread, indicating that it is difficult to effectively prevent and control cybersecurity risks by existing security measures; or (v) other circumstances in which safety assessment is required by the online cyberspace departments or the public security organ at or above the prefecture level in writing. After the safety assessment, if an Internet information service provider finds a potential safety hazard, it shall promptly rectify until the relevant safety hazard is eliminate; if it complies with laws and regulations, a safety assessment report shall be compiled and submitted to the local cyberspace department and public security organ through the national Internet safety management service platform.

On December 15, 2019, the CAC released the Provisions on Governance of the Network Information Content Ecology, with effect from March 1, 2020. According to the Provisions, network information content producers are encouraged to produce, reproduce and publish positive information, such as "contents of revealing highlights of economic and social development and reporting the hard work and affluent life of the people". Meanwhile, network information content producers shall not produce, reproduce or publish any illegal information, such as information that "undermines national security, divulges state secrets, subverts the state power or jeopardize the national unity", and shall take measures to prevent and resist the production, reproduction and publication of adverse information, such as "overstated headlines that are significantly inconsistent with the contents". Meanwhile, the network information content service platforms are required to fulfill their primary responsibilities for management of information contents, strengthen the governance of the network information content ecology on their respective platform, and create a positive, healthy and amicable network culture. Furthermore, the Provisions note that network information content service platforms shall not disseminate any illegal information as aforementioned, and shall take precautions against and resist the dissemination of any adverse information specified in the Provisions, such as information use of exaggerated titles, with serious inconsistency between content and title, hyped gossip, scandals, misdeeds, etc.

On December 17, 2020, the MII issued the Guidelines for the Construction of Data Security Standard System in the Telecommunications and Internet Industries, or the Data Security Standard System Guidelines. The Data Security Standard System Guidelines specifies the standard system of telecom and internet data security, and further stipulated the basic commonality, key technology, safety management and key areas and other standards.

On September 15, 2021, the CAC promulgated the Opinions on Further Enforcing Responsibilities on Website Platforms as the Main Responsible Party for Information Content Management. In accordance with the Opinions, website platforms are required to perform specific responsibilities as the main responsible party for information content management, including, among others, enhancing the platform community rules, strengthening the regulation and management of accounts, improving the content vetting mechanism, improving the quality of information content, managing the dissemination of information content, and strengthening the management of key functions.

On 14 November 2021, the CAC released the Regulations on Network Data Security Management (Draft for Comment) for public comments through 12 December 2021. In accordance with the draft Regulation of Administration of Cybersecurity and information security, the following circumstances shall complete Cybersecurity review: (i) Internet platform operators that gather a large number of data resources related to national security, economic development, and public interests implement mergers, reorganizations, and divisions that affect or may affect national security; (ii) any data operator who possesses the personal information of more than 1 million users seeks a listing outside; (iii) any data processor seeks a listing with HKEX, which affects or may affect national security.

To comply with the above laws and regulations, we have implemented measures and regularly updated our information security and content-filtering systems with newly issued content restrictions as required by the relevant laws and regulations.

### ***Privacy Protection***

The PRC Constitution states that PRC law protects the freedom and privacy of communications of citizens and prohibits infringement of these rights. In recent years, PRC government authorities have enacted legislation on internet use to protect personal information from any unauthorized disclosure. The Network Information Protection Decision provides that electronic information that identifies a citizen or involves privacy of any citizen is protected by law and must not be unlawfully collected or provided to others. ICP operators collecting or using personal electronic information of citizens must specify the purposes, manners and scopes of information collection and uses, obtain consent of the relevant citizens, and keep the collected personal information confidential. ICP operators are prohibited from disclosing, tampering with, damaging, selling or illegally providing others with, collected personal information. ICP operators are required to take technical and other measures to prevent the collected personal information from any unauthorized disclosure, damage or loss. The Administrative Measures on Internet Information Services prohibit an ICP operator from insulting or slandering a third party or infringing upon the lawful rights and interests of a third party. According to the Provisions on Protection of Personal Information of Telecommunication and Internet Users, which was promulgated by MII and became effective in September 2013, telecommunication business operators and ICP operators are responsible for the security of the personal information of users they collect or use in the course of their provision of services. Without obtaining the consent from the users, telecommunication business operators and ICP operators may not collect or use the users' personal information. The personal information collected or used in the course of provision of services by the telecommunication business operators or ICP operators must be kept in strict confidence, and may not be divulged, tampered with or damaged, and may not be sold or illegally provided to others. The ICP operators are required to take certain measures to prevent any divulgence of, damage to, tampering with or loss of users' personal information. In accordance with the Cyber Security Law, network operators are required to collect and use personal information in compliance with the principles of legitimacy, properness and necessity, and strictly within the scope of authorization by the subject of personal information unless otherwise prescribed by laws or regulations. In the event of any unauthorized disclosure, damage or loss of collected personal information, network operators must take immediate remedial measures, notify the affected users and report the incidents to the relevant authorities in a timely manner. If any user knows that a network operator illegally collects and uses his or her personal information in violation of laws, regulations or any agreement with the user, or the collected and stored personal information is inaccurate or wrong, the user has the right to request the network operator to delete or correct the relevant collected personal information.

The relevant telecommunications authorities are further authorized to order ICP operators to rectify unauthorized disclosure. ICP operators are subject to legal liability, including warnings, fines, confiscation of illegal gains, revocation of licenses or filings, closing of the relevant websites, administrative punishment, criminal liabilities, or civil liabilities, if they violate relevant provisions on internet privacy. Pursuant to the Ninth Amendment to the Criminal Law issued by the Standing Committee of the National People's Congress in August 2015 and becoming effective in November 2015, the standards of crime of infringing citizens' personal information were amended accordingly and the criminal culpability of unlawful collection, transaction, and provision of personal information has been reinforced. In addition, any ICP provider that fails to fulfill the obligations related to internet information security administration as required by applicable laws and refuses to rectify upon orders, will be subject to criminal liability for (i) any dissemination of illegal information in large scale; (ii) any severe effect due to the leakage of the client's information; (iii) any serious loss of evidence of criminal activities; or (iv) other severe situations, and any individual or entity that (x) sells or provides personal information to others unlawfully, or (y) steals or illegally obtains any personal information, will be subject to criminal liability in severe situations. In addition, the Interpretations of the Supreme People's Court and the Supreme People's Procuratorate of the PRC on Several Issues Concerning the Application of Law in Handling Criminal Cases of Infringing Personal Information, effective in June 2017, have clarified certain standards for the conviction and sentencing in relation to personal information infringement. The PRC government has the power and authority to order ICP operators to turn over personal information if an internet user posts any prohibited content or engages in illegal activities on the internet. The Civil Code further provides in a stand-alone chapter of right of personality and reiterate that the personal information of a natural person shall be protected by the law. Any organization or individual shall legitimately obtain such personal information of others in due course on a need-to-know basis and ensure the safety and privacy of such information, and refrain from excessively handling or using such information.

With respect to the security of information collected and used by mobile apps, pursuant to the Announcement of Conducting Special Supervision against the Illegal Collection and Use of Personal Information by Apps, which was issued on January 23, 2019, app operators should collect and use personal information in compliance with the Cyber Security Law and should be responsible for the security of personal information obtained from users and take effective measures to strengthen the personal information protection. Furthermore, app operators should not force their users to make authorization by means of bundling, suspending installation or in other default forms and should not collect personal information in violation of laws, regulations or breach of user agreements. Such regulatory requirements were emphasized by the Notice on the Special Rectification of Apps Infringing upon User's Personal Rights and Interests, which was issued by MIIT on October 31, 2019. On November 28, 2019, the CAC, the MIIT, the Ministry of Public Security and the SAMR jointly issued the Methods of Identifying Illegal Acts of Apps to Collect and Use Personal Information. This regulation further illustrates certain commonly-seen illegal practices of apps operators in terms of personal information protection, including "failure to publicize rules for collecting and using personal information", "failure to expressly state the purpose, manner and scope of collecting and using personal information", "collection and use of personal information without consent of users of such App", "collecting personal information irrelevant to the services provided by such app in violation of the principle of necessity", "provision of personal information to others without users' consent", "failure to provide the function of deleting or correcting personal information as required by laws" and "failure to publish information such as methods for complaints and reporting". Among others, any of the following acts of an app operator will constitute "collection and use of personal information without consent of users": (i) collecting an user's personal information or activating the permission for collecting any user's personal information without obtaining such user's consent; (ii) collecting personal information or activating the permission for collecting the personal information of any user who explicitly refuses such collection, or repeatedly seeking for user's consent such that the user's normal use of such app is disturbed; (iii) any user's personal information which has been actually collected by the app operator or the permission for collecting any user's personal information activated by the app operator is beyond the scope of personal information which such user authorizes such app operator to collect; (iv) seeking for any user's consent in a non-explicit manner; (v) modifying any user's settings for activating the permission for collecting any personal information without such user's consent; (vi) using users' personal information and any algorithms to directionally push any information, without providing the option of non-directed pushing such information; (vii) misleading users to permit collecting their personal information or activating the permission for collecting such users' personal information by improper methods such as fraud and deception; (viii) failing to provide users with the means and methods to withdraw their permission of collecting personal information; and (ix) collecting and using personal information in violation of the rules for collecting and using personal information promulgated by such app operator.

On August 22, 2019, the CAC promulgated the Children Information Protection Provisions, which took effect on October 1, 2019, requiring that before collecting, using, transferring or disclosing the personal information of a child, the Internet service operator should inform the child's guardians in a noticeable and clear manner and obtain their consents. Meanwhile, internet service operators should take measures like encryption when storing children's personal information. On May 28, 2020 the National People's Congress issued the Civil Code of the People's Republic of China (Civil Code), which came into effect in on January 1, 2021, the Civil Code provides a natural person shall have the right of privacy and the personal information of a natural person shall be protected in accordance with law. Information processors shall not divulge or tamper with the personal information collected or stored by them and shall not illegally provide any natural person's personal information to others without the consent of such natural person. On March 12, 2021, the CAC and three other authorities jointly issued the Rules on the Scope of Necessary Personal Information for Common Types of Mobile Internet Applications. The Rules specifies the scope of necessary personal information to be collected each for a variety of common mobile internet applications, such as maps and navigation apps, online ride-hailing apps, instant messaging apps, online community apps. Operators of such apps shall not refuse to provide basic services to users on the ground of users' refusal to provide their personal non-essential information. On April 26, 2021, the MIIT issued the Interim Administrative Provisions on Personal Information Protection in Internet Mobile Applications (Draft for Comment). The draft of the Interim Administrative Provisions on Personal Information Protection in Internet Mobile Applications sets forth two principles of collection and utilization of personal information, namely "explicit consent" and "minimum necessity."

Further, the SAMR promulgated the Measures for the Supervision and Administration of Online Transaction March 15, 2021, which became effective on May 1, 2021. The measures require that, among others, online transaction operators shall not force customers, whether or not in a disguised manner, to consent to the collection and use of information not directly related to their business activities by means of one-off general authorization, default authorization, bundling with other authorizations, or the suspension of installation and use.

On August 20, 2021, the Standing Committee of the National People's Congress adopted the Personal Information Protection Law which took effect on November 1, 2021. The Personal Information Protection Law requires, among others, that (i) the processing of personal information should have a clear and reasonable purpose which should be directly related to the processing purpose, in a method that has the least impact on personal rights and interests, and (ii) the collection of personal information should be limited to the minimum scope necessary to achieve the processing purpose to avoid the excessive collection of personal information. Different types of personal information and personal information processing will be subject to various rules on consent, transfer, and security. Entities handling personal information shall bear responsibilities for their personal information handling activities, and adopt necessary measures to safeguard the security of the personal information they handle. The entities failing to comply could be ordered to correct, or suspend or terminate the provision of services, and face confiscation of illegal income, fines or other penalties.

### ***Information Security***

The National People's Congress has enacted legislation that prohibits use of the internet that breaches the public security, disseminates socially destabilizing content or leaks state secrets. Breach of public security includes breach of national security and infringement on legal rights and interests of the state, society or citizens. Socially destabilizing content includes any content that incites defiance or violations of PRC laws or regulations or subversion of the PRC government or its political system, spreads socially disruptive rumors or involves cult activities, superstition, obscenities, pornography, gambling or violence. State secrets are defined broadly to include information concerning PRC national defense, state affairs and other matters as determined by the PRC authorities.

Pursuant to applicable regulations, ICP operators must complete mandatory security filing procedures and regularly update information security and monitoring systems for their websites with local public security authorities, and must also report any public dissemination of prohibited content.

The Provisions on Technological Measures for Internet Security Protection, promulgated by the Ministry of Public Security and became effective in March 2006, require all ICP operators to keep records of certain information about its users (including user registration information, log-in and log-out time, IP address, content and time of posts by users) for at least 60 days and submit the above information as required by laws and regulations. The Decision on Strengthening Network Information Protection, or the Network Information Protection Decision, which was promulgated by the PRC National People's Congress in December 2012, states that ICP operators must request identity information from users when ICP operators provide information publication services to the users. If ICP operators come across prohibited information, they must immediately cease the transmission of such information, delete the information, keep relevant records, and report to relevant government authorities.

In December 2015, the Standing Committee of the National People's Congress promulgated the Anti-Terrorism Law of the PRC, or the Anti-Terrorism Law, which took effect on January 1, 2016 and was amended on April 27, 2018. According to the Anti-Terrorism Law, telecommunication service operators or internet service providers shall (i) carry out pertinent anti-terrorism publicity and education to society; (ii) provide technical interfaces, decryption and other technical support and assistance for the competent departments to prevent and investigate terrorist activities; (iii) implement network security and information monitoring systems as well as safety and technical prevention measures to avoid the dissemination of terrorism information, delete the terrorism information, immediately halt its dissemination, keep relevant records and report to the competent departments once the terrorism information is discovered; and (iv) examine customer identities before providing services. Any violation of the Anti-Terrorism Law may result in severe penalties, including substantial fines.

In November 2016, the Standing Committee of the National People's Congress promulgated the Cyber Security Law of the PRC, or the Cyber Security Law, which took effect on June 1, 2017. In accordance with the Cyber Security Law, network operators must comply with applicable laws and regulations and fulfill their obligations to safeguard network security in conducting business and providing services. Network service providers must take technical and other necessary measures as required by laws, regulations and mandatory requirements to safeguard the operation of networks, respond to network security effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data.

For the further purposes of regulating data processing activities, safeguarding data security, promoting data development and utilization, protecting the lawful rights and interests of individuals and organizations, and maintaining national sovereignty, security, and development interests, on June 10, 2021, the Standing Committee of the PRC National People's Congress promulgated the Data Security Law of the People's Republic of China, or the Data Security Law, which took effect on September 1, 2021. The Data Security Law requires data processing, which includes the collection, storage, use, processing, transmission, provision, publication of data, to be conducted in a legitimate and proper manner. The Data Security Law provides for data security and privacy obligations on entities and individuals carrying out data activities. The Data Security Law also introduces a data classification and hierarchical protection system based on the importance of data in economic and social development, and the degree of harm it may cause to national security, public interests, or legitimate rights and interests of individuals or organizations if such data are tampered with, destroyed, leaked, illegally acquired or illegally used. The appropriate level of protection measures is required to be taken for each respective category of data. For example, a processor of important data is required to designate the personnel and the management body responsible for data security, carry out risk assessments of its data processing activities and file the risk assessment reports with the competent authorities. State core data, i.e. data having a bearing on national security, the lifelines of national economy, people's key livelihood and major public interests, shall be subject to stricter management system. Moreover, the Data Security Law provides a national security review procedure for those data activities which affect or may affect national security and imposes export restrictions on certain data and information. In addition, the Data Security Law also provides that any organization or individual within the territory of the PRC shall not provide any foreign judicial body and law enforcement body with any data without the approval of the competent PRC governmental authorities. As the Data Security Law was recently promulgated and has not yet taken effect, we may be required to make further adjustments to our business practices to comply with this law, as well as any adjustments that may be required by the ultimate Personal Information Protection Law.

On July 6, 2021, certain PRC regulatory authorities issued Opinions on Lawfully and Severely Combating Illegal Securities Activities, which, among others, provides for improving relevant laws and regulations on data security, cross-border data transmission, and confidential information management. It provided that efforts will be made to revise the regulations on strengthening the confidentiality and file management relating to the offering and listing of securities overseas, to implement the responsibility on information security of overseas listed companies, and to strengthen the standardized management of cross-border information provision mechanisms and procedures.

On July 30, 2021, the State Council issued the Regulations on Protection of Critical Information Infrastructure, or the Regulations. Pursuant to the Regulations, critical information infrastructure shall mean the important network facilities or information systems of key industries or fields such as public communication and information service, energy, transportation, water conservation, finance, public services, e-government affairs and national defense science, and important network facilities or information systems which may endanger national security, people's livelihood and public interest once there occur damage, malfunctioning or data leakage to them. The Regulations provide that no individual or organization may carry out any illegal activity of intruding into, interfering with, or sabotaging any critical information infrastructures, or endanger the security of any critical information infrastructures. The Regulations also require that critical information infrastructure operators shall establish a cybersecurity protection system and accountability system, and that the main responsible person of a critical information infrastructure operator shall take full responsibility for the security protection of the critical information infrastructures operated by it. In addition, relevant administration departments of each important industry and sector shall be responsible for formulating the rule of critical information infrastructure determination applicable to their respective industry or sector, and determine the critical information infrastructure operators in their industry or sector.

On July 12, 2021, the MIIT and two other authorities jointly issued the Provisions on the Administration of Security Vulnerabilities of Network Products, or the Provisions. The Provisions state that, no organization or individual may abuse the security vulnerabilities of network products to engage in activities that endanger network security, or to illegally collect, sell, or publish the information on such security vulnerabilities. Anyone who is aware of the aforesaid offences shall not provide technical support, advertising, payment settlement and other assistance to the relevant offenders. According to the Provisions, network product providers, network operators, and platforms collecting network product security vulnerabilities shall establish and improve channels for receiving network product security vulnerability information and keep such channels available, and retain network product security vulnerability information reception logs for at least six months. The Provisions also bans provision of undisclosed vulnerabilities to overseas organizations or individuals other than to the product providers.

On October 29, 2021, the CAC issued the Measures for Security Assessment of Cross-border Data Transfer (Draft for Comment). According to these measures, in addition to the self-risk assessment requirement for provision of any data outside China, a data processor shall apply to the competent cyberspace department for data security assessment and clearance of outbound data transfer in any of the following events: (i) outbound transfer of personal information and important data collected and generated by an operator of critical information infrastructure; (ii) outbound transfer of important data; (iii) outbound transfer of personal data by a data processor which has processed more than one million users' personal data; (iv) outbound transfer of more than one hundred thousand users' personal information or more than ten thousand users' sensitive personal information cumulatively; (v) such other circumstances where ex-ante security assessment and evaluation of cross-border data transfer is required by the CAC.

On August 20, 2021, the Standing Committee of the National People's Congress of China promulgated the Personal Information Protection Law, which integrates the scattered rules with respect to personal information rights and privacy protection and took effect on November 1, 2021. The Personal Information Protection Law requires, among others, that (i) the processing of personal information should have a clear and reasonable purpose which should be directly related to the processing purpose and should be conducted in a method that has the minimum impact on personal rights and interests, and (ii) the collection of personal information should be limited to the minimum scope as necessary to achieve the processing purpose and avoid the excessive collection of personal information. Personal information processors shall adopt necessary measures to safeguard the security of the personal information they handle. The offending entities could be ordered to correct, or to suspend or terminate the provision of services, and face confiscation of illegal income, fines or other penalties.

In addition, the State Secrecy Bureau has issued provisions authorizing the blocking of access to any website it deems to be leaking state secrets or failing to comply with the relevant legislation regarding the protection of state secrets during online information distribution. Specifically, internet companies in the PRC with bulletin boards, chat rooms or similar services must apply for specific approval prior to operating such services.

On November 14, 2021, the CAC released the Regulations on the Network Data Security (Draft for Comments), or the Draft Regulations. The Draft Regulations provide that data processors refer to individuals or organizations that autonomously determine the purpose and the manner of processing data. In accordance with the Draft Regulations, data processors shall apply for a cybersecurity review for the following activities: (i) merger, reorganization or division of Internet platform operators that have acquired a large number of data resources related to national security, economic development or public interests to the extent that affects or may affect national security; (ii) listing abroad of data processors which process over one million users' personal information; (iii) listing in Hong Kong which affects or may affect national security; or (iv) other data processing activities that affect or may affect national security. Besides, data processors that are listed overseas shall carry out an annual data security assessment. The Cybersecurity Review Measures are relatively new and remain unclear on how it will be interpreted and implemented by the relevant PRC governmental authorities, it remains uncertain how PRC governmental authorities will regulate overseas listing in general and whether we are required to obtain any specific regulatory approvals for our offshore offerings. However, as of the date of this annual report, we have not received any formal notice from any cybersecurity regulator that we should apply for a cybersecurity review. The Draft Regulations remains unclear on whether the relevant requirements will be applicable to companies that have been listed in the United States and Hong Kong, such as us. We cannot predict the impact of the Draft Regulations, if any, at this stage, and we will closely monitor and assess any development in the rule-making process. If the enacted versions of the Draft Regulations mandate clearance of cybersecurity review and other specific actions to be completed by China-based companies listed on a U.S. stock exchange and Hong Kong Exchanges, such as us, we face uncertainties as to whether such clearance can be timely obtained, or at all. In addition, if a final version of the Draft Regulations is adopted, we may be subject to review when conducting data processing activities and annual data security assessment and may face challenges in addressing its requirements and make necessary changes to our internal policies and practices in data processing. We have been advised by our PRC legal counsel that, these laws and regulations are relatively new, and therefore there are substantial uncertainties with respect to the interpretation and implementation of these data security laws and regulations. We may need to adjust our business to comply with information security requirements from time to time. We have taken measures to comply with existing laws and regulations.

### *Network Security*

On November 7, 2016, the Standing Committee of the National People's Congress of China promulgated the Network Security Law of the People's Republic of China, or the Network Security Law or the Cybersecurity Law, which became effective on June 1, 2017. The Network Security Law governs the construction, operation, maintenance and use of networks as well as the supervision and administration of network security within China. As a network operator and a provider of network products and services, we are required to take measures to assure the security of network operations. For example, we are required to (a) protect our networks from disturbance, damage or unauthorized access, and to prevent our network data from being divulged, stolen or tampered with; (b) refrain from setting up malicious programs and, in the event of identifying security defects, loopholes or other risks in our network products or services, to promptly take remedial measures, notify users and report to competent authorities; (c) formulate emergency plans for network security incidents and combat any system loopholes, computer virus, network attack, network intrusion and any other security risks in a timely manner; and (d) refrain from engaging in activities that endanger network security. In addition, we are required to take measures to ensure network security. For example, we are required to (a) keep user information strictly confidential and establish and improve user information protection system; (b) collect and use user information only if it is legal, necessary and just to do so, and only with relevant users' consents; and (c) refrain from divulging, tampering with or damaging the user personal information that we have collected, or providing such personal information to third parties without the relevant users' consents. Failure to comply with the Network Security Law may result in penalties, including warnings, order compelling modification of existing operations or imposition of fines, or even criminal liabilities.

On August 9, 2017, the MIIT issued the Measures for Monitoring and Handling Threat to Network Security of the Public Internet, or the Monitoring Measures which became effective from January 1, 2018. Under the Monitoring Measures, the threat to network security of the public internet refers to any network resource, malicious program, hidden security danger or security accident that exists or is spread on the public internet and is likely to do or has done harm to the public, including the Trojan virus, worm, bot process and malicious mobile code. The Monitoring Measures requires the basic telecommunications enterprises, internet-based enterprises, domain name registries and registrars, etc. to provide technical support and assistance to competent telecommunications authorities when they are inquiring into owners of IP addresses, domain name registration information, etc. Failure to comply with such requirements may result in penalties, including warnings and imposition of fines. On November 14, 2017, the MIIT issued the Emergency Response Plan for Unexpected Network Security Incidents of the Public Internet, or the Emergency Response Plan, immediately effective from the issuing date. The Emergency Response Plan applies to the handling of and response to network security emergencies that take place at basic telecommunications enterprises, domain name registration management and service agencies and internet enterprises that offer services to the general public. According to the Emergency Response Plan, unexpected network security incidents of the public internet are classified into four different levels, namely the extremely major incidents, major incidents, severe incidents and ordinary incidents. In addition, the Emergency Response Plan states that basic telecommunications enterprises, domain name agencies, internet enterprises, professional agencies of network security, and enterprises specialized in network security are required to monitor and collect in diverse ways the potential network security dangers and warning information, such as latest trend in network vulnerabilities, viruses, and network attacks, in order to analyze and evaluate the likelihood of unexpected incidents and potential impacts caused by them.

On December 28, 2018, the SAMR and National Information Security Standardization Technical Committee jointly promulgated the Information Security Technology—Testing and Evaluation Process Guide for Classified Protection of Cybersecurity (GB/T 28449-2018), being effective from

July 1, 2019. GB/T 28449-2018 set out the testing and evaluation process for three types of risks, which are risks affecting the normal operation of the system, risks of sensitive information disclosure and risks of trojans implants.

On December 28, 2021, twelve regulatory authorities jointly released the Cybersecurity Review Measures. The Cybersecurity Review Measures provides that: (i) network platform operators that are engaged in data processing activities which have or may have an implication on national security shall undergo a cybersecurity review; (ii) the CSRC is one of the regulatory authorities for purposes of jointly establishing the state cybersecurity review mechanism; (iii) network platform operators that master personal information of more than one million users and seek to list abroad shall file for a cybersecurity review with the Cybersecurity Review Office; and (iv) the risks of core data, material data or large amounts of personal information being stolen, leaked, destroyed, damaged, illegally used or transmitted to overseas parties, and the risks of critical information infrastructure, core data, material data or large amounts of personal information being influenced, controlled or used maliciously shall be collectively taken into consideration during the cybersecurity review process. The Cybersecurity Review Measures are relatively new and remain unclear on how it will be interpreted and implemented by the relevant PRC governmental authorities, it remains uncertain how PRC governmental authorities will regulate overseas listing in general and whether we are required to obtain any specific regulatory approvals for our offshore offerings. However, as of the date of this annual report, we have not received any formal notice from any cybersecurity regulator that we should apply for a cybersecurity review.

On December 31, 2021, the CAC together with other regulatory authorities published Administrative Provisions on Algorithm Recommendation for Internet Information Services, effective on March 1, 2022 which provides, among others, that algorithm recommendation service providers shall (i) establish and improve the management systems and technical measures for algorithm mechanism and principle review, scientific and technological ethics review, user registration, information release review, data security and personal information protection, anti-telecommunications and Internet fraud, security assessment and monitoring, and security incident emergency response, formulate and disclose the relevant rules for algorithm recommendation services, and be equipped with professional staff and technical support appropriate to the scale of the algorithm recommendation service; (ii) regularly review, evaluate and verify the principle, models, data and application results of algorithm mechanisms, (iii) strengthen information security management, establish and improve a feature database for identifying illegal and bad information, and improve entry standards, rules and procedures; (iv) strengthen the management of user models and user labels, and improve the rules on points of interest recorded into user models and user label management, and shall not record illegal and harmful information keywords into the points of interest of users or use them as user labels to push information.

### ***Regulations on Overseas Offering and Listing***

On July 6, 2021, the relevant PRC government authorities issued Opinions on Lawfully and Severely Combating Illegal Securities Activities. These opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies.



On December 27, 2021, the NDRC and the MOC jointly issued the Special Administrative Measures (Negative List) for Foreign Investment Access (2021 Version), or the 2021 Negative List, which will become effective on January 1, 2022. Pursuant to such Special Administrative Measures, if a domestic company engaging in the prohibited business stipulated in the 2021 Negative List seeks an overseas offering and listing, it shall obtain the approval from the competent governmental authorities. Besides, the foreign investors of the company shall not be involved in the company's operation and management, and their shareholding percentage shall be subject, mutatis mutandis, to the relevant regulations on the domestic securities investments by foreign investors.

On December 24, 2021, the State Council issued a draft of the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies, or the Draft Provisions, and the CSRC issued a draft of Administration Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies, or the Draft Administration Measures, for public comments. According to the Draft Provisions and the Draft Administration Measures, the overseas offering and listing by a domestic company, whether directly or indirectly, shall be filed with the CSRC. Specifically, the determination of an indirect offering and listing will be conducted on a "substance over form" basis, and an offering and listing shall be considered as an indirect overseas offering and listing by a domestic company if the issuer meets the following conditions: (i) the operating income, gross profit, total assets, or net assets of the domestic enterprise in the most recent fiscal year was more than 50% of the relevant line item in the issuer's audited consolidated financial statement for that year; and (ii) senior management personnel responsible for business operations and management are mostly PRC citizens or are ordinarily resident in the PRC, and the main place of business is in the PRC or carried out in the PRC. According to the Draft Administration Measures, an overseas offering and listing is prohibited under any of the following circumstances: (i) if the intended securities offering and listing is specifically prohibited by national laws and regulations and relevant provisions; (ii) if the intended securities offering and listing may constitute a threat to or endangers national security as reviewed and determined by competent authorities under the State Council in accordance with law; (iii) if there are material ownership disputes over the equity, major assets, and core technology, etc. of the issuer; (iv) if, in the past three years, the domestic enterprise or its controlling shareholders or actual controllers have committed corruption, bribery, embezzlement, misappropriation of property, or other criminal offenses disruptive to the order of the socialist market economy, or are currently under judicial investigation for suspicion of criminal offenses, or are under investigation for suspicion of major violations; (v) if, in past three years, directors, supervisors, or senior executives have been subject to administrative punishments for severe violations, or are currently under judicial investigation for suspicion of criminal offenses, or are under investigation for suspicion of major violations; (vi) other circumstances as prescribed by the State Council.

According to the Draft Administration Measures, the issuer or its affiliated domestic company, as the case may be, shall file with the CSRC (i) with respect to its initial public offering and listing within three business days, after its initial filing of the listing application to the regulator in the place of the intended listing, (ii) with respect to its follow-on offering within three business days after completion of the follow-on offering, (iii) with respect to its follow-on offering for purpose of acquiring specific assets, within three business days after the first public announcement of the transaction, and (iv) with respect to listing by means of reverse takeover, share swap, acquisition and similar transactions, within three business days after its initial filing of the listing application or the first public announcement of the transaction, as case may be. Non-compliance with the Draft Administration Measures or an overseas listing completed in breach of Draft Administration Measures may result in a warning on the relevant domestic companies or a fine of 1-10 million RMB on them. If the circumstances are serious, they may be ordered to suspend their business or suspend their business pending rectification, or their permits or businesses license may be revoked. Furthermore, the controlling shareholder, actual controllers, directors, supervisors, and other legally appointed persons of the domestic enterprises may be warned, or fined between 500,000—5 million RMB either individually or collectively.

As of the date of this annual report, the Draft Provisions and the Draft Administration Measures had been released for public comments only and the final version and effective date of such regulations are subject to change with substantial uncertainty.

### ***Regulations on Outbound Investment***

The PRC government imposes supervisions on the outbound investments. The NDRC, MOFCOM and SAFE are the primary governmental authority regulating activities involving the outbound investments in China. Regulations that apply to outbound investments primarily include:

- Administrative Measures for the Verification and Approval and Record-Filing of Outbound Investment Projects, or the NDRC Order No. 9, promulgated by the NDRC on April 8, 2014, effective since May 8, 2014 and updated in December 27, 2014 (NDRC Order No. 20), which was repealed by Administrative Measures for Outbound Investment by Enterprises, or the NDRC Order No. 11, promulgated by NDRC on December 26, 2017, effective since March 1, 2018 (NDRC Order No. 11);
- Catalogue of Investment Projects Subject to Government Verification and Approval (2016 Version), promulgated by the State Council on December 12, 2016, effective since then;
- Administrative Measures for Outbound Investment, issued by the MOFCOM on September 6, 2014, effective since October 6, 2014; and
- Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable to Direct Investment, promulgated by the SAFE on February 13, 2015, effective since then. The Annex of this notice, named Guidelines for Direct Investment Foreign Exchange Business Operations, was partially repealed according to Notice by the State Administration of Foreign Exchange of Repealing or Invalidating Five Regulatory Documents on Foreign Exchange Administration and Clauses of Seven Regulatory Documents on Foreign Exchange Administration.

According to abovementioned regulations, outbound investment projects involving sensitive countries and regions or sensitive industries shall be subject to the verification and approval by the NDRC and MOFCOM respectively. Outbound investment projects other than those involving sensitive countries and regions or sensitive industries shall be managed by record-filing by the NDRC and MOFCOM respectively. Pursuant to NDRC Order 9, sensitive countries and regions shall include: countries with no diplomatic relations with China, countries subject to international sanctions, countries and regions affected by wars, civil strife, etc., and sensitive industries shall include basic telecommunications operations, cross-border development and utilization of water resources, large-scale land development, main power transmission lines and power grids, news media and other industries. After the completion of the NDRC and MOFCOM procedures, the domestic enterprises (including all types of legal persons) can at their discretion, choose the banks in their respective places of incorporation to go through Foreign Exchange Registration of Outbound Direct Investment, and may handle subsequent formalities for opening relevant accounts, fund exchange and other services (including the inflow of profits and dividends) under outbound direct investment only after Foreign Exchange Registration of outbound direct investment is completed.

On December 6, 2016, the NDRC, MOFCOM, PBOC and SAFE (collectively, “Four Departments”), responded to media inquiries with respect to tightening outbound investment regulations. In particular, Four Departments specified closer attention shall be paid to the recent tendency of “irrational overseas investment” in real estate, hotel, film studio, entertainment, sports club and other fields, and the risks underlying certain types of outbound investments, such as investments of considerable amount unrelated to the domestic enterprise major business and investments made by limited partnerships. In addition, closer attention shall be paid to any domestic enterprises whose capitalization or value of assets are considerably smaller than the outbound subsidiaries to be established or acquired, and any domestic enterprise that applies for outbound direct investment immediately after its formation.

On August 4, 2017, General Office of the State Council promulgated Notice of the General Office of the State Council on Forwarding the Guiding Opinions of the National Development and Reform Commission, the Ministry of Commerce, the PBOC and the Ministry of Foreign Affairs on Further Guiding and Regulating the Directions of Outbound Investment, which further guides and regulates the directions of outbound investment.

On December 26, 2017, the NDRC promulgated the Administrative Measures for Outbound Investment by Enterprises, or the NDRC Order 11, which became effective on March 1, 2018 and superseded NDRC Order 9. According to NDRC Order 11, the outbound direct investment projects carried out by the all types of legal persons shall still subject to the verification and approval or record-filing by the NDRC, as it is required by NDRC Order 9. Besides that, NDRC Order 11 shall apply to outbound investment projects carried out by the overseas enterprises that control by the domestic enterprises and PRC natural person. Under NDRC Order 11, control shall mean holding, directly or indirectly, more than half of the voting rights of an enterprise, or being able to dominate the operations, finance, personnel, technology or other important matters of an enterprise despite not holding more than half of the voting rights.

With respect to those domestic enterprises and natural persons newly covered by NDRC Order 11 who conduct outbound investment projects through controlled overseas enterprises (instead of making direct capital or interests investment, or providing direct financing or guarantee), (i) outbound investment projects involving sensitive countries and regions or sensitive industries will be subject to a verification and approval procedure; (ii) for outbound investment projects other than those involving sensitive countries and regions or sensitive industries, if the total investment from Chinese investor via overseas enterprise under its control exceeds US\$300 million (inclusive), investors shall only submit a report to NDRC before the implementation of the project; if the total investment amount from Chinese investor via overseas enterprise under its control is less than US\$300 million, then no pre-transaction verification, record-filing or reporting is required. According to NDRC Order 11 and Catalogue on Sensitive Industries in Outbound Investment (2018 Edition), sensitive countries and regions shall mainly include countries and regions which have not established diplomatic relations with China, or where war or civil unrest has broken out, or in which investment by enterprises shall be restricted pursuant to the international treaties, agreements, etc. concluded or acceded to by China; and sensitive industries shall include (i) research, production and maintenance of weaponry and equipment; (ii) development and utilization of cross-border water resources; (iii) news media; (iv) real estate, (v) hotel, (vi) film studio, (vii) entertainment, (viii) sports club and (ix) establishment of an equity investment fund or investment platform without specific industrial projects abroad.

In addition to the pre-transaction regulation, NDRC Order 11 strengthens interim and ex post supervision. NDRC Order 11 provides mechanisms for major adverse situation reports, project completion reports, major matters inquiries and reports in order to achieve control over outbound investments; and further improved the disciplinary measures to achieve the after-regulation of overseas investment.

Violations of the regulations regarding outbound investment may result in the imposition of fines and other administrative penalties. For serious violations, criminal liability may arise.

On January 18, 2018, MOFCOM, PBOC, State-owned Assets, Supervision and Administration Commission of the State Council, China Banking Regulatory Commission, China Securities Regulatory Commission, China Insurance Regulatory Commission, State Administration of Foreign Exchange (collectively “Seven Departments”) promulgated Interim Measures for the Record-filing (Verification and Approval) and the Reporting of Outbound Investment Projects, or the Order No. 24. In particular, Seven Departments specified the procedure of record-filing and verification and approval of outbound investment. According to Order No. 24, Competent commerce departments and finance administrative departments shall be responsible for administration of the outbound investment projects of domestic investors either by record-filing or verification and approval according to their respective duties. Competent departments shall, according to their respective duties, formulate and improve corresponding measures for the record-filing (verification and approval) of outbound investment projects under the model of “ten negative lists for encouraging development”.

Order No. 24 requires that a competent department shall conduct relevant examination according to the materials submitted by a domestic investor for record-filing (verification and approval), formally accept such materials if they meet relevant requirements, and take measures pursuant to relevant provisions. The materials that shall be submitted by domestic investors for outbound investment projects shall be prescribed by competent departments. After going through the procedures for record-filing (verification and approval) of outbound investment projects, domestic investors shall handle foreign exchange registration in accordance with the requirements of foreign exchange administrations.

Violations of the regulations regarding outbound investment may result in the imposition of fines and other administrative penalties. For serious violations, criminal liability may arise.

## ***Regulations of Foreign Investment***

Foreign investment in the PRC by foreign investors and foreign-invested enterprises used to abide by the Guidance Catalog of Industries for Foreign Investment, or the Foreign Investment Catalog jointly promulgated by the MOFCOM and NDRC on June 28, 1995 and successively amended on December 31, 1997, April 1, 2002, November 30, 2004, October 31, 2007, December 24, 2011, March 10, 2015 and June 28, 2017. The Foreign Investment Catalog classifies industries into “the encouraged foreign-invested industries” and “the foreign-invested industries which are subject to the Special Administrative Measures for Access of Foreign Investment (the Negative List for Access of Foreign Investment)”. Except as otherwise stipulated by other laws and regulations, foreign investors are permitted to invest in industries not in the restricted or prohibited categories.

The Foreign Investment Catalog was later replaced by the Special Administrative Measures for Access of Foreign Investment, jointly promulgated by the MOFCOM and NDRC. On December 27, 2021, the MOFCOM and NDRC jointly issued the Special Administrative Measures for Access of Foreign Investment and took effect on January 1, 2022 (the “Negative List (2021 Version)”). According to the Negative List (2021 Version), foreign investment in internet news information services, online publication services, online audio-visual program services, internet cultural business (except for music) are prohibited, and foreign equity share in a value-added telecommunication business shall not exceed 50% (excluding e-commerce, domestic multi-party communication, store-and-forward, and call center).

On March 15, 2019, the Foreign Investment Law of the PRC or the “FIL”, was approved and deliberated the Second Session of the 13th National People’s Congress of China. On December 26, 2019, the Implementation Regulation for the Foreign Investment Law of the People’s Republic of China, or the FIL Implementing Regulations, was issued by the State Council. Both the FIL and the FIL Implementing Regulations came into force on

January 1, 2020. The FIL and the FIL Implementing Regulations have replaced three laws on foreign investment (collectively “Three FDI law”), namely, the Law on Sino-Foreign Equity Joint Ventures, the Law on Sino-Foreign Contractual Joint Ventures and the Law on Wholly Foreign Owned Enterprises, and become a fundamental law of China in the foreign investment area, setting forth the basic legal framework in this regard.

The FIL clearly sets forth that foreign investment may be conducted through the following four ways: (i) foreign investor, independently or jointly with other investors, set up foreign-invested enterprises in China (the “Greenfield Investment”), (ii) foreign investors obtain shares, equities, property shares or other similar rights and interests of Chinese domestic enterprises (the “M&A”), (iii) foreign investor, independently or jointly with other investors, invests in a new project (the “Project Investment”) and (iv) other approach stipulated under laws, administrative regulations and provisions of the State Council. In this way, it is made clear that, in addition to the Greenfield Investments, foreign investments via M&A, Project Investment and other permitted approach shall all fall within the jurisdiction of FIL. Besides, the FIL clearly specifies that foreign investment includes direct foreign investment and indirect foreign investment. However, there is no further explanation about what would constitute an “indirect foreign investment”.

For the management of foreign investment, the FIL officially abolishes the “case-by-case approval” system established by Three FDI law, and instead establishes the administration system for foreign investment, amongst others, (i) the negative list—the negative list consists of a list of industry sectors where foreign investments are prohibited (the “Prohibited Sectors”) and a list of industry sectors in which foreign investments are restricted (the “Restricted Sectors”); (ii) the information reporting system—foreign investors or foreign investment entities (FIEs) are required to submit investment information to the competent authorities through the system of enterprises registration and enterprise credibility disclosure; and (iii) the national security review, which will be conducted over foreign investments that affects or may affect the state security. The FIL further stipulates the legal liabilities for foreign investment in the Prohibited or Restricted Sectors and failing to report in accordance with the requirements. Failure to comply with the FIL may result in penalties, including order the foreign investor to stop the investment activities, dispose of the shares or assets or take other necessary measures within a specified time limit, or confiscation of illegal gains.

The VIE structure we adopt is commonly used by foreign investors to invest in China in the Prohibited Sectors or Restricted Sectors. The draft Foreign Investment Law, promulgated on January 19, 2015, attempted to cover the VIE structure as a form of foreign investment. However, the FIL leaves it blank and it is vague whether the VIE structure will be interpreted and regulated to fall into the scope of the FIL. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure—Substantial uncertainties exist with respect to the interpretation and implementation of the PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.”

The Interim Measures for the Record-filing Administration of the Establishment and Change of Foreign-invested Enterprises, promulgated on October 8, 2016 and amended on June 29, 2018 by the MOFCOM, are applicable to foreign-invested enterprises that are not subject to the special administrative measures for access of foreign investment according to relevant PRC laws. On December 30, 2019, the MOFCOM and SAMR issued the Measures of Information Report of Foreign Investment, or the FI Information Report Measures. Upon its implementation on January 1, 2020, the Interim Measures for the Record-filing Administration of the Establishment and Change of Foreign-invested Enterprises was annulled at the same time. According to the FI Information Report Measures, foreign investors establishing foreign investment enterprises in China shall submit an initial report through the Enterprise Registration System at the time of completion of registration formalities for establishment of foreign investment enterprises. Where there is a change in the information in the initial report which involves change registration (filing) of the enterprise, the foreign investment enterprise shall submit the change report through the enterprise registration system at the time of completion of change registration (filing) for the enterprise. Also, the FIEs are required to submit its annual report for the previous year through the National Enterprise Credit Information Publicity System from January 1 to June 30 each year. The MOFCOM and its local departments shall supervise and inspect the compliance with the FI Information Report Measures, through random inspection and other methods.

On December 19, 2020, the NDRC and the MOFCOM promulgated Measures for Security Review of Foreign Investment, or the Security Review Measures, being effective from January 18, 2021. According to the Security Review Measures, the state shall establish a working mechanism for the security review of foreign investment (the “Security Review Mechanism”) in charge of organization, coordination, and guidance of foreign investment security review. A working mechanism office shall be established under the NDRC and led by the NDRC and the MOFCOM to undertake routine work on the security review of foreign investment. According to the Security Review Measures, in terms of foreign investments falling in the scope such as important cultural products and services, important information technologies and Internet products and services, important financial services, key technologies and other important fields that concern state security while obtaining the actual control over the enterprises invested in, a foreign investor or a party concerned in the PRC shall take the initiative to make a declaration to the working mechanism office prior to making the investment.

#### ***Regulations of Foreign Currency Exchange, Foreign Debt and Dividend Distribution***

***Foreign Currency Exchange.*** The core regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations, as amended in August 2008, or the FEA Regulations. Under the FEA Regulations, the Renminbi is freely convertible for current account items subject to certain rules and procedures, including the distribution of dividends, and trade- and service-related foreign exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside of China, unless the prior approval of the State Administration of Foreign Exchange, or the SAFE, is obtained and prior registration with the SAFE is made.

On August 29, 2008, the SAFE promulgated the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or Circular 142, to regulate the conversion of foreign currency into Renminbi by a foreign-invested enterprise by restricting the ways in which the converted Renminbi may be used. Circular 142 stipulates that the registered capital of a foreign-invested enterprise that has been settled in Renminbi converted from foreign currencies may only be used for purposes within the business scope approved by the applicable governmental authority and cannot be used for equity investments within the PRC. Meanwhile, the SAFE strengthened its oversight of the flow and use of the registered capital of a foreign-invested enterprise settled in Renminbi converted from foreign currencies. The use of such Renminbi capital may not be changed without the SAFE’s approval, and may not in any case be repayment of Renminbi loans if the proceeds of such loans have not been used. Such requirements are also known as “payment-based foreign currency settlement system” established under the SAFE Circular 142. Violations of Circular 142 may lead to severe penalties including heavy fines. On November 9, 2010, the SAFE promulgated the Circular on Relevant Issues Concerning the Strengthening the Administration of Foreign Exchange Operations, or Circular 59, and another supplemental circular on July 18, 2011, known as Circular 88, which both tighten the examination of the authenticity of settlement of foreign currency capital or net proceeds from overseas offerings like our initial public offering and requires that the settlement of net proceeds shall be in accordance with the description in the prospectus in connection with the offering. The SAFE further promulgated the Circular on Further Clarification and Regulation of the Issues Concerning the Administration of Certain Capital Account Foreign Exchange Businesses, or Circular 45, on November 9, 2011, which expressly prohibits foreign-invested enterprises from using registered capital settled in Renminbi converted from foreign currencies to grant loans through entrustment arrangements with a bank, to repay inter-company loans or repay bank loans that have been transferred to a third party. As a result, Circular 142, Circular 59, Circular 88 and Circular 45 may significantly limit our ability to transfer the net proceeds from our initial public offering to our other PRC subsidiaries through Beijing Security and Conew Network, our wholly-owned subsidiaries in China, and thus may adversely affect our business expansion in China. We may not be able to convert the net proceeds into Renminbi to invest in or acquire any other PRC companies, or establish other VIEs in the PRC.

Furthermore, on March 30, 2015, the SAFE promulgated the Circular on the Reform of the Administrative Method of the Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or Circular 19, which became effective as of June 1, 2015. This Circular 19 is to implement the so-called “conversion-at-will” of foreign currency in capital account, which was established under a circular issued by the SAFE on August 4, 2014, or Circular 36, and was implemented in 16 designated industrial parks as a reform pilot. The Circular 19 now implements the conversion-at-will of foreign currency settlement system nationally, and it abolished the application of Circular 142, Circular 88 and Circular 36 since June 1, 2015. Among other things, under Circular 19, foreign-invested enterprises may either continue to follow the payment-based foreign currency settlement system or select to follow the conversion-at-will of foreign currency settlement system. Where a foreign-invested enterprise follows the conversion-at-will of foreign currency settlement system, it may convert any or 100% amount of the foreign currency in its capital account into RMB at any time. The converted RMB will be kept in a designated account known as “Settled but Pending Payment Account”, and if the foreign-invested enterprise needs to make further payment from such designated account, it still needs to provide supporting documents and go through the review process with its bank. If under special circumstances the foreign-invested enterprise cannot provide supporting documents in time, Circular 19 grants the banks the power to provide a grace period to the enterprise and make the payment before receiving the supporting documents. The foreign-invested enterprise will then need to submit the supporting documents within 20 working days after payment. In addition, foreign-invested enterprises are now allowed to use their converted RMB to make equity investments in China under Circular 19. However, foreign-invested enterprises are still required to use the converted RMB in the designated account within their approved business scope under the principle of authenticity and self-use. It remains unclear whether a common foreign-invested enterprise, other than such special types of enterprises as holding companies, venture capital or private equity firms, can use the converted RMB in the designated account to make equity investments if equity investment or the like is not within their approved business scope. The SAFE promulgated the Circular on the Reform and Standard of the Administrative Policy of the Capital Account Foreign Exchange Settlement, or Circular 16, effective on June 9, 2016, which reiterates some of the rules set forth in Circular 19, to relax the control over using the RMB funds converted from foreign exchange earnings under capital account to offer loans by solely prohibiting offering loans to non-associated enterprises, while setting no prohibition on loans to associated enterprises.

On October 23, 2019, the SAFE promulgated the Notice of Foreign Exchange of Further Facilitating Cross-border Trade and Investment, or SAFE Circular 28, and the Notice of the State Administration of Foreign Exchange on Reducing Foreign Exchange Accounts, or SAFE Circular 29, clearly cancelling the restrictions on domestic equity investment of capital funds by ordinary foreign-invested enterprises. SAFE Circular 28 stipulates that non-investment oriented foreign-invested enterprises shall be allowed to use capital funds for domestic equity investment in accordance with the law under the premise of not violating the existing special management measures for entry of foreign investment (negative list) and the authenticity and compliance of their domestic invested projects. Where a non-investment oriented foreign-invested enterprise makes domestic equity investment by way of transfer of the capital funds in original currency, the Investee Companies shall go through the registration of domestic reinvestment and open the capital account for receipt of funds in accordance with relevant provisions without handling the entry registration of cash contribution; where a non-investment oriented foreign-invested enterprise makes domestic equity investment by way of foreign exchange settlement of capital funds, the Investee Companies shall go through the registration of receipt of domestic reinvestment and open the “Capital Account –Account for Foreign Exchange Settlement Pending Payment” for receipt of corresponding funds in accordance with relevant provisions.

SAFE Circular 29 and its appendix Operational Guidance for Handling Relevant Foreign Exchange Business under Capital Account by Banks, or the “Operational Guidance”, effective as of January 1, 2020, further clarify the ways for non-investment oriented foreign-invested enterprises to carry out domestic equity investment in the form of the transfer of original currencies or the settlement of capital funds. Furthermore, the Operational Guidance provides that where a domestic institution receives the foreign exchange funds reinvested by the domestic entity or the equity transfer consideration paid with foreign exchange, it shall not open the foreign exchange capital account until it has filed an application for registering the basic information about the receipt of domestic reinvestment with a bank at its place of registration; Where a domestic institution receives reinvestment funds or equity transfer consideration in RMB from a non-investment oriented foreign-invested enterprise (the scope of business may not include the word “investment”) (including RMB funds in the direct exchange settlement income or exchange settlement pending payment account), it shall, upon application to complete registration formalities for receipt of basic information of domestic reinvestment with the bank at its place of registration and opening of the exchange settlement pending payment account, then the enterprise making the investment shall transfer the RMB funds obtained from exchange settlement based on the actual investment scale to the exchange settlement pending payment account opened by the investee or the domestic entity which receives the equity transfer consideration; where a domestic institution receives reinvestment funds or equity transfer consideration from two (or more) different investment entities, it shall complete registration formalities based on the different source entities and (or currency) respectively and open a foreign exchange capital account or foreign exchange settlement pending payment account.

The Operational Guidance further provides that the foreign exchange receipts under capital accounts of domestic institutions and the RMB funds obtained from foreign exchange settlement may be used by domestic institutions for expenditures under current accounts within their business scope, or for expenditures under capital accounts permitted by laws and regulations. However, the following expenditures are prohibited: (i) shall not be directly or indirectly used for expenditures beyond the business scope of an enterprise or expenditures prohibited by laws and regulations of the State; (ii) shall not be directly or indirectly used for securities investments or other investments or wealth management other than banks' principal-protected products, unless otherwise expressly provided by laws and regulations; (iii) shall not be used for granting loans to non-affiliated enterprises, unless expressly permitted in the business scope; and (iv) shall not be used for constructing or purchasing real estate not for self-use (except for real estate enterprises).

On April 10, 2020, the SAFE issued the Circular of the SAFE on Optimizing Administration of Foreign Exchange to Support the Development of Foreign-related Business, being effective from the same date. The Circular optimized the foreign exchange administration from the following aspects: promoting the facilitation reform of capital account income payment nationwide; (ii) cancellation of the registration of special refund business; (iii) Simplify the registration and management of certain capital project businesses; (iv) relaxation of domestic foreign exchange loans with export background to purchase foreign exchange and repay; (v) facilitating the use of electronic documents for foreign exchange business; (vi) Optimization the bank's cross-border e-commerce foreign exchange settlement; (vii) relaxation of business review and endorsement procedures; (viii) supporting banks to innovate financial services.

On June 17, 2020, the SAFE issued the Circular on Initiating the Declaration of Assets, Liabilities and Trading for Foreign Financing among Non-financial Enterprises, or the Circular, being effective from the same date. According to the Circular, enterprises with an equivalent value of more than US\$700 million in foreign-related receipts and payments in 2018 are regarded as the first batch of declaring enterprises, and individual adjustments can be made according to actual conditions. It further clarified that the data submission schedules are: trial submission of data from October to December 2020; formal data submission from January 2021. The SAFE planned to complete the system access work of enterprises in batches by the end of September 2020. It also required that the reporting entity shall be responsible for the timeliness, accuracy and completeness of the declared data. The SAFE and its branches shall keep the specific declared data strictly confidential. Except as otherwise provided by law, balance of payments statisticians shall not provide any organization or individual with the specific data declared by the declarant in any form.

**Foreign Debt.** A loan made by a foreign entity as direct or indirect shareholder in a FIE is considered to be foreign debt in China and is regulated by various laws and regulations, including the Regulation of the People's Republic of China on Foreign Exchange Administration, the Interim Provisions on the Management of Foreign Debts, the Statistical Monitoring of Foreign Debts Tentative Provisions, the Detailed Rules for the Implementation of Provisional Regulations on Statistics and Supervision of External Debt, and the Administrative Measures for Registration of Foreign Debts. Under these rules and regulations, a shareholder loan in the form of foreign debt made to a PRC entity does not require the prior approval of SAFE. However, such foreign debt must be registered with and recorded by SAFE or its local branches within 15 business days after entering into the foreign debt contract. Pursuant to these rules and regulations, the maximum amount of the aggregate of (i) the outstanding balance of foreign debts with a term not longer than one year, and (ii) the accumulated amount of foreign debts with a term longer than one year, of a foreign-invested enterprise shall not exceed the difference between its registered total investment and its registered capital, or Total Investment and Registered Capital Balance. In addition, on January 11, 2017, the PBOC promulgated the Notice of the People's Bank of China on Full-coverage Macro-prudent Management of Cross-border Financing, or PBOC Circular 9, which sets forth an upper limit for PRC entities, including FIEs and domestic-invested enterprises, regarding their foreign debts. Pursuant to PBOC Circular 9, the limit of foreign debts for enterprises shall be calculated based on the following formula: the limit of foreign debt (the "Net Assets Limit") = net assets \* cross-border financing leverage ratio \* macro-prudent regulation parameter. Net assets is calculated as the net assets value stated in the relevant entity's latest audited financial statement. The cross-border financing leverage ratio for enterprises is two (2). The macro-prudent regulation parameter is one (1). The PBOC Circular 9 does not supersede the Interim Provisions on the Management of Foreign Debts, but rather serves as a supplement to it. PBOC Circular 9 provided for a one-year transitional period, or the Transitional Period, from its promulgation date for FIEs, during which period foreign-invested enterprise could choose to calculate their maximum amount of foreign debt based on either (i) the Total Investment and Registered Capital Balance, or (ii) the Net Assets Limit. After the Transition Period, the maximum amount applicable to foreign-invested enterprises is to be determined by PBOC and SAFE separately. However, although the Transitional Period ended on January 10, 2018, as of the date of this annual report, neither PBOC nor SAFE has issued any new regulations regarding the appropriate means of calculating the maximum amount of foreign debt for FIEs. Domestic-invested enterprises have only been subject to the Net Assets Limit in calculating the maximum amount of foreign debt they may hold from the date of promulgation of PBOC Circular 9.

On March 15, 2019, the SAFE promulgated of Issuing the Provisions on the Centralized Operation and Management of Cross-Border Capital of Multinational Companies, or Circular 7, which became effective since then, further facilitating trade and investment. Under SAFE Circular 7, multinational companies, which meets several conditions prescribe in Article 5 of Circular 7, may, under the principle of macro-prudential management, centralize the foreign debt quotas and/or overseas lending quotas of domestic member enterprises, and carry out the business of borrowing foreign debt and/or overseas lending according to commercial practices within the cap of centralized quotas. When a branch of the State Administration of Foreign Exchange at the place where the lead enterprise is located issues a notice of recordation to the lead enterprise, it shall, according to the centralized quotas that have been granted recordation, conduct one-off registration of foreign debt and/or overseas lending for the lead enterprise, so that the lead enterprise is not required to go through procedures for the registration of foreign debt (or overseas lending) on a deal-by-deal basis by currency or by creditor (or debtor).

In addition, SAFE Circular 28 reforms the administration of registration of external debts of enterprises, the administrative requirement that non-bank debtors shall undergo external debt deregistration formalities at the local foreign exchange authority is canceled. A non-bank debtor may directly undergo external debt deregistration formalities which meet relevant conditions at the bank under the jurisdiction of the foreign exchange authority to which it is affiliated. The time limit for non-bank debtors to handle external debt deregistration is canceled. The pilot program of deregistering each external debt by non-financial enterprises is carried out. Non-financial enterprises in pilot regions may complete external debt registration at two times the amount of net assets at the foreign exchange authority where it is located. Non-financial enterprises may borrow external debts within the registered amount on their own, and directly undergo such formalities as inward and outward remittance of funds and foreign exchange purchase and sale at banks, and handle international balance of payments in accordance with relevant provisions.

**Dividend Distribution.** Law on Wholly Foreign Owned Enterprises, promulgated in 1986 and amended in 2000 and 2016 respectively, and the Implementation Rules for Law on Wholly Foreign Owned Enterprises, promulgated in 1990 and amended in 2001 and 2014, are the key regulations governing distribution of dividends of foreign-invested enterprises. Under these regulations, a wholly foreign-invested enterprise in China, or a WFOE, may pay dividends only out of its accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, a WFOE is required to allocate at least 10% of its accumulated profits each year, if any, to statutory reserve funds unless its reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends. The proportional ratio for withdrawal of rewards and welfare funds for employees shall be determined at the discretion of the WFOE. Profits of a WFOE shall not be distributed before the losses thereof before the previous accounting years have been made up. Any undistributed profit for the previous accounting years may be distributed together with the distributable profit for the current accounting year.

On March 15, 2019, the National People's Congress adopted the Foreign Investment Law of the People's Republic of China, or FIL, which became effective on January 1, 2020. Upon the implementation of the FIL, Law on Wholly Foreign Owned Enterprise was repealed. The FIL sets out that the business forms, structures, and rules of activities of foreign-funded enterprises shall be governed by the Company Law of the People's Republic of China, the Partnership Law of the People's Republic of China, and other laws. Foreign-funded enterprises formed under the Law on Sino-Foreign Equity Joint Ventures, the Law on Sino-Foreign Contractual Joint Ventures and the Law on Wholly Foreign Owned Enterprises before the implementation of FIL Law may maintain their original business forms, among others, for five years after FIL Law comes into force.

According to the Company Law, if the aggregate balance of the company's statutory common reserve is not enough to make up for the losses of the previous year, the current year's profits shall first be used for making up the losses before the statutory common reserve is drawn according to the provisions of the preceding paragraph. After we have drawn statutory common reserve, which is 10% of the after-tax profit, from the after-tax profits, it may, upon a resolution made by the shareholders' meeting, draw a discretionary common reserve from the after-tax profits. After the losses have been made up and common reserves have been drawn, the remaining profits shall be distributed to shareholders in proportion to the actual capital contribution actually paid by them, unless otherwise agreed upon by all the shareholders. We may stop drawing the profits if the aggregate balance of the statutory common reserve has already accounted for over 50% of our registered capital.



**Circular 37.** In July 2014, the SAFE promulgated the Circular on Relevant Issues Relating to Domestic Resident's Investment and Financing and Round-trip Investment through Special Purpose Vehicles, or SAFE Circular 37, in July 2014, which repealed SAFE Circular 75 effective from July 4, 2014. SAFE Circular 37 regulates foreign exchange matters in relation to the use of special purpose vehicles, or SPVs, by PRC residents to seek offshore investment and financing and conduct round trip investment in China. Under SAFE Circular 37, an SPV refers to an offshore entity established or controlled, directly or indirectly, by PRC residents for the purpose of seeking offshore financing or making offshore investment, using legitimate domestic or offshore assets or interests, while "round trip investment" refers to the direct investment in China by PRC residents through SPVs, namely, establishing foreign-invested enterprises to obtain the ownership, control rights and management rights. SAFE Circular 37 requires that, before making contribution into an SPV, PRC residents are required to complete foreign exchange registration with the SAFE or its local branch. SAFE Circular 37 further provides that option or share-based incentive tool holders of a non-listed SPV can exercise the options or share incentive tools to become a shareholder of such non-listed SPV, subject to registration with SAFE or its local branch. However, in practice, different local SAFE branch may have different views and procedures on the interpretation and implementation of the SAFE regulations, and since Circular 37 was the first regulation to regulate the foreign exchange registration of a non-listed SPV's option or share incentives granted to PRC residents, there remains uncertainty with respect to its implementation.

PRC residents who have contributed legitimate domestic or offshore interests or assets to SPVs but have yet to obtain SAFE registration before the implementation of the SAFE Circular 37 shall register their ownership interests or control in such SPVs with the SAFE or its local branch. An amendment to the registration is required if there is a material change in the SPV registered, such as any change of basic information (including change of such PRC residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, or mergers or divisions. If the PRC residents fail to complete the SAFE registration, our PRC subsidiaries may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to us, and we may be restricted in our ability to contribute additional capital to our PRC subsidiaries. Moreover, failure to comply with the SAFE registration and amendment requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

To our knowledge, all our significant individual PRC shareholders have completed foreign exchange registration in connection with our initial public offering.

**Stock Option Rules.** The Administration Measures on Individual Foreign Exchange Control were promulgated by the PBOC on December 25, 2006, and their Implementation Rules, issued by the SAFE on January 5, 2007, became effective on February 1, 2007. Under these regulations, all foreign exchange matters involved in employee stock ownership plans and stock option plans participated in by onshore individuals, among others, require approval from the SAFE or its authorized branch. Furthermore, the Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies, or the Stock Option Rules, were promulgated by the SAFE on February 15, 2012, that replaced the Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Ownership Plans or Stock Option Plans of Overseas Publicly-Listed Companies issued by the SAFE on March 28, 2007. Pursuant to the Stock Option Rules, PRC residents who are granted shares or stock options by companies listed on overseas stock exchanges based on the stock incentive plans are required to register with the SAFE or its local branches, and PRC residents participating in the stock incentive plans of overseas listed companies shall retain a qualified PRC agent, which could be a PRC subsidiary of such overseas publicly-listed company or another qualified institution selected by such PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plans on behalf of these participants. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, purchase and sale of corresponding stocks or interests, and fund transfer. In addition, the PRC agents are required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agents or the overseas entrusted institution or other material changes. The PRC agents shall, on behalf of the PRC residents who have the right to exercise the employee share options, apply to the SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents' exercise of the employee share options. The foreign exchange proceeds received by the PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in the PRC opened by the PRC agents before distribution to such PRC residents. In addition, the PRC agents shall file each quarter the form for record-filing of information of the Domestic Individuals Participating in the Stock Incentive Plans of Overseas Listed Companies with the SAFE or its local branches.

We and our PRC citizen employees who have been granted share options, or PRC optionees, have become subject to the Stock Option Rules after we became a public company in the United States. If we or our PRC optionees fail to comply with the Individual Foreign Exchange Rule and the Stock Option Rules, we and/or our PRC optionees may be subject to fines and other legal sanctions. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—PRC regulations relating to offshore investment activities by PRC residents may limit our PRC subsidiaries' ability to increase their registered capital or distribute profits to us or otherwise expose us to liability and penalties under PRC law."

In addition, the State Administration for Taxation has issued circulars concerning employee share options, under which our employees working in the PRC who exercise share options will be subject to PRC individual income tax. Our PRC subsidiaries have obligations to file documents related to employee share options with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options. If our employees fail to pay or if we fail to withhold their income taxes as required by relevant laws and regulations, we may face sanctions imposed by the PRC tax authorities or other PRC government authorities.

### **Regulation on Tax**

#### *PRC Enterprise Income Tax*

The PRC enterprise income tax is calculated based on the taxable income determined under the applicable Enterprise Income Tax Law, or the EIT Law and its implementation rules. On March 16, 2007, the National People's Congress of China enacted the EIT Law, which became effective on January 1, 2008 and was amended on 2017 and 2018. On December 6, 2007, the State Council promulgated the implementation rules to the EIT Law, which also became effective on January 1, 2008 and was amended on April 23, 2019. The EIT Law imposes a uniform enterprise income tax rate of 25% on all resident enterprises in China, including foreign-invested enterprises and domestic enterprises, unless they qualify for certain exceptions, and terminates most of the tax exemptions, reductions and preferential treatment available under the previous tax laws and regulations. According to the EIT Law and relevant regulations, subject to the approval of competent tax authorities, the income tax of an enterprise that has been determined to be a high and new technology enterprise shall be reduced to a preferential rate of 15%. An enterprise holding a valid certificate of new software enterprise is entitled to an exemption of enterprise income tax for the first two years and a 50% reduction of enterprise income tax for the subsequent three years, commencing from the first profit-making year, while an enterprise qualified as key software enterprise is entitled to an exemption of enterprise income tax for the first five years and a preferential EIT rate of 10% for the subsequent years.

Moreover, under the EIT Law, enterprises organized under the laws of jurisdictions outside China with their "de facto management bodies" located within China may be considered PRC resident enterprises and are therefore subject to PRC enterprise income tax at the rate of 25% on their worldwide income. Though the implementation rules of the EIT Law define "de facto management bodies" as "establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise," the only detailed guidance currently available for the definition of "de facto management body" as well as the determination of offshore incorporated PRC tax resident status and its administration are set forth in the Notice Regarding the Determination of Chinese-Controlled Overseas Incorporated Enterprises as PRC Tax Resident Enterprise on the Basis of De Facto Management Bodies, or Circular 82, and the Administrative Measures for Enterprise Income Tax of Chinese-Controlled Offshore Incorporated Resident Enterprises, or SAT Bulletin No. 45, both issued by the SAT, which provide guidance on the administration as well as determination of the tax residency status of a Chinese-controlled offshore-incorporated enterprise, defined as an enterprise that is incorporated under the law of a foreign country or territory and that has a PRC company or PRC corporate group as its primary controlling shareholder.

According to Circular 82, a Chinese-controlled offshore-incorporated enterprise will be regarded as a PRC tax resident by virtue of having its "de facto management body" in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions set forth in Circular 82 are met:

- the primary location of the day-to-day operational management and the places where they perform their duties are in the PRC;
- decisions relating to the enterprise's financial and human resource matters are made or are subject to approval of organizations or personnel in the PRC;
- the enterprise's primary assets, accounting books and records, company seals and board and shareholder resolutions are located or maintained in the PRC; and
- 50% or more of voting board members or senior executives habitually reside in the PRC.

In addition, Bulletin No. 45 provides clarification on the resident status determination, post-determination administration, and competent tax authorities. With respect to the determination of competent tax authorities, the Announcement of the State Administration of Taxation on Revising the Administrative Measures for Income Tax Assessment and Collection for Non-Resident Enterprises and Other Documents, or Bulletin No. 22, further provides that only tax authorities located in the places of incorporation of major Chinese investors of a resident Chinese-controlled offshore-incorporated enterprises are qualified as the competent tax authorities. Bulletin No. 45 also specifies that when provided with a copy of PRC resident determination certificate from a resident Chinese-controlled offshore-incorporated enterprise, the payer should not withhold 10% income tax when paying certain PRC-sourced income such as dividends, interest and royalties to the Chinese-controlled offshore-incorporated enterprise. On April 1, 2019, the State Taxation Administration has decided to further adjust applicant materials concerning the issuance of a Certificate of Chinese Fiscal Resident.

In the event that we are considered a PRC resident enterprise, we would be subject to the PRC enterprise income tax at the rate of 25% on our worldwide income.

In addition, although the EIT Law provides that dividend income between “qualified resident enterprises” is exempted income, and the implementation rules refer to “qualified resident enterprises” as enterprises with “direct equity interest,” it is unclear whether dividends we receive from our PRC subsidiaries are eligible for exemption.

According to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises issued by the PRC State Administration of Taxation on December 10, 2009, with retroactive effect from January 1, 2008, or SAT Circular 698, where a non-resident enterprise transfers the equity interests in a PRC resident enterprise indirectly through a disposition of equity interests in an overseas holding company (other than a purchase and sale of shares issued by a PRC resident enterprise in public securities market), PRC tax reporting and payment obligations may be triggered. On February 3, 2015, SAT issued a new guidance (Bulletin [2015] No. 7), or SAT Bulletin 7, on the PRC tax treatment of an indirect transfer of assets by a non-resident enterprise. SAT Bulletin 7 is the latest regulatory instrument on indirect transfers, extending to not only the indirect transfer of equity interests in PRC resident enterprises but also to assets attributed to an establishment in China and immovable property in China or, collectively, Chinese Taxable Assets. Further, on October 17, 2017, SAT issued the Matters Regarding Withholding Corporate Income Tax at Source from Non-resident Enterprises (Bulletin [2017] No. 37), or SAT Bulletin 37, which replaced SAT Circular 698 and specified the withhold obligation of the transferees. According to SAT Bulletin 7 and SAT Bulletin 37, when a non-resident enterprise engages in an indirect transfer of Chinese Taxable Assets, or Indirect Transfer, through an arrangement that does not have a bona fide commercial purpose in order to avoid paying enterprise income tax, the transaction should be re-characterized as a direct transfer of the Chinese assets and becomes taxable in China under the EIT Law, and gains derived from such indirect transfer may be subject to the PRC withholding tax at a rate of up to 10%, and the party who is obligated to make the transfer payments has the withholding obligation. SAT Bulletin 7 and 37 have replaced SAT Circular 698 in its entirety. They provide more comprehensive guidelines on a number of issues. Among other things, SAT Bulletin 7 substantially changes the reporting requirements in SAT Circular 698, provides more detailed guidance on how to determine a bona fide commercial purpose, and also provides for a safe harbor for certain situations, including purchase and sale of shares in an offshore listed enterprise on a public market by a non-resident enterprise, which may not be subject to the PRC enterprise income tax. In addition, SAT Circular 698 has been abolished by Announcement of the State Administration of Taxation on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source issued by the PRC State Administration of Taxation on October 17, 2017, with retroactive effect from December 1, 2017, or SAT Circular 37. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—We face uncertainties with respect to indirect transfer of assets or equity interests in PRC resident enterprises by their non-PRC holding companies.”

Moreover, the PRC Enterprise Income Tax Law requires every enterprise in China to submit its annual enterprise income tax return together with a report on transactions with its affiliates or related parties to the relevant tax authorities. These transactions may be subject to audit or challenge by the PRC tax authorities within ten years after the taxable year during which the transactions are conducted. In addition, on March 18, 2015, the State Administration of Taxation, or the SAT, issued the Bulletin Regarding the Enterprise Income Tax Matter in Relation to Enterprise's Payment of Fees to Overseas Affiliated Parties, or Bulletin 16, to further regulate the transfer pricing issues in relation to the fees payment to affiliated parties. Among other things, Bulletin 16 makes it clear that the fees paid to overseas affiliated parties in the following situations cannot be deducted from the taxable income when determining a PRC company's enterprise income tax: (a) the fees paid to an overseas affiliated party which has no substantial operating activities; (b) the fees paid to an overseas affiliated party for labor service that would bring direct or indirect economic interests; (c) royalties paid for intangible properties to which the affiliated party that charges the fees only has legal title but has made no contribution to the creation of the value of such properties; and (d) the fees paid under arrangements made for listing or financing purposes. Furthermore, on March 17, 2017, the SAT promulgated the Announcement of the State Administration of Taxation on Promulgating the Administrative Measures for Special Tax Investigation Adjustments and Mutual Agreement Procedures, or Bulletin 6, which became effective as of May 1, 2017. The Bulletin 6 specifies further the provisions in Bulletin 16, regulating the basic rules about the income distribution of intangible properties, payments for labor service and no substantial operating activities and so on. Meanwhile, it abolished the application of Bulletin 16 since May 1, 2017. We may be subject to adverse tax consequences if the PRC tax authorities were to determine that the contracts between us and the VIEs were not on an arm's length basis and therefore constituted improper transfer pricing arrangements. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure—Our contractual arrangements with the VIEs may result in adverse tax consequences to us."

#### *PRC Business Tax and Value-added Tax (VAT)*

On January 1, 2012, the Chinese State Council officially launched a pilot VAT reform program, or Pilot Program, applicable to businesses in selected industries. Businesses in the Pilot Program would pay VAT instead of business tax. The Pilot Industries in Shanghai included industries involving the leasing of tangible movable property, transportation services, research and development and technical services, information technology services, cultural and creative services, logistics and ancillary services, certification and consulting services. Revenues generated by advertising services, a type of "cultural and creative services," are subject to the VAT tax rate of 6%. According to official announcements made by competent authorities in Beijing and Guangdong province, Beijing launched the same Pilot Program on September 1, 2012, and Guangdong province launched it on November 1, 2012. On May 24, 2013, the Ministry of Finance and the State Administration of Taxation issued the Circular on Tax Policies in the Nationwide Pilot Collection of Value Added Tax in Lieu of Business Tax in the Transportation Industry and Certain Modern Services Industries, or the Pilot Collection Circular. The scope of certain modern services industries under the Pilot Collection Circular extends to the inclusion of radio and television services. In August 2013, the Pilot Program was implemented throughout China. The Pilot Program replacing business tax with VAT was expanded to cover industries including construction, real estate, finance and consumer services in May 2016, and was later extended to all industries throughout China. With respect to all of our PRC entities for the period prior to the implementation of the Pilot Program, revenues from internet business and other licensing services were subject to a 5% PRC business tax. On November 19, 2017, the Chinese State Council promulgated the Decisions on Abolishing the Provisional Regulations of the PRC on Business Tax and Amending the Provisional Regulations of the PRC on VAT, or the Order 691.

On April 4, 2018, the Ministry of Finance and the State Administration of Taxation issued the Circular on Adjustment of VAT Rates, or Circular 32, which became effective as of May 1, 2018. According to the Circular 32, VAT rates of 17% and 11% applicable to the taxpayers who have VAT taxable sales activities or imported goods are adjusted to 16% and 10%, respectively. According to the Report on the Work of the Government delivered at the Second Session of the 13th National People’s Congress of China on March 5, 2019, VAT reform in PRC was deepened in 2019, which included that the current VAT rate of 16% in manufacturing and other industries reduced to 13%, and the VAT rate in the transportation, construction, and other industries was adjusted from 10% to 9%. With respect to revenues from sales of goods, including sales of software products, licensing software without transferring its copyright and sales of other goods, they were still subject to a 16% VAT pursuant to Chinese tax law in 2018 before April 1, 2019, and will be adjusted to 13% since April 1, 2019. In addition, sales of self-developed software products or license fees from self-developed software are entitled to a VAT refund with respect to the part whose actual VAT burden exceeds 3%.

#### *Cultural Development Fee*

According to applicable PRC tax regulations or rules, advertising service providers are generally required to pay a cultural development fee at the rate of 3% on the revenues (a) which are generated from providing advertising services and (b) which are also subject to the or value-added tax after the Pilot Program. Cultural Development Fee is exempted in 2020 and 2021.

#### *Dividend Withholding Tax*

Under the old EIT Law that was effective prior to January 1, 2008, dividends paid to foreign investors by foreign-invested enterprises, such as dividends paid to us by Zhuhai Juntian and Conew Network, our PRC subsidiaries, were exempt from PRC withholding tax. Pursuant to the EIT Law and its implementation rules, dividends from income generated after January 1, 2008 and distributed to us by our PRC subsidiaries are subject to withholding tax at a rate of 10%, unless non-resident enterprise investor’s jurisdiction of incorporation has a tax treaty or arrangements with China that provides for a reduced withholding tax rate or an exemption from withholding tax. See “Item 5. Operating and Financial Review and Prospects—A. Operating Results—Taxation.”

As uncertainties remain regarding the interpretation and implementation of the EIT Law and its implementation rules, we cannot assure you that, if we are deemed a PRC resident enterprise, any dividends to be distributed by us to our non-PRC shareholders and ADS holders would not be subject to any PRC withholding tax. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—Under the PRC Enterprise Income Tax Law, we may be classified as a PRC “resident enterprise,” which could result in unfavorable tax consequences to us and our shareholders and have a material adverse effect on our results of operations and the value of your investment.”

#### ***Labor Laws and Social Insurance***

The principal laws that govern employment include:

- Labor Law of the People’s Republic of China, promulgated by the Standing Committee of the National People’s Congress on July 5, 1994, effective since January 1, 1995 and amended on August 27, 2009 and December 29, 2018;
- Labor Contract Law of the People’s Republic of China, promulgated by the Standing Committee of the National People’s Congress on June 29, 2007 and effective since January 1, 2008 and amended on December 28, 2012;
- Implementation Rules of the PRC Labor Contract Law, promulgated by the State Council on September 18, 2008 and effective since September 18, 2008;

- Work-related Injury Insurance Regulations, promulgated by the State Council on April 27, 2003 and effective since January 1, 2004 and amended on December 20, 2010;
- Interim Provisions on Registration of Social Insurance, promulgated by the Ministry of Human Resources and Social Security (formerly the Ministry of Labor and Social Security) on March 19, 1999 and effective since March 19, 1999 and repealed by the Decision of the Ministry of Human Resources and Social Security on April 28, 2019;
- Interim Regulations on the Collection and Payment of Social Insurance Fees, promulgated by the State Council on January 22, 1999 and effective since January 22, 1999;
- Social Insurance Law promulgated by the National People’s Congress on October 28, 2010, effective since July 1, 2011 and amended on December 29, 2018; and
- Regulations on Unemployment promulgated by the State Council on January 22, 1999, effective since January 22, 1999.

According to the Labor Law and Labor Contract Law, employers must execute written labor contracts with full-time employees. All employers must compensate their employees with wages equal to at least the local minimum wage standards. All employers are required to establish a system for labor safety and workplace sanitation, strictly comply with state rules and standards and provide employees with workplace safety training. Violations of the PRC Labor Contract Law and the PRC Labor Law may result in the imposition of fines and other administrative penalties. For serious violations, criminal liability may arise.

In addition, pursuant to the Social Insurance Law promulgated by the National People’s Congress on October 28, 2010, which came into effect on July 1, 2011 and amended on December 29, 2018, employers in China are required to provide employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, work-related injury insurance, medical insurance and housing funds.

### ***M&A Regulations and Overseas Listings***

On August 8, 2006, six PRC governmental agencies jointly promulgated the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the 2006 M&A Rules, which became effective on September 8, 2006 and amended on June 22, 2009. “Mergers and acquisitions of domestic enterprises by foreign investors” refers to: (a) a foreign investor converts a non-foreign invested enterprise (domestic company) to a foreign invested enterprise by purchasing the equity interest from the shareholder of such domestic company or the increased capital of the domestic company, or the Equity Merger and Acquisition; or (b) a foreign investor establishes a foreign invested enterprise to purchase the assets from a domestic enterprise by agreement and operates the assets therefrom; or (c) a foreign investor purchases the assets from a domestic enterprise by agreement and uses these assets to establish a foreign invested enterprise for the purpose of operation of such assets, or the Assets Merger and Acquisition.

The M&A Rules provides that mergers and acquisitions of domestic enterprises by foreign investors shall be subject to the approval of the MOFCOM or its delegates at provincial level. In the event that any domestic company, enterprise or natural person merges or acquires a domestic company that has affiliated relationship with it through an overseas company legally established or controlled by such domestic company, enterprise or natural person (the “Affiliated M&A”), the merger and acquisition applications shall be submitted to the MOFCOM for approval. Any circumvention on the requirement including domestic re-investment of a foreign invested enterprise is not allowed.

After the implementation of the FI Information Report Measures on January 1, 2020, where a foreign investor acquires a domestic non-foreign-invested enterprise by equity, it shall submit an initial report through the enterprise registration system when handling the change registration for the acquired enterprise instead of obtaining the approval of the MOFCOM or its delegates at provincial level. However, regarding the affiliated M&A, according to the Negative List (2020 Version), a M&A of affiliated domestic companies by domestic companies, enterprises or natural persons via the companies legally established or controlled overseas, it shall still be subject to the approval by the MOFCOM under the M&A Rules.

The M&A Rules also require offshore special purpose vehicles formed to pursue overseas listing of equity interests in PRC companies and controlled directly or indirectly by PRC companies or individuals to obtain the approval of the Chinese Securities Regulatory Commission, or the CSRC, prior to the listing and trading of such special purpose vehicle's securities on any stock exchange overseas.

The application of the M&A Rules remains unclear. Based on the understanding on the current PRC laws, rules and regulations and the M&A Rules of our PRC legal counsel, Global Law Office, prior approval from the CSRC is not required under the M&A Rules for the listing and trading of the ADSs on NYSE because the CSRC approval requirement applies to SPVs that acquired equity interests of any PRC company that are held by PRC companies or individuals controlling such SPV and seek overseas listing, and our PRC subsidiaries were incorporated as wholly foreign-owned enterprises by means of direct investment rather than by merger or acquisition by our company of the equity interest or assets of any "domestic company" as defined under the M&A Rules, and no provision in the M&A Rules classifies the contractual arrangements between our company, our PRC subsidiaries and any of the VIEs, either by each agreement itself or taken as a whole, as a type of acquisition transaction falling under the M&A Rules. However, as there has been no official interpretation or clarification of the M&A Rules, there is uncertainty as to how this regulation will be interpreted or implemented.

Considering the uncertainties that exist with respect to the issuance of new laws, regulations or interpretation and implementing rules, the opinion of Global Law Office, summarized above, is subject to change. If the CSRC or another PRC regulatory agency subsequently determines that prior CSRC approval was required, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies.

### ***Regulations of securities***

The Securities Law of the PRC, or the PRC Securities Law, took effect on July 1, 1999, and was revised as of August 28, 2004, October 27, 2005, June 29, 2013, August 31, 2014 and December 28, 2019, respectively. It was the first national securities law in the PRC, and is divided into 14 chapters and 226 articles comprehensively regulating activities in the PRC securities market, including the issue and trading of securities, takeovers by listed companies, securities exchanges, securities companies and the duties and responsibilities of the State Council's securities regulatory authorities. Article 177 of the PRC Securities Law provides that no overseas securities regulator is allowed to directly conduct investigation or evidence collection activities within the territory of the PRC, and without the consent of the securities authorities and the relevant competent authorities of the State Council, no entity or individual may provide documents or materials relating to securities business activities to overseas. Article 224 of the PRC Securities Law provides that domestic enterprises which, directly or indirectly, issue securities or list and trade their securities outside the PRC shall comply with the relevant regulations of the State Council. Currently, the issue and trading of foreign issued securities (including shares) are principally governed by the regulations and rules promulgated by the State Council and CSRC.

### **C. Organizational Structure**

Foreign ownership of internet-based and mobile-based businesses is subject to significant restrictions under current PRC laws and regulations. The PRC government regulates internet access, distribution of online information, online advertising and distribution and operation of online games through strict business licensing requirements and other government regulations. These laws and regulations also limit foreign ownership of PRC companies that provide internet information services to no more than 50%. In addition, foreign investors are prohibited from investing in or operating, among other things, any entities that operate internet cultural activities such as online games.

As a Cayman Islands company, in order for us to be able to carry on our business in China, we conduct part of our operations in China through the VIEs including but not limited to Beijing Mobile and Beijing Network. Each of Beijing Mobile (which is owned as to 35% by Mr. Sheng Fu and 65% by Ms. Weiqin Qiu) and Beijing Network (which is owned as to 50% by Mr. Kun Wang and 50% by Mr. Wei Liu) holds the requisite ICP Licenses. We have been and are expected to continue to be dependent on the VIEs to operate our business in China if the then PRC law does not allow us to directly operate such business in China. We believe that under these contractual arrangements, we have sufficient control over the VIEs and their respective shareholders to renew, revise or enter into new contractual arrangements prior to the expiration of the current arrangements on terms that would enable us to continue to operate our business in China validly and legally.

Our contractual arrangements with each of the VIEs and their shareholders enable us to:

- exercise effective control over the VIEs;
- receive substantially all of the economic benefits of the VIEs in consideration for the services provided by Beijing Security and Conew Network, our wholly-owned subsidiaries in China; and
- have an exclusive option to purchase all of the equity interests in the VIEs, when and to the extent permitted under PRC law, regulations or legal proceedings.

For a diagram summarizing our corporate structure and identifying the significant subsidiaries and the VIEs as of the date of this annual report, please refer to “Item 3. Key Information—Our Holding Company Structure and Contractual Arrangements with the Consolidated Variable Interest Entities.” Pursuant to Catalogue of Industries for Encouraging Foreign Investment (2020 Version) and Negative List (2021 Version), Beijing Security is currently engaged in the business of technology promotion, technology development, technology service and technology consultancy, sale of computers, software, auxiliary devices and AI hardware, computer animation design, investment consultancy and advertisement design, production, agency and publication, all of which are permitted foreign investment industries under Catalogue of Industries for Encouraging Foreign Investment (2020 Version) and Negative List (2021 Version).

Conew Network is currently engaged in the business of research and development of digital technology, telecommunication technology and relevant products, self-technology transfer, technology service, technology consultancy and computer technology training, sale of self-developed products, graphic design, business consultancy and investment consultancy, all of which are permitted foreign investment industries under Catalogue of Industries for Encouraging Foreign Investment (2020 Version) and Negative List (2021 Version).

### **Contractual Arrangements with the VIEs**

The following is a summary of the currently effective contracts among our company, our subsidiary Beijing Security, our VIE Beijing Mobile, and the shareholders of Beijing Mobile. We have entered into substantially similar contractual arrangements with our other VIEs, including but not limited to Beijing Network.

#### ***Agreements that provide us with effective control over Beijing Mobile***

*Business operation agreement.* Pursuant to the business operation agreement by and among Beijing Security, Beijing Mobile and its shareholders, Beijing Mobile and its shareholders agreed to accept and follow Beijing Security’s suggestions on their daily operations and financial management. The shareholders of Beijing Mobile must appoint candidates designated by Beijing Security to its board of directors and appoint candidates designated by Beijing Security as senior executives of Beijing Mobile. In addition, the shareholders of Beijing Mobile confirm, agree and jointly guarantee that Beijing Mobile shall not engage in any transaction that may materially affect its assets, business, employment, obligations, rights or operations without the prior written consent of Beijing Security. The shareholders of Beijing Mobile also agree to unconditionally pay or transfer to Beijing Security any bonus, dividends, or any other profits or interests (in whatever form) that they are entitled to as shareholders of Beijing Mobile, and waives any consideration connected therewith. The agreement has a term of ten years, unless terminated at an earlier date by Beijing Security. Neither Beijing Mobile nor its shareholders may terminate this agreement.

*Shareholder voting proxy agreement.* Under the shareholder voting proxy agreement by and among our company, Beijing Mobile and its shareholders, each of Beijing Mobile’s shareholders irrevocably nominates, appoints and constitutes any person designated by our company as its attorney-in-fact to exercise on such shareholder’s behalf any and all rights that such shareholder has in respect of its equity interests in Beijing Mobile (including but not limited to the voting rights and the right to nominate executive directors of Beijing Mobile). This proxy agreement shall remain valid during the existence of Beijing Mobile. Without the prior written consent of our company, existing shareholders of Beijing Mobile shall not amend or terminate this proxy agreement or revoke the or revoke the voting proxy to our company.



*Equity pledge agreement.* Under the equity pledge agreement between Beijing Security, Beijing Mobile and its shareholders, the shareholders of Beijing Mobile have pledged all of their respective equity interests in Beijing Mobile to Beijing Security to guarantee (i) the performance of all the contractual obligations of Beijing Mobile and its shareholders under this agreement, the exclusive technology development, support and consultancy agreement, exclusive equity option agreement and other agreements concluded from time to time by and among our company, Beijing Security, Beijing Mobile and its shareholders, and (ii) the repayment of all liabilities that may be incurred under all of the aforementioned agreements. In the event of default, Beijing Security has the first priority to be compensated through the sale or auction of the equity interests pledged. The shareholders of Beijing Mobile or their successors or representatives and Beijing Mobile shall ensure that Beijing Mobile will not distribute dividends to shareholders, make property distributions, reduce capital, initiate liquidation procedures or make distributions in any other form without prior written consent of Beijing Security. This pledge will remain effective until all the guaranteed obligations have been performed or all the guaranteed liabilities have been repaid. We have completed the registration of equity pledge relating to each of the significant VIEs with the relevant government authorities in China.

***Agreement that transfers economic benefits to us***

*Exclusive technology development, support and consultancy agreement.* Under the exclusive technology development, support and consultancy agreement between Beijing Security and Beijing Mobile, Beijing Security has the exclusive right to provide Beijing Mobile with services related to Beijing Mobile's business, including but not limited to technology development, support and consulting services. Beijing Security has the sole right to determine the service fees and settlement cycle, and the service fees shall in no event be less than 30% of the pre-tax revenue of Beijing Mobile in relation to the relevant service. Beijing Security will exclusively own any intellectual property arising from the performance of this agreement. This agreement will be effective unless terminated according to the terms of the agreement or otherwise terminated by mutual agreement of the signing parties.

***Agreements that provide us with the option to purchase the equity interest in Beijing Mobile***

*Loan agreements.* Under the loan agreements by and among Beijing Security and the shareholders of Beijing Mobile, Beijing Security shall have made interest-free loans in an aggregate amount of RMB6.5 million to the two individual shareholders of Beijing Mobile, for the sole purpose of contributing to the registered capital of Beijing Mobile. The loans have no definite maturity date. Beijing Security may request repayment at any time, and either shareholder of Beijing Mobile may offer to repay part or all of the loan at any time. The shareholders of Beijing Mobile shall, subject to the PRC laws, repay the loans by transferring the equity interest they hold in Beijing Mobile to Beijing Security or a third party that it designates.

*Exclusive option agreement.* Under the exclusive option agreement by and among our company, Beijing Mobile and its shareholders, our company was granted an irrevocable exclusive option to acquire, or designate a third party to acquire, all or part of the equity interest owned by the shareholders in Beijing Mobile or to acquire, all or part of the assets owned by the Beijing Mobile at any time at an exercise price that is equal to the minimum price permitted under the PRC laws or is equal to the entire principal and interest (including all principal and interest under the existing loan agreement) owed by the existing shareholder to the Beijing Security due to the fulfillment of the registered capital paid obligations in the Beijing Mobile. In addition, this agreement stipulates that our company can provide financial support to Beijing Mobile to the extent permissible under the applicable PRC laws and regulations, regardless of whether Beijing Mobile has incurred an operational loss. The form of financial support includes but is not limited to entrusted loans and borrowings. Our company will not request repayment of any outstanding loans or borrowings from Beijing Mobile if Beijing Mobile do not have sufficient funds or are unable to repay such loans or borrowings. Unless terminated according to the agreement itself, the agreement has a term of ten years, which will automatically extend on a decadelly basis.

In addition to the above contracts, the spouses of certain shareholders of the VIEs have executed spousal consent letters. Pursuant to the spousal consent letters, the spouses acknowledged that certain equity interests in the respective VIEs held by and registered in the name of his or her spouse will be disposed of pursuant to relevant arrangements under the shareholder voting proxy agreement, the exclusive option agreement and the equity pledge agreement and other agreements under contractual arrangements. These spouses undertake not to take any action to interfere with the disposition of such equity interests.

As a result of these contractual arrangements, we are considered the primary beneficiary of the VIEs as we have the power to direct activities of these entities and can receive substantially all economic interests in these entities even though we do not necessarily receive all of the VIEs' revenues. Accordingly, we treat them as the VIEs under U.S. GAAP and have consolidated the results of operation of the VIEs and the then subsidiaries of the VIEs in our consolidated financial statements in accordance with U.S. GAAP. The VIEs and the then subsidiaries of the VIEs together contributed 13.0%, 36.6% and 33.1% of our revenues for the years ended December 31, 2019, 2020 and 2021, respectively.

In the opinion of our PRC legal counsel, Global Law Office:

- the corporate structure of our PRC subsidiaries and VIEs does not result in any violation of all existing PRC laws and regulations;
- each of the VIE agreements among us or our first-tier subsidiaries, either Beijing Security or Conew Network, Cheetah Mobile Inc., each of the VIEs and its respective shareholders (as the case may be) governed by PRC law is valid and binding, and does not result in any violation of PRC laws or regulations currently in effect; and
- each of our PRC subsidiaries and VIEs has the necessary corporate power and authority to conduct its business as described in its business scope under its business license. The business licenses of each of our PRC subsidiaries and VIEs are in full force and effect. Each of our PRC subsidiaries and VIEs is capable of suing and being sued and may be the subject of any legal proceedings in PRC courts. To the best of our PRC legal counsel's knowledge after due inquiries, none of our PRC subsidiaries and VIEs or their respective assets is entitled to any immunity, on the grounds of sovereignty, from any action, suit or other legal proceedings, or from enforcement, execution or attachment.

We have been advised by our PRC legal counsel, Global Law Office, however, that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules. Accordingly, the PRC regulatory authorities may take a view that is contrary to the above opinion of our PRC legal counsel. We have been further advised by our PRC legal counsel that if the PRC government finds that the agreements that establish the structure for operating our business do not comply with PRC government restrictions on foreign investment in the aforesaid business we engage in, we could be subject to severe penalties including being prohibited from continuing operations. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure" for "—If the PRC government finds that the structure we have adopted for our business operations does not comply with PRC governmental restrictions on foreign investment in internet businesses, or if these laws or regulations or interpretations of existing laws or regulations change in the future, we could be subject to severe penalties, including the shutting down of our platform and our business operations" and "—Substantial uncertainties exist with respect to the interpretation and implementation of PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations."

#### **D. Property, Plants and Equipment**

As of December 31, 2021, our principal executive offices were located on leased premises comprising approximately 7,700 square meters in Beijing, China. This facility accommodates our management headquarters, principal development, engineering, legal, finance and administrative activities. We also have offices overseas, mainly in Japan.

Our products and services are mainly deployed on various cloud service providers such as Amazon, Tencent, Kingsoft and Alibaba. We believe these arrangements are more cost-effective than acquiring our own servers. We believe that our existing facilities are sufficient for our current need and we expect to obtain additional facilities, principally through leasing, to accommodate our future expansion plans.

We have deployed AI robots in some shopping malls in China's tier one and tier two cities. As of December 31, 2021, we have approximately 13,000 AI robots deployed in shopping malls in Beijing, Shanghai, Shenzhen and many other cities in Mainland China. Our AI robots were purchased from Beijing OrionStar, we believe our existing AI robots are sufficient for our current needs and will arrange for the production based on demand and deployment forecasts.

**Item 4A. Unresolved Staff Comments**

None.

**Item 5. Operating and Financial Review and Prospects**

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report. This discussion and analysis may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under “Item 3. Key Information—D. Risk Factors” or in other parts of this annual report.

**A. Operating Results****Overview**

We are a leading internet company. We have attracted hundreds of millions of users through an array of utility products such as Clean Master released in 2012. Leveraging our success on utility products, we launched mobile entertainment products, including mobile games such as Piano Tiles 2 and mobile livestreaming product LiveMe. Since September 30, 2019, we were no longer a majority shareholder of LiveMe and deconsolidated LiveMe’s financial results from our financial statements. On February 20, 2020, our Google Play Store, Google AdMob and Google AdManager accounts were disabled, which adversely affected our ability to attract new users and generate revenue from Google. Furthermore, we disposed major gaming-related business in 2020.

We have deployed AI robots in some shopping malls in China’s tier one and tier two cities. Through voice interaction and AI technologies, these robots are able to integrate celebrity and entertainment marketing campaigns to amplify partner promotions and build brand recognition. In 2021, we have started a business model of shopping-mall coupon-selling robots, which is a brand-new inside-shopping-mall marketing mode to effectively attract customers for merchants. We applied both offline and online marketing strategies to expand the business. Offline, we use our robots which have been deployed in the shopping malls. Online, we use our own Wechat mini program – Quanduoduo, some other local network communities as well as some mainstream third-party platforms. Although this business has made good progress in 2021, it is still at the early stage, we do not expect significant revenue inflows from it in the near future.

We also provide multi-cloud management and overseas advertising agency service. Multi-cloud management service is to provide our customers one-stop multi-cloud resource management solutions, conduct comprehensive management of multi-cloud resources and environment, and provide various solutions that can be implemented in the cloud, including platforms for backup and disaster recovery, machine learning, cost optimization and monitoring alarm. Overseas advertising agency service is to assist domestic companies to launch advertisement on large overseas advertising platforms, such as Facebook.

In the second quarter of 2017, we reorganized our operating segments from one operating segment into three operating segments, namely utility products and relate services, mobile entertainment business, and AI and others. On February 21, 2020, our Google Play Store, Google AdMob, and Google AdManager accounts had been disabled, which adversely affected our ability to attract new users and generate revenue from Google. Given the unfavorable environment in the overseas markets, we have chosen to shift our focus from international markets to the domestic market. In 2020, we disposed our major gaming-related business. As a result, we expect the revenue contribution from our mobile game business to decrease in the foreseeable future. Post such disposals, our business primarily comprises of two segments. One is the Internet business, which includes our utility product on both the PC and mobile platforms and a remaining and diminishing portion of our mobile game business. The other is AI and others. Therefore, we started reporting our revenues and operating profits by two segments. In the third quarter of 2021, as a result of our ongoing business streamlining efforts, we expect to further leverage the synergies between our overseas advertising service and our global multi-cloud management services which both serve customers with overseas operation demands and accordingly the CODM changed the way he reviews the segment performances. Consequently, we aligned our operating segments and our overseas advertising agency services, which assists domestic companies to launch advertisement on overseas advertising platforms, are changed from the Internet business into AI and others. We have retrospectively revised segment information from the previous period to conform to the requisite presentation for the current period.

Revenues from our internet business mainly include two parts, online advertising and internet value-added services. We generate advertising revenues by providing mobile advertising services to our advertising customers worldwide, as well as selling advertisements and referring user traffic on our mobile and PC platforms. We generate value-added services revenues principally from fee-based services, mainly including VIP membership, software subscription, game-related and live streaming services.

Revenues from our AI and other business mainly from shopping-mall coupon-selling, multi-cloud management platform, overseas advertising agency service and some other AI related business.

On the corporate level, our revenues decreased to RMB784.6 million (US\$123.1 million) in 2021 due to deconsolidation of gaming-related business in 2020 as well as slowdown in advertising business due to COVID-19 and some other macro factors globally and domestically. Our revenues decreased from RMB3,587.7 million in 2019 to RMB1,552.6 million in 2020 due to suspension of the Company's collaborations with Google since February 2020 and deconsolidation of Live.me in 2019. Our net loss attributable to Cheetah Mobile shareholders was RMB351.1 million (US\$55.1 million) in 2021, compared to a net income attributable to Cheetah Mobile shareholders of RMB416.7 million in 2020 and a net loss attributable to Cheetah Mobile shareholders of RMB314.0 million in 2019.

Historically, we have invested heavily in research and development and selling and marketing to grow our internet business and AI business. In 2021, we implemented prudent cost-saving measures for our business, such as organization downsizing. Our headcount decreased from 1,044 as of December 31, 2020 to 851 as of December 31, 2021.

## Selected Statement of Operations Items

### Revenues

We generate revenues from internet business and AI and others. The following table sets forth the principal components of our revenues by amount and as a percentage of our revenues for the periods presented.

	Years Ended December 31,						
	2019		2020		2021		
	RMB	% of revenues	RMB	% of revenues	RMB	US\$	% of revenues
Internet business	3,370,811	94.0	1,380,906	88.9	653,759	102,589	83.3
AI and others	216,884	6.0	171,739	11.1	130,857	20,534	16.7
<b>Revenues</b>	<b>3,587,695</b>	<b>100.0</b>	<b>1,552,645</b>	<b>100.0</b>	<b>784,616</b>	<b>123,123</b>	<b>100.0</b>

### Internet business

Revenues from internet business accounted for 94.0%, 88.9% and 83.3% of our revenues in 2019, 2020 and 2021, respectively. Our portfolio of internet products has attracted a massive user base, which enabled us to provide online marketing services to advertisers worldwide as well as refer user traffic and sell advertisements on our mobile and PC platforms. We charge fees for our online advertising services generally based on three general pricing models, which include cost over a time period, cost for performance basis and cost per impression basis. Cost for performance basis refers to, among others, cost per click, cost per installation, cost per activation and cost per sale that originate from our platform, while cost per impression refers to cost based on the number of impressions over a period. We also provide value-added services for our internet product, which mainly includes VIP membership, software subscription, game-related and live streaming services. Our VIP membership and software subscription services are mainly sold in short term period, typically, no more than 12 months. Our users can also buy our in-game virtual items separately. In 2016, we started to monetize LiveMe by sale of virtual items in users' live broadcasting, which is subject to revenue-sharing arrangements with the hosting users. Since September 30, 2019, we deconsolidated LiveMe's financial results from our financial statements. Given the unfavorable environment in the overseas markets, we have chosen to shift our focus from international markets to the domestic market. In 2020, we disposed our major gaming-related business. As a result, we expect the revenue contribution from our gaming-related business to decrease in the foreseeable future.

We believe that the most significant factors affecting revenues from internet business include:

- *User base and user engagement in key markets.* We believe a large, loyal and engaged user base in key markets would help us retain existing customers and attract more customers and business partners for our internet business and at the same time gives us more pricing power. It also results in more user impressions, clicks, installations, or other actions that generate more fees for performance-based marketing. In particular, a large and engaged user base is crucial for the sustainability of our product and related services. We plan to further improve our products and introduce more products to increase users' engagement with our products.
- *Fee arrangements with our significant customers.* A small number of advertising platform customers have contributed a significant portion of revenues for our online advertising services. In overseas markets, advertising platforms provide bids to us for displaying advertisements on our apps, and the bid prices we receive may fluctuate significantly depending on who are the bidders, the type of our advertising inventories, seasonality, and supply and demand balance. In domestic market, we have revenue sharing arrangements with advertising platforms, and the portion of revenue we receive from these customers is also subject to fluctuation due to similar factors. The fee arrangements with these significant customers and the mix of these arrangements can have a significant impact on our revenues, and some of these impact may be beyond our control.
- *Ability to provide targeted advertising.* We believe that data analytics is a key factor affecting our online advertising revenues. Data analytics enable us to map our users' interests and distribute targeted advertising to our users. Our ability to effectively conduct user profiling and provide targeted advertising affects advertising engagement and conversion, which affects our online advertising revenues.
- *Number of paying users.* Our revenues from premium services as well as membership and software subscription services depend on our ability to develop popular function in utility products. The popularity of the apps we operate directly affects the number of paying users we attract, and the revenues generated from such users.

#### ***AI and Others***

Revenue from AI and others accounted for 6.0%, 11.1% and 16.7% of our revenues in 2019, 2020 and 2021, respectively. AI and others revenues mainly include revenues from our AI related business, such as shopping-mall coupon-selling robots, business of multi-cloud management service and overseas advertising agency service, sales of AI hardware, as well as providing technical consulting services to third parties and related parties.

#### ***Cost of Revenues***

Cost of revenues primarily consist of traffic acquisition costs, bandwidth and cloud costs, personnel costs, content costs, channel costs, depreciation of equipment, amortization of intangible assets and cost of products sold.

Traffic acquisition costs represent the amounts paid or payable to third-party advertising publishers who distribute our customers' paid links through their advertisement products.

Bandwidth and cloud costs consist of fees that we pay to telecommunication carriers, bandwidth fees that are directly related to our business operations and technical support, and fees that we pay to cloud service providers such as Amazon, Tencent cloud etc., for the deployment of our apps and cloud service purchased related to our multi-cloud management service. Bandwidth and cloud costs are affected by the amounts of our user traffic worldwide, data analytics and our scale of customers of our multi-cloud management service.

Personnel costs include salaries and benefits including share-based compensation, for our employees involved in the operation and other business and maintenance of our business.

Content costs consist primarily of fees borne by us under third-party game publishing arrangements, revenue sharing with content providers and amortization of license fees paid for exclusively licensed games. As we deconsolidated LiveMe and major gaming related business from our financial statements in 2019 and 2020, we expected content costs will decrease.

Channel costs consist commission fees paid to distribution platforms and payment channels.

Amortization of intangible assets primarily represents amortization of intangible assets through acquisitions or business combinations.

***Operating Income and Expenses***

Our operating income and expenses consist of (i) research and development expenses, (ii) selling and marketing expenses, (iii) general and administrative expenses, (iv) impairment of goodwill, and (v) other operating income and expenses. The following table sets forth the components of our operating income and expenses for the periods indicated.

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	Years Ended December 31,						
	2019		2020		2021		
	RMB	% of revenues	RMB	% of revenues	RMB	US\$	% of revenues
	(in thousands, except percentages)						
Operating income and expenses							
Research and development	(787,329)	(21.9)	(455,179)	(29.3)	(211,594)	(33,204)	(27.0)
Selling and marketing	(1,558,315)	(43.4)	(766,986)	(49.4)	(370,274)	(58,104)	(47.2)
General and administrative	(587,457)	(16.4)	(380,533)	(24.5)	(191,868)	(30,108)	(24.5)
Impairment of goodwill	(545,665)	(15.2)	—	—	—	—	—
Other operating income (expenses), net	22,091	0.6	(5,684)	(0.4)	17,205	2,700	2.2
<b>Total operating income and expenses</b>	<b>(3,456,675)</b>	<b>(96.3)</b>	<b>(1,608,382)</b>	<b>(103.6)</b>	<b>(756,531)</b>	<b>(118,716)</b>	<b>(96.5)</b>

*Research and Development Expenses.* Research and development expenses consist primarily of salaries and benefits, including share-based compensation expenses, for our research and development employees. These expenditures are generally expensed as incurred. Research and development expenses decreased by 53.5% year over year to RMB211.6 million (US\$33.2 million) in 2021, which primarily resulted from the decrease in R&D personnel.

*Selling and Marketing Expenses.* Selling and marketing expenses consist primarily of general marketing and promotion expenses and salaries and benefits, including share-based compensation expenses, related to personnel involved in our selling and marketing efforts.

*General and Administrative Expenses.* General and administrative expenses consist primarily of salaries and benefits, including share-based compensation expenses, related to our general and administrative personnel, professional and legal service fees, and other administrative expenses.

*Impairment of Goodwill.* Impairment of goodwill consists primarily of impairment of goodwill associated with business acquisition.

*Other Operating Income (Expenses), net.* Other operating income consists primarily of government grants, subsidies and financial incentives that we received in connection with our operations not related to research and development projects and impairment of intangible assets.

## Taxation

### Taxation in Different Jurisdictions

The following summarizes the taxation in jurisdictions in which our company, significant subsidiaries and VIEs are incorporated.

*Cayman Islands.* Under the current laws of the Cayman Islands, we are not subject to tax on income or capital gain arising in Cayman Islands.

Additionally, upon payments of dividends by us to our shareholders, no Cayman Islands withholding tax will be imposed.

*Hong Kong.* Our subsidiaries incorporated in Hong Kong were subject to Hong Kong profits tax rate of 16.5% for the years ended December 31, 2019, 2020 and 2021.

*Singapore.* Our subsidiaries incorporated in Singapore were subject to Singapore corporate income tax rate of 17% for the year ended December 31, 2019, 2020 and 2021.

*Japan.* Our subsidiary incorporated in Japan with paid-in capital in excess of Japanese Yen (“JPY”) 100 million was subject to national corporate income tax rate of 23.4% and 23.2% since April 1, 2016 and April 1, 2018, respectively. Our subsidiary incorporated in Japan with paid-in capital of no more than JPY100 million was subject to national corporate income tax rate of 15% on the first JPY8 million of income earned and at 23.2% on any income earned in excess of JPY8 million since April 1, 2018. Local income taxes, which include local inhabitant tax and enterprise tax, are also imposed on corporate income.

*PRC.*

*Enterprise income tax.* Our PRC subsidiaries and VIEs are subject to the statutory rate of 25% in accordance with the EIT Law, with exceptions for certain preferential tax treatments. Under relevant PRC government policies, enterprises qualified as “new software enterprise” are entitled to a two-year exemption and three-year 50% reduction on enterprise income tax commencing from the first profit-making year. Enterprises qualified as “high and new technology enterprise” are entitled to a preferential rate of 15%. According to the Administrative Measures for Recognition of High and New Technology Enterprises, where the relevant department finds in the course of daily management that a recognized “high and new technology enterprise” does not meet the conditions for recognition, it shall apply to the recognition department for verification. If the verification confirms that the enterprise does not meet the conditions for recognition, the recognition department shall disqualify the “high and new technology enterprise” and advise the tax authority to recover the payment of reduced or exempted taxes under tax preferences it has enjoyed from the year when it fails to meet the recognition requirements. For the year ended December 2019, 2020, and 2021 our PRC subsidiary qualified as “new software enterprise” is subject to tax holiday or a preferential tax rate of nil, 12.5% and 12.5%, respectively, our PRC subsidiaries and VIEs qualified as “high and new technology enterprise” were subject to tax holiday or a preferential tax rate of 15%, and our remaining PRC subsidiaries, VIEs and the subsidiaries of the VIEs were subject to enterprise income tax at a rate of 25%.

*Withholding tax.* Under the EIT Law and its implementation rules, dividends, interests, rents or royalties payable by a foreign-invested enterprise, such as our PRC subsidiaries, to any of its non-resident enterprise investors, and proceeds from any such non-resident enterprise investor’s disposition of assets (after deducting the net value of such assets) shall be subject to 10% EIT, namely withholding tax, unless non-resident enterprise investor’s jurisdiction of incorporation has a tax treaty or agreement with China that provides for a reduced withholding tax rate or an exemption from withholding tax. The Cayman Islands, where our company is incorporated, and the British Virgin Islands, where our subsidiary Conew.com Corporation was incorporated, do not have such tax treaties with China. None of our U.S. subsidiaries is an immediate holding company of our PRC subsidiaries. Under the Arrangement Between the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital, the dividend withholding tax rate may be reduced to 5%, if a Hong Kong resident enterprise that receives a dividend is considered a non-PRC tax resident enterprise and holds at least 25% of the equity interests in the PRC enterprise distributing the dividends, subject to approval of the PRC local tax authority. According to the Circular on Several Issues regarding the “Beneficial Owner” in Tax Treaties, which was issued on February 3, 2018 by the SAT, effective as of April 1, 2018, when determining the applicant’s status of the “beneficial owner” regarding tax treatments in connection with dividends, interests or royalties in the tax treaties, several factors, including without limitation, whether the applicant is obligated to pay more than 50% of its income in twelve months to residents in third country or region, whether the business operated by the applicant constitutes the actual business activities, and whether the counterparty country or region to the tax treaties does not levy any tax or grant tax exemption on relevant incomes or levy tax at an extremely low rate, will be taken into account, and it will be analyzed according to the actual circumstances of the specific cases. This circular further provides that applicants who intend to prove his or her status of the “beneficial owner” shall submit the relevant documents to the relevant tax bureau according to the Announcement on Issuing the Measures for the Administration of Non-Resident Taxpayers’ Enjoyment of the Treatment under Tax Agreements, or Circular 60. Circular 60 was repealed simultaneously upon the implementation of Announcement of the State Taxation Administration on Issuing the Measures for the Administration of Non-resident Taxpayers’ Enjoyment of Treaty Benefits, or Circular 35, which was promulgated on October 14, 2019 and became effective on January 1, 2020. According to Circular 35, if a non-resident taxpayer determines through self-assessment that he or she is eligible for treaty benefits, he or she may, when filing tax returns, or when a withholding agent files withholding returns, enjoy tax treaty benefits, and collect and retain relevant materials for review in accordance with the provisions and accept the follow-up administration of tax authorities. However, if the Hong Kong resident enterprise is not considered to be the beneficial owner of such dividends under applicable PRC tax regulations, such dividends may remain subject to withholding tax at a rate of 10%. Accordingly, our Hong Kong subsidiaries may not be able to enjoy the 5% withholding tax rate for the dividends they receive from our PRC subsidiaries if they do not satisfy the relevant conditions under tax rules and regulations and obtain the approvals as required.



*PRC Value-added tax.* On January 1, 2012, the Chinese State Council officially launched a pilot VAT reform program, or Pilot Program, applicable to businesses in selected industries. Businesses in the Pilot Program would pay VAT instead of business tax. The Pilot Program imposes VAT in lieu of business tax for certain “modern service industries” in certain regions and eventually expands to nation-wide in August 2013. According to the implementation circulars released by the Ministry of Finance and the State Administration of Taxation on the Pilot Program, the “modern service industries” include industries involving the leasing of tangible movable property, research and development and technical services, information technology services, cultural and creative services, logistics and ancillary services, certification and consulting services, and radio and television services. The Pilot Program replacing business tax with VAT was expanded to cover industries including construction, real estate, finance and consumer services in May 2016, and was later extended to all industries throughout China. With respect to all of our PRC entities for the period prior to the implementation of the Pilot Program, revenues from internet business and other licensing services were subject to a 5% PRC business tax. On November 19, 2017, the Chinese State Council promulgated the Decisions on Abolishing the Provisional Regulations of the PRC on Business Tax and Amending the Provisional Regulations of the PRC on VAT, or the Order 691. On April 4, 2018, the Ministry of Finance and the State Administration of Taxation issued the Circular on Adjustment of VAT Rates, or Circular 32, which became effective as of May 1, 2018. According to the Circular 32, VAT rates of 17% and 11% applicable to the taxpayers who have VAT taxable sales activities or imported goods are adjusted to 16% and 10%, respectively. According to the Report on the Work of the Government delivered at the Second Session of the 13th National People’s Congress of the People’s Republic of China on March 5, 2019, VAT reform in PRC deepened in 2019, which included that the current VAT rate of 16% in manufacturing and other industries reduced to 13%, and the VAT rate in the transportation, construction, and other industries adjusted from 10% to 9%. With respect to revenues from sales of goods, including sales of software products, licensing software without transferring its copyright and sales of other goods, they are still subject to a 16% VAT pursuant to Chinese tax law in 2018, and adjusted to 13% since April 1, 2019. In addition, sales of self-developed software products or license fees from self-developed software are entitled to a VAT refund with respect to the tax burden over a tax rate of 3%. With the adoption of the Pilot Program, our revenues subject to VAT payable on goods sold or taxable services provided by a general VAT taxpayer for a taxable period is the net balance of the output VAT for the period after crediting the input VAT for the period. Hence, the amount of VAT payable does not result directly from output VAT generated from goods sold or taxable services provided. Therefore, we have adopted the net presentation of VAT. In addition, cultural business construction fee is imposed at the rate of 3% on revenues derived from our advertising services which is exempted in 2020 and 2021.

As of the date of this annual report, our PRC subsidiaries and VIEs are generally subject to 6% or 13% VAT rate.

#### *Effect of Different Tax Rates in Different Jurisdictions*

The following table sets forth our income (loss) before income tax and the effect of differing tax rates in different jurisdictions on our income tax expenses in each applicable jurisdiction, for the years ended December 31, 2019, 2020 and 2021.

		Year Ended December			
		2019	2020	2021	
		RMB	RMB	RMB	US\$
		(in thousands)			
Cayman Islands	Income before income tax	332,254	488,844	17,406	2,731
	Income tax expenses computed at the PRC statutory tax rate of 25%	83,063	122,212	4,352	683
	Income tax expenses computed at Cayman Islands statutory tax rate of 0%	—	—	—	—
	<b>Effect of differing tax rates in different jurisdictions</b>	<b>(83,063)</b>	<b>(122,212)</b>	<b>(4,352)</b>	<b>(683)</b>
USA	Income (Loss) before income tax	1,306	(6,559)	(1,350)	(212)
	Income tax expenses (benefits) computed at the PRC statutory tax rate of 25%	326	(1,640)	(338)	(53)
	Income tax expenses (benefits) computed at the U.S. statutory tax rate of 21%	274	(1,376)	(284)	(45)
	<b>Effect of differing tax rates in different jurisdictions</b>	<b>(52)</b>	<b>262</b>	<b>54</b>	<b>8</b>
Hong Kong	(Loss) Income before income tax	(319,449)	324,517	147,306	23,115
	Income tax (benefits) expenses computed at the PRC statutory tax rate of 25%	(79,862)	81,129	36,826	5,779
	Income tax (benefits) expenses computed at the Hong Kong statutory tax rate of 16.5%	(52,707)	53,545	24,305	3,814
	<b>Effect of differing tax rates in different jurisdictions</b>	<b>27,155</b>	<b>(27,584)</b>	<b>(12,521)</b>	<b>(1,965)</b>
Singapore	Income before income tax	68,594	18,149	(3,515)	(552)
	Income tax expenses computed at the PRC statutory tax rate of 25%	17,148	4,537	(879)	(138)
	Income tax expenses computed at the Singapore statutory tax rate of 17%	11,661	3,085	(598)	(94)
	<b>Effect of differing tax rates in different jurisdictions</b>	<b>(5,487)</b>	<b>(1,452)</b>	<b>281</b>	<b>44</b>
PRC	Income (Loss) before income tax	(589,754)	(325,686)	(490,025)	(76,897)
	Income tax expenses (benefits) computed at the PRC statutory tax rate of 25%	(147,439)	(81,421)	(122,506)	(19,224)

		Year Ended December			
		2019	2020	2021	
		RMB	RMB	RMB	US\$
		(in thousands)			
	Income tax expenses (benefits) computed at the PRC statutory tax rate of 25%	(147,439)	(81,421)	(122,506)	(19,224)
	<b>Effect of differing tax rates in different jurisdictions</b>	—	—	—	—
France	Income (Loss) before income tax	(244,796)	338	(1,751)	(275)
	Income tax expenses (benefits) computed at the PRC statutory tax rate of 25%	(61,199)	84	(438)	(69)
	Income tax expenses (benefits) computed at the French statutory tax rate of 26.5%	(81,515)	112	(464)	(73)
	<b>Effect of differing tax rates in different jurisdictions</b>	<b>(20,316)</b>	<b>28</b>	<b>(26)</b>	<b>(4)</b>
Taiwan	(Loss) Income before income tax	(1,053)	122	(2,064)	(324)
	Income tax (benefits) expenses computed at the PRC statutory tax rate of 25%	(263)	31	(516)	(81)
	Income tax (benefits) expenses computed at the Taiwan statutory tax rate of 20%	(211)	24	(413)	(65)
	<b>Effect of differing tax rates in different jurisdictions</b>	<b>52</b>	<b>(7)</b>	<b>103</b>	<b>16</b>
Others	Income (Loss) before income tax	387,211	8,522	(5,578)	(874)
	Income tax expenses computed at the PRC statutory tax rate of 25%	96,803	2,130	(1,395)	(219)
	Income tax expenses computed at the statutory tax rates of such other jurisdictions	455	2,627	(1,698)	(266)
	<b>Effect of differing tax rates in different jurisdictions</b>	<b>(96,348)</b>	<b>497</b>	<b>(303)</b>	<b>(47)</b>
Total	Income (Loss) before income tax	(365,687)	508,247	(339,571)	(53,288)
	Income tax expenses (benefits) computed at the PRC statutory tax rate of 25%	(91,423)	127,062	(84,894)	(13,322)
	Income tax expenses (benefits) computed at the statutory tax rate of different jurisdictions	(269,482)	(23,404)	(101,658)	(15,953)
	<b>Effect of differing tax rates in different jurisdictions</b>	<b>(178,059)</b>	<b>(150,466)</b>	<b>(16,764)</b>	<b>(2,631)</b>

The following table sets forth the effect of tax holiday and preferential tax treatments on our income tax expenses in each applicable jurisdiction, for the years ended December 31, 2019, 2020 and 2021.

		Year Ended December			
		2019	2020	2021	
		RMB	RMB	RMB	US\$
		(in thousands)			
PRC <sup>(1)</sup>		84,520	18,671	44,909	7,047
Others		—	—	—	—
<b>Total</b>		<b>84,520</b>	<b>18,671</b>	<b>44,909</b>	<b>7,047</b>

(1) Certain of our PRC entities are entitled to tax holiday as new software development enterprise or high new technology enterprise. For details, see “Item 5. Operating and Financial Review and Prospects—A. Operating Results—Taxation—Taxation in Different Jurisdictions—PRC—Enterprise Income Tax.”

## Results of Operations

The following table sets forth a summary of our consolidated results of operations for the years indicated. The year-to-year comparisons of results of operations should not be relied upon as indicative of our future performance.

		Year Ended December 31,			
		2019	2020	2021	
		RMB	RMB	RMB	US\$
		(in thousands)			
<b>Selected Consolidated Statements of Comprehensive income (loss):</b>					
Revenues		3,587,695	1,552,645	784,616	123,123
Internet business		3,370,811	1,380,906	653,759	102,589
AI and others		216,884	171,739	130,857	20,534
Cost of revenues <sup>(1)</sup>		(1,241,932)	(475,378)	(257,656)	(40,432)
<b>Gross profit</b>		<b>2,345,763</b>	<b>1,077,267</b>	<b>526,960</b>	<b>82,691</b>
<b>Operating income and expenses</b>					
Research and development <sup>(1)</sup>		(787,329)	(455,179)	(211,594)	(33,204)
Selling and marketing <sup>(1)</sup>		(1,558,315)	(766,986)	(370,274)	(58,104)
General and administrative <sup>(1)</sup>		(587,457)	(380,533)	(191,868)	(30,108)
Impairment of goodwill		(545,665)	—	—	—
Other operating income (expenses), net		22,091	(5,684)	17,205	2,700
<b>Total operating expenses, net</b>		<b>(3,456,675)</b>	<b>(1,608,382)</b>	<b>(756,531)</b>	<b>(118,716)</b>

	Year Ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$
	(in thousands)			
<b>Operating loss</b>	<b>(1,110,912)</b>	<b>(531,115)</b>	<b>(229,571)</b>	<b>(36,025)</b>
<b>Other income (expenses)</b>				
Interest income, net	110,010	35,655	25,391	3,984
Foreign exchange gain, net	49	39,393	24,288	3,811
Other income	887,494	1,081,506	252,998	39,700
Other expense	(252,328)	(117,192)	(412,677)	(64,758)
<b>(Loss) income before income taxes</b>	<b>(365,687)</b>	<b>508,247</b>	<b>(339,571)</b>	<b>(53,288)</b>
Income tax expenses	(7,904)	(97,090)	(13,633)	(2,139)
<b>Net (loss) income</b>	<b>(373,591)</b>	<b>411,157</b>	<b>(353,204)</b>	<b>(55,427)</b>
Less: net loss attributable to noncontrolling interests	(59,614)	(5,575)	(2,078)	(326)
<b>Net (loss) income attributable to Cheetah Mobile Inc.</b>	<b>(313,977)</b>	<b>416,732</b>	<b>(351,126)</b>	<b>(55,101)</b>

(1) Share-based compensation expenses were allocated in cost of revenues and operating expenses as follows:

	Year Ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$
	(in thousands)			
Cost of revenues	524	1,044	1,027	161
Research and development	59,771	29,091	5,996	941
Selling and marketing	3,818	(1,087)	1,339	210
General and administrative	63,327	51,934	(1,212)	(190)
<b>Total</b>	<b>127,440</b>	<b>80,982</b>	<b>7,150</b>	<b>1,122</b>

**Year Ended December 31, 2021 Compared to Year Ended December 31, 2020**

**Revenues.** Our revenues decreased by 49.5% from RMB1,552.6 million in 2020 to RMB784.6 million (US\$123.1 million) in 2021.

In 2020, given the unfavorable environment in the overseas markets, we have chosen to shift our focus from international markets to the domestic market and disposed major gaming-related business. As a result, the revenue contribution from our mobile game business has been and will be decrease in the foreseeable future. Post such disposals, our business primarily comprises of two segments. One is the Internet business, which includes its utility product on both the PC and mobile platforms and a remaining and diminishing portion of its mobile game business. The other is AI and others. In 2021, we realigned our segment and our advertising agency service is changed from Internet business to AI and others. We have retrospectively revised segment information from the previous period to conform to the requisite presentation for the current period.

**Internet business.** Revenues from internet business decreased by 52.7% from RMB1,380.9 million in 2020 to RMB653.8 million (US\$102.6 million) in 2021. The year-over-over decrease was primarily due to suspension of the collaboration with Google, our strategic efforts to diminish the gaming-related business in 2020 and the slowdown in advertising business in 2021. In 2021, approximately 54.2% of our revenues from internet business were generated from advertising while the rest of its revenues were generated from other sources, such as providing premium services, anti-virus software sales and office software sales.

**AI and others.** Revenues from AI and others decreased to RMB130.9 million (US\$20.5 million) in 2021 from RMB171.7 million in 2020. This decrease was primarily due to our strategy to drop in sales of AI-related hardware and transform to the business model of shopping-mall coupon-selling robots, offset by revenue growth in our multi-cloud management service business.

**Cost of revenues.** Our cost of revenues decreased by 45.8% from RMB475.4 million in 2020 to RMB257.7 million (US\$40.4 million) in 2021. Besides our continuous strategic costs cutting, the decrease in our cost of revenues was mainly due to the decreased traffic acquisition cost and channel cost associated with the change of our revenue in internet business.

**Gross profit.** As a result of the foregoing, our gross profit decreased by 51.1% from RMB1,077.3 million in 2020 to RMB527.0 million (US\$82.7 million) in 2021.

**Gross margin.** Our gross margin decreased to 67.2% for the year ended December 31, 2021 from 69.4% for the year ended December 31, 2020.

**Operating expenses.** Our operating expenses decreased by 53.0% from RMB1,608.4 million in 2020 to RMB756.5 million (US\$118.7 million) in 2021 due to the streamlining of our business and the improving operational efficiency.

**Research and development expenses.** Our research and development expenses decreased by 53.5% from RMB455.2 million in 2020 to RMB211.6 million (US\$33.2 million) in 2021. This decrease was primarily due to the decrease in research and development related personnel, and the diminish of gaming-related business.

**Selling and marketing expenses.** Our selling and marketing expenses decreased by 51.7% year over year to RMB370.3 million (US\$58.1 million) in 2021. This decrease was primarily due to the reduction in promotional activities, and the diminish of gaming-related business.

**General and administrative expenses.** Our general and administrative expenses decreased by 49.6% year over year to RMB191.9 million (US\$30.1 million) in 2021, which was mainly due to reduced general and administrative personnel and reduced professional service fees.

**Other operating income/expenses.** Other operating income primarily consisted of government grants, subsidies and financial incentives that we received in connection with our operations not related to research and development projects and impairment of long-lived assets. Other operating income was RMB17.2 million (US\$2.7 million) in 2021, as compared with other operating expense RMB5.7 million in 2020, which was mainly due to decrease of impairment loss of long-lived assets.

**Operating loss.** As a result of the foregoing, we had an operating loss of RMB229.6 million (US\$36.0 million) in 2021, as compared to an operating loss of RMB531.1 million in 2020.

**Operating loss margin.** We had an operating loss margin of 29.3% in 2021, as compared to an operating loss margin of 34.2% in 2020.

**Other income.** Other income was RMB253.0 million (US\$39.7 million) in 2021, which was primarily due to gains from disposal of certain long-term investments and gains picked up from equity method investments.

**Other expense.** Other expense was RMB412.7 million (US\$64.8 million) in 2021, which was primarily due to impairment of long-term investments in 2021.

**Income tax expense.** Our income tax expense was RMB13.6 million (US\$2.1 million) in 2021, as compared to income tax expense of RMB97.1 million in 2020.

**Net income (loss) attributable to Cheetah Mobile shareholders.** Primarily as a result of the foregoing, our net loss attributable to Cheetah Mobile shareholders was RMB351.1 million (US\$55.1 million) in 2021, as compared to a net income attributable to Cheetah Mobile shareholders of RMB416.7 million in 2020.

#### **Year Ended December 31, 2020 Compared to Year Ended December 31, 2019**

**Revenues.** Our revenues decreased by 56.7% from RMB3,587.7 million in 2019 to RMB1,552.6 million in 2020.

**Internet business.** Revenues from internet business decreased by 59.0% from RMB3,370.8 million in 2019 to RMB1,380.9 million in 2020. The year-over-over decrease was primarily due to the suspension of our collaborations with Google since February 2020, and the deconsolidation of LiveMe and certain internet business. In 2020, approximately 61.9% of our revenues from internet business were generated from advertising while the rest of its revenues were generated from other sources, such as providing premium services, anti-virus software sales and office software sales.

**AI and others.** Revenues from AI and others decreased to RMB171.7 million in 2020 from RMB216.9 million in 2019. This decrease was primarily due to the decrease of hardware sales.

**Cost of revenues.** Our cost of revenues decreased by 61.7% from RMB1,241.9 million in 2019 to RMB475.4 million in 2020.

The decrease in our cost of revenues was mainly due to a significant reduction in costs associated with our internet business and the deconsolidation of LiveMe and certain internet business.

**Gross profit.** As a result of the foregoing, our gross profit decreased by 54.1% from RMB2,345.8 million in 2019 to RMB1,077.3 million in 2020.

**Gross margin.** Our gross margin increased to 69.4% for the year ended December 31, 2020 from 65.4% for the year ended December 31, 2019.

**Operating expenses.** Our operating expenses decreased by 53.5% from RMB3,456.7 million in 2019 to RMB1,608.4 million in 2020, due to the reduction in personnel, promotional activities and professional service fees.

**Research and development expenses.** Our research and development expenses decreased by 42.2% from RMB787.3 million in 2019 to RMB455.2 million in 2020. This decrease was primarily due to the decrease in R&D personnel, and the deconsolidation of LiveMe and certain internet business.

*Selling and marketing expenses.* Our selling and marketing expenses decreased by 50.8% year over year to RMB767.0 million in 2020. This decrease was primarily due to the reduction in promotional activities, and the deconsolidation of LiveMe and certain internet business.

*General and administrative expenses.* Our general and administrative expenses decreased by 35.2% year over year to RMB380.5 million in 2020, which was mainly due to reduced general and administrative personnel and reduced professional service fees.

*Other operating income/expenses.* Other operating income primarily consisted of government grants, subsidies and financial incentives that we received in connection with our operations not related to research and development projects and impairment of long-lived assets. Other operating expenses was RMB5.7 million in 2020, as compared with other operating income RMB22.1 million in 2019, which was mainly due to impairment of long-lived assets in 2020.

*Operating loss.* As a result of the foregoing, we had an operating loss of RMB531.1 million in 2020, as compared to an operating loss of RMB1,110.9 million in 2019.

*Operating loss margin.* We had an operating loss margin of 34.2% in 2020, as compared to an operating loss margin of 31.0% in 2019.

*Other income.* Other income was RMB1,081.5 million in 2020, which was primarily due to the disposal of equity ownership in Bytedance Ltd. as well as the disposal of certain business during 2020.

*Other expense.* Other expense was RMB117.2 million in 2020, which was primarily due to impairment of long-term investments and loss from disposal of certain business.

*Income tax expense.* Our income tax expense was RMB97.1 million in 2020, as compared to RMB7.9 million in 2019.

*Net income (loss) attributable to Cheetah Mobile shareholders.* Primarily as a result of the foregoing, our net income attributable to Cheetah Mobile shareholders was RMB416.7 million in 2020, as compared to a net loss attributable to Cheetah Mobile shareholders of RMB314.0 million in 2019.

#### **Critical Accounting Policies and Estimates**

We prepare our consolidated financial statements in conformity with U.S. GAAP, which requires us to make judgments, estimates and assumptions. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from our expectations as a result of changes in our estimates.

An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur, could materially impact the consolidated financial statements. We believe the following accounting policies involve the most significant judgments and estimates used in the preparation of our consolidated financial statements.

### ***Fair value measurements of Non-Marketable long-term investments***

We measure certain long-term investments at fair value on a recurring or non-recurring basis, which mainly includes equity method investment accounted for using fair value option, long-term available-for-sale debt securities and equity securities that accounted for under the measurement alternative. For equity method investment accounted for using fair value option and long-term debt securities, we estimate their fair value on each reporting date. For equity securities accounted for under measurement alternative, we estimated the fair value when there's an observable price changes for identical or similar investments of the same issuer or when qualitative assessment indicates that the investment is impaired. We estimate the investments' fair value in accordance with the principles of ASC 820 and recognize the fair value change or impairment loss in the consolidated statements of comprehensive (loss) income accordingly. These judgements include valuation methods and key valuation assumptions and estimates. Changes in these estimates and assumptions could materially affect the fair value of such investments. See Note 20 of the Notes to the Consolidated Financial Statements for information regarding method and key assumptions used for fair value measurements of such investments.

### ***Impairment of Long-Lived Assets and Intangible Assets***

We evaluate our long-lived assets or asset group, including intangible assets with indefinite and finite lives, for impairment. Intangible assets with indefinite lives that are not subject to amortization are tested for impairment at least annually or more frequently if events or changes in circumstances indicate that the assets might be impaired in accordance with ASC 350-30, Intangibles-Goodwill and Other: General Intangibles Other than Goodwill. Such impairment test compares the fair values of assets with their carrying values with an impairment loss recognized when the carrying values exceed fair values. For long-lived assets and intangible assets with finite lives that are subject to depreciation and amortization are tested for impairment whenever events or changes in circumstances (such as a significant adverse change to market conditions that will impact the future use of the assets) indicate that the carrying amount of an asset or a group of long-lived assets may not be recoverable. When these events occur, we evaluate impairment by comparing the carrying amount of the assets to future undiscounted net cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flows is less than the carrying amount of the assets, we would recognize an impairment loss based on the excess of the carrying amount of the asset group over its fair value.

### ***Revenue recognition***

We generate revenues primarily through internet business, AI and others. We recognize revenue when it has approval and commitment from the customer, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. Pursuant to ASC 606-10-32-2A, we also elected to exclude sales taxes and other similar taxes from the measurement of the transaction price. Therefore, revenues are recognized net of value added taxes ("VAT") and surcharges.

The following table presents our revenues disaggregated by revenue source:

	Year Ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$
	(in thousands)			
<b>Revenues:</b>				
<b>Internet business</b>				
Online advertising	2,074,256	855,430	354,604	55,645
Internet value-added services	1,296,555	525,476	299,155	46,944
<b>AI and Others</b>				
Advertising agency services	73,762	84,993	61,588	9,665
Multi-cloud Management Services	—	3,501	41,443	6,503
Technical and other consulting services	58,607	35,504	17,236	2,704
Sale of AI hardware products	84,515	47,741	10,590	1,662
<b>Total consolidated revenues</b>	<b><u>3,587,695</u></b>	<b><u>1,552,645</u></b>	<b><u>784,616</u></b>	<b><u>123,123</u></b>

### **Internet business**

#### *Online advertising services*

Online advertising revenue is primarily derived from displaying advertising customer's advertisements on our online platforms including [duba.com](http://duba.com) and other websites, browsers, PC and mobile applications, and to a lesser extent, on third-party advertising publishers' websites or mobile applications. We have three general pricing models for our advertising products: cost over a time period, cost for performance basis and cost per impression basis. For advertising contracts over a time period, we generally recognize revenue ratably over time, because the customer simultaneously receives and consumes the benefits as we perform throughout a fixed contract term. For contracts that are charged on the cost for performance basis, we charge an agreed-upon fee to our customers determined based on the effectiveness of advertising links, which is typically measured by clicks, transactions, installations, user registrations, and other actions originating from our online platforms. Revenue is recognized at a point in time when there is an effective click, transaction, installations, user registrations, and other actions originating from our online platforms. For contracts that are charged on the cost per impression basis, we recognize the revenue at a point in time when the impressions are delivered. For online advertising services arrangement involving third-party advertising publishers' websites or mobile publications, we recognize gross revenue the amount of fees received or receivable from customers as we have control over the advertising services rather than to arrange for the advertising services to be provided by third parties on their internet properties. Revenue for online advertising services is recognized at a point in time when all the revenue recognition criteria are met. Payments made to the third-party advertising publishers or content providers are included in cost of revenues.

#### *Internet value-added services*

We generate value-added services revenue principally from fee-based services, mainly including VIP membership, software subscription, game-related and live streaming services.

*VIP membership and software subscription.* We provide non-cancellable VIP membership services and hosted software subscription services to individual and enterprise customers, which can obtain the access to the related services over a fixed period of time at a fixed price as specified in the contract. Our VIP membership services are provided to customers with various privileges, which primarily include access to advertising-free and value-added services such as file and data recovery, malicious pop-up interception, PDF converting etc. We also provide various software such as anti-virus, security protection, immediate communication and etc. to individual and enterprise customers. The software license and the when-and-if-available updates are accounted for as a single performance obligation as the license and the updates are inputs to a combined items in the contract. The VIP membership services and software subscription services are primarily sold in short term period, typically, no more than 12 months. Certain services have contracts with no fixed duration. For these indefinite term subscriptions, the Group estimated the expected contract period based on historical usage pattern and recognizes related revenue over the expected contract period. Upfront payment is generally required and upon receipt of membership fees and software subscription fees is for services to be delivered over a period of time, we recognize the excess of payment received as compared to the recognized revenue as deferred revenue in "Accrued expenses and other non-current liabilities" on the consolidated balance sheets and revenue is recognized ratably over the membership period or the subscription period as services are rendered.



*Game-related services.* We sell both perpetual and consumable in-game virtual items. Perpetual in-game virtual items represent items that are accessible to the paying users as long as the users continue to play. Consumable virtual items represent items that can be consumed by specific user actions. We recognize revenues from the perpetual in-game virtual items over the estimated average paying users' life, and revenues from the consumable in-game virtual items at a point in time when specific user actions are taken by paying users. We track the in-game virtual item purchases and log-in history of the paying users to calculate the retention of game users based on a statistical model in order to arrive at the best estimate of the average paying users' life of each game. For newly launched games with a limited period of paying users' data available for the estimate, we consider the estimated average paying users' life of other recently launched games with similar characteristics.

*Live streaming services.* We also created and offered virtual items to be used by users on mobile live broadcast application "LiveMe", which was operated and maintained by us. All "LiveMe" live video shows were available free of charge and fans could purchase virtual items on the platform with virtual currencies to support their favorite performers. We recognized revenue from LiveMe on a gross basis as we had control over the fulfillment of providing mobile live broadcasts on the LiveMe platform, and recorded payments to the performers and third-party payment platforms as cost of revenues. When virtual currencies were converted into virtual items which were consumed simultaneously, performers received a certain number of virtual diamonds as a result. When performers received virtual diamonds, they had a choice to either cash out the virtual diamonds or convert them into virtual currencies and continue to consume the virtual currencies on the platform. Since the performers could convert the virtual items into cash and recharge into their account (if they do) or directly convert into virtual currencies, we believed that the conversion into virtual currencies is analogous to recharge by cash and revenue should be recognized when virtual currencies converted from virtual items are consumed. Proceeds received from users for the sales of virtual currencies were recorded as contract liability, representing prepayments received from users in the form of our virtual currency not yet converted into virtual items. Revenue recognized was based on the weighted average unit price of virtual currencies and the quantities of virtual currencies converted into virtual items. The weighted average unit price of virtual currencies was calculated on a monthly basis as the sum of the contract liability at the beginning of the month, proceeds received during the month and the cash value of the virtual diamonds converted into virtual currencies divided by the sum of the virtual currencies balance at the beginning of the month plus the quantity of virtual currencies generated during the month. Commission fees paid to distribution platforms and payment channels and the fees shared by the third-party game developers were recorded as cost of revenues. We ceased to provide this service as Live.me was deconsolidated on September 30, 2019.

## **AI and Others**

### *Advertising agency services*

We provide advertising agency services by arranging advertisers to purchase various advertisement products from certain online networks, primarily Facebook. We receive from the online network performance-based commissions, which are determined based on a pre-specified percentage of the payment by the advertisers for the online network's various advertisement products. We act as an agent to arrange for the advertising services to be provided by third parties on their internet properties and incentives provided to the end customers are typically market-wide promotions that result in lower fee earned by the Group, and therefore are recorded as a reduction of revenue at the date the Group records the corresponding revenue transaction. Revenue from advertising agency services is recognized on a net basis at a point in time when the advertisement products are delivered by the online networks. The revenue is estimated by us based on the real-time advertising performance results provided by the online networks and the commission rates pre-determined in contracts signed with relevant online networks. There was no significant difference between our estimates and the subsequent periodic invoices provided by the online network for all the periods presented. Receivables from advertising agency services were included in other receivables from advertisers in "Prepayments and other current assets" and Payable to online networks were included in Payable to online advertising platforms as agency in "Accrued expenses and other current liabilities" on the consolidated balance sheets.

### *Multi-Cloud Management services*

We provide multi-cloud management services through cloud management platform. The nature of the our performance obligation is a single performance obligation to stand ready to provide integrated technical cloud-based solution or sell cloud resources to customers. Revenue is recognized over time when related solutions or resources are provided to customers. We evaluate whether it is appropriate to record the revenue on gross or net basis based on whether we act as a principal or as an agent. This determination is reviewed for each specified service provided to the customer and may involve significant judgment. In certain cases, we conclude that we control the solutions and resources before they are transferred to end customers, as we integrate the cloud resources with its technical expertise to provide ongoing customized cloud-based solutions, are primarily responsible for the fulfillment, and have inventory risk before the specified solutions and resources have been transferred to the customers and revenue is recognized on a gross basis. In other cases, we act as a reseller of cloud resources and during which we act as an agent to arrange for the resources to be provided by third parties and revenue is recognized on a net basis.

### *Sale of AI hardware products, technical consulting service and others and others*

We recognize revenue generally at a point in time for the sale of AI hardware products when the products are delivered to customers. Technical consulting services are recognized over time because the customer simultaneously receives and consumes the benefits as we perform throughout a fixed term.

### **Other revenue recognition related policies**

For arrangements that include multiple performance obligations, we would evaluate all the performance obligations in the arrangement to determine whether each performance obligation is distinct. Consideration is allocated to each performance obligation based on its standalone selling price. If a promised good or service does not meet the criteria to be considered distinct, it is combined with other promised goods or services until a distinct bundle of goods or services exists.

We provide sales incentives to customers which entitle them to receive reductions in the price. We account for these incentives granted to customers as variable consideration and record them as reduction of revenue. The amount of variable consideration is measured based on the most likely amount of incentives to be provided to customers. We believe that there will not be significant changes to our estimate of variable consideration.

### ***Accounts receivable and allowance for credit losses***

Prior to the adoption of ASC 326, accounts receivable is recognized and carried at original invoiced amount less an allowance for any potential uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred. We generally do not require collateral from its customers. We maintain allowances for doubtful accounts for estimated losses resulting from the failure of customers to make payments on time. We review the accounts receivable on a periodic basis and makes specific allowances when there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balances, we consider many factors, including the customer's payment history, its current creditworthiness and current economic trends.

Upon adoption of ASC 326 on January 1, 2020, we maintain an allowance for credit losses in accordance with ASC 326 and records the allowance for credit losses as an offset to accounts receivable, and the estimated credit losses charged to the allowance is classified as "General and administrative" in the consolidated statements of comprehensive (loss) income. We assess collectability by reviewing accounts receivable on a collective basis where similar characteristics exist, primarily based on similar business line, service or product offerings and on an individual basis when we identify specific customers with known disputes or collectability issues. In determining the amount of the allowance for credit losses, we consider historical collectability based on past due status, the age of the accounts receivable balances, credit quality of our customers based on ongoing credit evaluations, current economic conditions, reasonable and supportable forecasts of future economic conditions, and other factors that may affect our ability to collect from customers. Bad debts are written off as incurred. We generally do not require collateral from its customers.

### ***Consolidation of VIEs***

PRC law currently restricts foreign ownership of internet-based and mobile-based businesses and regulates internet access, distribution of online information, online advertising, distribution and operation of online games through strict business licensing requirements and other government regulations. We are a Cayman Islands company and to comply with these foreign ownership restrictions, we operate our website and conduct substantially the majority of our online advertising and the distribution and operation of internet value-added services and internet security services businesses in the PRC through the VIEs.

Beijing Mobile and Beijing Network and other companies, the VIEs or its subsidiaries, hold the requisite ICP Licenses required to operate our internet-based, including mobile-based businesses in China. We have been and are expected to continue to be dependent on the VIEs to operate our business if PRC laws do not allow us to directly operate such business in China. Our company, as well as Beijing Security and Conew Network, our wholly-owned subsidiaries, as the case may be, has entered into a series of contractual arrangements with the VIEs and their respective shareholders. Despite the lack of technical majority ownership, there exists a parent-subsidiary relationship between us and the VIEs through the irrevocable shareholder voting proxy agreements, whereby the shareholders of the VIEs effectively assign all of the voting rights underlying their equity interests in the VIEs to our company. Furthermore, pursuant to the exclusive option agreements, which include a substantive kick-out right, our company has the power to control the shareholders of the VIEs, and therefore, the power to govern the activities that most significantly impact the economic performance of the VIEs. In addition, through the contractual arrangements, the company demonstrate their ability and intention to continue to exercise the ability to absorb substantially all of the expected losses and the majority of the profits of the VIEs, and therefore, have the rights to the economic benefits of the VIEs. As a result of these contractual arrangements, we consolidate the VIEs as required by ASC 810-10, Consolidation: Overall.

### ***Goodwill***

We assess goodwill for impairment in accordance with ASC 350, Intangibles—Goodwill and Other: Goodwill (“ASC 350-20”), which requires that goodwill to be tested for impairment at the reporting unit level at least annually and more frequently upon the occurrence of certain events. As of December 31, 2019, we have three reporting units, consisting of utility products and related services, mobile entertainment and AI and others.

We have the option to assess qualitative factors first to determine whether it is necessary to perform the two-step test in accordance with ASC 350-20. If we believe, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of the reporting unit is less than its carrying amount, the two-step quantitative impairment test described above is required. Otherwise, no further testing is required. In the qualitative assessment, we consider primary factors such as industry and market considerations, overall financial performance of the reporting unit, and other specific information related to the operations. In performing the two-step quantitative impairment test, the first step compares the carrying amount of the reporting unit to the fair value of the reporting unit based on either quoted market prices of the ordinary shares or estimated fair value using the income approach. If the fair value of the reporting unit exceeds the carrying value of the reporting unit, goodwill is not impaired, and we are not required to perform further testing. If the carrying value of the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit’s goodwill. The fair value of the reporting unit is allocated to its assets and liabilities in a manner similar to a purchase price allocation in order to determine the implied fair value of the reporting unit goodwill. If the carrying amount of the goodwill is greater than its implied fair value, the excess is recognized as an impairment loss.

On disposal of a portion of reporting unit that constitutes a business, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When we dispose of a business within the reporting unit, the amount of goodwill disposed is measured based on the relative fair value of the business disposed and the portion of the reporting unit retained. This relative fair value approach is not used when the business to be disposed was not integrated into the reporting unit after its acquisition, in which case the current carrying amount of the acquired goodwill should be included in the carrying amount of the business to be disposed.

### ***Investment in debt securities***

We account for our investments in debt securities in accordance with ASC 320-10, *Investments-Debt Securities: Overall*. We classified the investments in debt securities as “held-to-maturity”, “trading” or “available-for-sale”, whose classification determines the respective accounting methods stipulated by ASC 320-10. Dividend and interest income, including amortization of the premium and discount arising at acquisition, for all categories of investments in securities are included in earnings. Any realized gains or losses on the sale of the short-term investments are determined on a specific identification method, and such gains and losses are reflected in earnings during the period in which gains, or losses are realized.

The debt securities that we have positive intent and ability to hold to maturity are classified as held-to-maturity securities and stated at amortized cost. Prior to the adoption of ASC 326, for individual securities classified as held-to-maturity securities, we evaluate whether a decline in fair value below the amortized cost basis is other-than-temporary in accordance with our policy and ASC 320-10. When we intend to sell an impaired debt security or it is more likely than not that it will be required to sell prior to recovery of its amortized cost basis, an other-than-temporary impairment is deemed to have occurred. In these instances, the other-than-temporary impairment loss is recognized in earnings equal to the entire excess of the debt security’s amortized cost basis over its fair value at the balance sheet date of the reporting period for which the assessment is made. When we do not intend to sell an impaired debt security and it is more-likely-than-not that it will not be required to sell prior to recovery of its amortized cost basis, we must determine whether or not it will recover its amortized cost basis. If we conclude that it will not, an other-than-temporary impairment exists and that portion of the credit loss is recognized in earnings, while the portion of loss related to all other factors is recognized in other comprehensive income (loss).

Upon the adoption of ASC 326 on January 1, 2020, the allowance for credit losses of the held-to-maturity debt securities reflects our estimated expected losses over the contractual lives of the held-to-maturity debt securities and is charged to “Other expense” in the consolidated statements of comprehensive (loss) income. Estimated allowances for credit losses are determined by considering reasonable and supportable forecasts of future economic conditions in addition to information about past events and current conditions.

Debt securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities. Unrealized holding gains and losses for trading securities are included in earnings.

Debt investments not classified as trading or as held-to-maturity are classified as available-for-sale securities. Available-for-sale debt securities are reported at fair value, with unrealized gains and losses recorded in other comprehensive income (loss).

### ***Investment in equity securities***

We account for the investments in common stock or in-substance common stock in entities in which it can exercise significant influence but does not own a majority equity interest or control using the equity method in accordance with ASC 323-10, *Investments-Equity Method and Joint Ventures: Overall* unless we elect to account for the investment using the fair value option in accordance with ASC 825-10, *Financial Instruments: Fair Value Option* (“ASC 825”). We apply the equity method of accounting that is consistent with ASC 323-10 in limited partnership in which we hold a three percent or greater interest. Where the equity method is used, we initially record our investment at cost and the difference between the cost of the equity investee and the fair value of the underlying equity in the net assets of the equity investee is accounted for as if the investee were a consolidated subsidiary, which is included in the equity method investment on the consolidated balance sheets. We subsequently adjust the carrying amount of the investment to recognize our proportionate share of each equity investee’s net income or loss into earnings after the date of investment. We evaluate the equity method investments for impairment under ASC 323-10. An impairment loss on the equity method investments is recognized in earnings when the decline in value is determined to be other-than-temporary.

We have elected the fair value option when we initially recognize an equity method investment as we determined the fair value of this investment better represents the value of the underlying assets. Such election is irrevocable and can be applied to financial assets on an individual basis at initial recognition. Any changes in fair value are recognized in earnings in the consolidated statements of comprehensive (loss) income.

Equity investments with readily determinable fair value, except for those accounted for under the equity method, those that result in consolidation of the investee and certain other investments, are measured at fair value, and any changes in fair value are recognized in earnings. For equity securities without readily determinable fair value and do not qualify for the existing practical expedient in ASC 820, *Fair Value Measurements and Disclosures* (“ASC 820”) to estimate fair value using the net asset value per share (or its equivalent) of the investment, we elected to use the measurement alternative to measure those investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer, if any.

For equity investments measured at fair value with changes in fair value recorded in earnings, we do not assess whether those securities are impaired. For those equity investments that we elect to use the measurement alternative, we make a qualitative assessment of whether the investment is impaired at each reporting date. If a qualitative assessment indicates that the investment is impaired, we have to estimate the investment’s fair value in accordance with the principles of ASC 820. If the fair value is less than the investment’s carrying value, we have to recognize an impairment loss in earnings equal to the difference between the carrying value and fair value.

In January 2020, the FASB issued ASU No. 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)—Clarifying the Interactions between Topic 321, Topic 323, and Topic 815 (a consensus of the Emerging Issues Task Force). The amendments in this update clarify the interaction of the accounting for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. The Group adopted the ASU on January 1, 2021, which did not have a material impact on the consolidated financial statements.

### ***Income Taxes***

We account for income taxes using the liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the period in which the differences are expected to reverse. We record a valuation allowance against operation deferred tax assets exclude operation defer tax liability if, based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

### ***Share-based Compensation***

We account for share-based compensation following the provision of ASC 718, or ASC 718, Compensation—Stock Compensation, under which we determine whether an award should be classified and accounted for as a liability award or equity award. All grants of share-based awards to employees classified as equity awards are recognized in the financial statements based on their grant date fair values.

We have elected to recognize share-based compensation using the accelerated method, for all share-based awards granted with graded vesting based on service conditions and for awards with performance conditions if it is probable that the performance condition will be achieved. We account for forfeitures as they occur, if required vesting conditions are not met and the share-based awards are forfeited, previously recognized compensation expenses relating to those awards are reversed. We, with the assistance of an independent third-party valuation firm determined the fair value of the share-based awards granted to employees and non-employees, if applicable. The binomial tree option pricing model was applied in determining the estimated fair value of the awards.

A change in any of the terms or conditions of share options is accounted for as a modification of share-based awards. We calculate the incremental compensation cost of a modification as the excess of the fair value of the modified option over the fair value of the original option immediately before its terms are modified, measured based on the share price and other pertinent factors at the modification date. For vested share-based awards, we recognize incremental compensation cost in the period the modification occurred. For unvested share-based award, we recognize, over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award on the modification date.

#### **Recent Accounting Pronouncements**

A list of recent accounting pronouncements that are relevant to us is included in Note 2 to our consolidated financial statements, which are included in this annual report.

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## **B. Liquidity and Capital Resources**

### ***Cash Flows and Working Capital***

We finance our operations and strategic investments primarily using our cash and cash equivalents, including our operating cash inflows, short-term investments and bank loans. Cash and cash equivalents consist of cash on hand and bank deposits, which are unrestricted to withdrawal and use, and highly liquid investments with original stated maturity of three months or less. Short-term investments consist of highly liquid investments with original maturities of greater than three months but less than 12 months and investments that are expected to be realized in cash during the next 12 months. As of December 31, 2021, we had RMB1,847.5 million (US\$289.9 million) in cash and cash equivalents, restricted cash and short-term investments.

We believe that our cash and the anticipated cash flow from operations will be sufficient to meet our anticipated cash needs for the next 12 months. However, we may require additional cash resources due to changing business conditions or other future developments, including any investments or acquisitions we may decide to selectively pursue. If our existing cash resources are insufficient to meet our requirements, we may seek to sell equity or debt securities or increase our borrowing from banks.

Under PRC regulations, prior approval from and prior registration with the SAFE is required for Renminbi conversion for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside of China. Subject to certain rules and procedures, the Renminbi is freely convertible for current account items, including the distribution of dividends, and trade and service-related foreign exchange transactions. The PRC government may also at its discretion restrict access to foreign currencies for current account transactions in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends to our shareholders.

The table below sets forth a breakdown of our cash by currency and location as of December 31, 2019, 2020 and 2021:

	As of December 31,		
	2019	2020	2021
	(in thousands of RMB)		
Cash located outside of the PRC			
—held by Company and Subsidiaries in US dollars	570,235	955,720	1,210,677
—held by Company and Subsidiaries in RMB	801	1,088	206,901
—held by Company and Subsidiaries in others	93,629	101,899	72,092
—held by VIEs in US dollars	6,962	58	28
—held by VIEs in others	4,375	12	7
Cash located in the PRC			
—held by Company and Subsidiaries in RMB	211,903	202,168	47,454
—held by Company and Subsidiaries in US dollars	63,373	9,630	9,306
—held by Company and Subsidiaries in others	254	1,093	—
—held by VIEs in RMB	31,464	27,982	37,453
—held by VIEs in US dollars	8	8	8
Total cash and cash equivalents	<u>983,004</u>	<u>1,299,658</u>	<u>1,583,926</u>

The table below sets forth a breakdown of our short-term investments by location as of December 31, 2019, 2020 and 2021:

	As of December 31,		
	2019	2020	2021
	(in thousands of RMB)		
Short-term investments located outside of the PRC			
—Time deposits located outside the PRC	230,215	358,976	640
—Other short-term investment located outside the PRC	146,723	—	—
Short-term investments located in the PRC			
—Time deposits located in the PRC	992,180	1,827	262,173
Total short-term investments	<u>1,369,118</u>	<u>360,803</u>	<u>262,813</u>

The following table sets forth a summary of our cash flows for the years indicated:

	Year Ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$
	(in thousands)			
Net cash (used in) provided by operating activities	(239,544)	(46,132)	102,811	16,133
Net cash provided by (used in) investing activities	(1,085,226)	1,880,363	220,836	34,654
Net cash used in financing activities	(485,070)	(1,450,657)	(9,640)	(1,513)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	5,506	(68,763)	(29,755)	(4,669)
Cash, cash equivalents and restricted cash at the beginning of year	2,789,976	985,642	1,300,455	204,070
Net (decrease) increase in cash, cash equivalents and restricted cash	(1,804,334)	314,813	284,252	44,605
Cash, cash equivalents and restricted cash at the end of year	985,642	1,300,455	1,584,707	248,675

### Operating Activities

Net cash provided by operating activities for the year ended December 31, 2021 was RMB103.0 million (US\$16.2 million). This amount was primarily attributable to net loss of RMB353.2 million (US\$55.4 million), (i) adjusted for gains on disposal of investments of RMB92.1 million (US\$14.5 million), changes in fair value of financial assets of RMB90.6 million (US\$14.2 million) and share of income from equity method investments of RMB61.0 million (US\$9.6 million); (ii) adjusted for certain non-cash expenses, primarily impairment of assets RMB395.0 million (US\$62.0 million), depreciation of property and equipment of RMB45.8 million (US\$7.2 million); (iii) adjusted for changes in operating assets and liabilities that positively affected operating cash flow, primarily a decrease in prepayments and other current assets of RMB315.6 million (US\$49.5 million), (iv) partially offset by changes in operating assets and liabilities that negatively affected operating cash flow, primarily due to a decrease in accrued expenses and other current liabilities of RMB201.3 million (US\$31.6 million).

Net cash used in operating activities for the year ended December 31, 2020 was RMB46.1 million. This amount was primarily attributable to net income of RMB411.2 million, (i) adjusted for gain on disposal of investments of RMB507.3 million, gain on disposal of business of RMB394.2 million, and changes in fair value of financial assets of RMB127.7 million; (ii) adjusted for certain non-cash expenses, primarily impairment of assets of RMB150.4 million, depreciation of property and equipment of RMB52.1 million and share-based compensation expenses of RMB81.0 million; (iii) adjusted for changes in operating assets and liabilities that positively affected operating cash flow, primarily a decrease in accounts receivable of RMB179.2 million, an increase in accounts payable RMB104.7 million and an increase in other non-current liabilities RMB123.0 million; and (iv) partially offset by changes in operating assets and liabilities that negatively affected operating cash flow, primarily due to an increase in prepayments and other current assets of RMB87.3 million and an increase in due from related parties of RMB49.4 million.

Net cash used in operating activities for the year ended December 31, 2019 was RMB239.5 million. This amount was primarily attributable to net loss of RMB373.6 million, (i) adjusted for gain on disposal of a subsidiary of RMB840.6 million; (ii) adjusted for certain non-cash expenses, primarily impairment of assets and credit loss of RMB902.3 million, depreciation of property and equipment of RMB37.4 million, amortization of intangible assets of RMB28.1 million, non cash operating lease expenses 66.6 million and share-based compensation expenses of RMB127.4 million; (iii) adjusted for changes in operating assets and liabilities that positively affected operating cash flow, primarily an increase in accounts receivable of RMB163.4 million; and (iv) partially offset by changes in operating assets and liabilities that negatively affected operating cash flow, primarily due to an increase in prepayments and other current assets of RMB198.1 million, an increase in other non-current assets of RMB83.1 million and a decrease in operating lease liabilities of RMB71.3 million.



### ***Investing Activities***

Net cash provided by investing activities was RMB220.8 million (US\$34.7 million) for the year ended December 31, 2021, primarily attributable to proceeds from maturity of short-term investments of RMB3,726.0 million (US\$584.7 million) and proceeds from disposal of long-term investments RMB188.2 million (US\$29.5 million), partially offset by purchase of short-term investments RMB3,630.4 million (US\$569.7 million).

Net cash provided by investing activities was RMB1,880.4 million for the year ended December 31, 2020, primarily attributable to maturity of short-term investments of RMB2,327.1 million and disposal of long-term investments of RMB1,021.7 million, partially offset by purchase of short-term investments of RMB1,375.5 million.

Net cash used in investing activities was RMB1,085.2 million for the year ended December 31, 2019, primarily attributable to purchase of short-term investments of RMB3,508.1 million, purchase of long-term investments of RMB494.7 million, net cash out of dispose and deemed dispose of subsidiaries of RMB233.4 million, and purchase of property, plant and equipment of RMB102.2 million, partially offset by maturity of short-term investments of RMB3,267.0 million.

### ***Financing Activities***

Net cash used in financing activities was RMB9.6 million (US\$1.5 million) for the year ended December 31, 2021.

Net cash used in financing activities was RMB1,450.7 million for the year ended December 31, 2020. This amount was primarily due to dividends paid to shareholders of RMB1,435.8 million.

Net cash used in financing activities was RMB485.1 million for the year ended December 31, 2019. This amount was primarily due to dividends paid to shareholders of RMB500.6 million.

### ***Material cash requirements***

Our material cash requirements as of December 31, 2021 and any subsequent interim period primarily include our capital expenditures, operating lease obligations, and purchase obligations.

We incurred capital expenditures of RMB102.2 million, RMB59.3 million and RMB46.8 million (US\$7.3 million) in 2019, 2020 and 2021, respectively. Our capital expenditures were primarily attributable to purchase of computers and servers related to research and development activities, purchase of AI hardware, purchase of intangible assets, including intellectual property, game copyrights and tools applications. As our AI business expands, we may purchase more AI hardware in the future.

Our operating lease obligations consist of the commitments under the lease agreements for our office premises, which include all future cash outflows under ASC Topic 842, Leases under Note 9 to our audited consolidated financial statements.

Purchase obligations primarily consists of minimum commitment for purchase of cloud services.

We intend to fund our existing and future material cash requirements with our existing cash balance and other financing alternatives. We will continue to make cash commitments, including capital expenditures, to support the growth of our business.

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity for such assets. We do not have any obligation, including a contingent obligation, arising out of a variable interest in any unconsolidated entity that we hold and material to us, where such entity provides financing, liquidity, market risk or credit risk support to us or engages in leasing, hedging or research and development services with us.

The following table sets forth our contractual obligations by specified categories as of December 31, 2021.

	Payment due by period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(In thousands of RMB)				
Operating lease obligations	52,910	17,906	28,727	6,277	—
Purchase obligations	108,334	54,167	54,167	—	—
<b>Total</b>	<b>161,244</b>	<b>72,073</b>	<b>82,894</b>	<b>6,277</b>	<b>—</b>

Other than as discussed above, we did not have any significant capital and other commitments, long-term obligations or guarantees as of December 31, 2021.

### Holding Company Structure

Cheetah Mobile Inc. is a holding company. We conduct most of our operations through our subsidiaries and the VIEs incorporated in and outside China. As a result, although other means are available for us to obtain financing at the holding company level, Cheetah Mobile Inc.'s ability to pay dividends to the shareholders and to service any debt it may incur depends on dividends paid by our subsidiaries and service fees paid by the VIEs under the exclusive technology development, support and consultancy agreements. If any of our subsidiaries incurs debt on its own behalf in the future, the instruments governing such debt may restrict its ability to pay dividends to us.

Each of our PRC entities is required to make appropriations to certain statutory reserve funds, which are not distributable as cash dividends except in the event of a solvent liquidation of the companies. Specifically, each of our PRC entities is required to allocate at least 10% of its after-tax profits each year, if any, to fund certain statutory reserve funds until such reserve funds reach 50% of its registered capital. In addition, each of our PRC entities may allocate a portion of its after-tax profits based on PRC accounting standards to staff welfare and bonus funds, enterprise expansion fund and discretionary surplus fund, as the case may be, at the discretion of its board of directors. With the implementation of FIL, rules of activities of foreign-funded enterprises, including but not limited to the dividend distribution, will be governed by the Company Law of the People's Republic of China. According to the Company Law, if the aggregate balance of our statutory common reserve is not enough to make up for the losses of the previous year, the current year's profits shall first be used for making up the losses before the statutory common reserve is drawn according to the provisions of the preceding paragraph. After we have drawn statutory common reserve, which is 10% of the after-tax profit, from the after-tax profits, it may, upon a resolution made by the shareholders' meeting, draw a discretionary common reserve from the after-tax profits. After the losses have been made up and common reserves have been drawn, the remaining profits shall be distributed to shareholders in proportion to the actual capital contribution actually paid by them, unless otherwise agreed upon by all the shareholders. We may stop drawing the profits if the aggregate balance of the statutory common reserve has already accounted for over 50% of our registered capital. See "Item 4. Information on the Company—B. Business Overview—Regulations—Regulations of Foreign Currency Exchange, Foreign Debt and Dividend Distribution" for further details.

Loans by us to our PRC subsidiaries to finance their activities cannot exceed statutory limits, See "Item 4. Information on the Company—B. Business Overview—Regulations—Regulations on Foreign Debt" for further details. In addition, if we decide to finance our PRC subsidiaries by means of capital contributions, these capital contributions must be approved by the PRC government. Therefore, any failure or delay in receiving such registrations or approvals may limit our ability to fund our PRC subsidiaries using funds we have, hence materially and adversely affecting our liquidity and our ability to fund and expand our business.

### **C. Research and Development, Patents, and Licenses, etc.**

See “Item 4. Information on the Company—B. Business Overview—Intellectual Property.”

### **D. Trend Information**

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the year ended December 31, 2021 that are reasonably likely to have a material and adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future results of operations or financial conditions.

### **E. Critical Accounting Estimates**

For our critical accounting estimates, see “Item 5. Operating And Financial Review And Prospects—Critical Accounting Policies and Estimates.”

## **Item 6. Directors, Senior Management and Employees**

### **A. Directors and Senior Management**

The following table sets forth information regarding our executive officers and directors as of the date of this annual report.

<u>Directors and Executive Officers</u>	<u>Age</u>	<u>Position/Title</u>
Sheng Fu	44	Chief Executive Officer and Chairman of the Board of Directors
Tao Zou	46	Director
Jie Xiao	47	Director and Senior Vice President
Ning Zhang	48	Independent Director
Michael Jinbo Yao	45	Independent Director
Dr. Yi Ma	49	Independent Director
Dr. Yun Zhang	45	Independent Director
Thomas Jintao Ren	44	Chief Financial Officer
Edward Mingyan Sun	39	Senior Vice President

*Sheng Fu* has been our Chairman of the Board since March 2018, and our chief executive officer and director of the Board since November 2010. Mr. Fu has also been a senior vice president of Kingsoft Corporation since March 2011. Since September 2009, Mr. Fu has been the chief executive officer and chairman of Conew Network. Prior to that, Mr. Fu was the vice president of Matrix Partners China from November 2008. Between November 2005 and August 2008, Mr. Fu worked at Qihoo 360 serving various management roles at its 360 department, a division then in charge of developing 360 products. From March 2003 to October 2005, Mr. Fu was the product manager of 3721 Internet Real Name and 3721 Internet Assistant. Mr. Fu received a bachelor’s degree in economics from Shandong Institute of Business and Technology in China in 1999.

*Tao Zou* has been our director since December 2016. Mr. Zou was appointed to be our director by Kingsoft Corporation, at which he serves as an executive director and the chief executive officer. Mr. Zou also serves as a director of Seasun Holdings Limited, a director of Xunlei Limited (NASDAQ: XNET) and a director of 21Vianet Group, Inc. (NASDAQ: VNET). Mr. Zou joined Kingsoft Corporation in 1998 serving various management roles. Mr. Zou graduated from Nankai University in 1997.

*Jie Xiao* has been our director since March 2018, and our senior vice president since November 2014, after having served as our vice president since October 2010. Ms. Xiao is in charge of business development, marketing, commercial products, human resource and administration. From 2008 to 2010, she was a senior manager at the enterprise marketing department of Baidu, Inc. (NASDAQ: BIDU), focusing on public relations. Before that, she worked as a public relations director at Qihoo 360 Technology Co., Ltd. and a communications manager for Yahoo! China. Ms. Xiao received a bachelor’s degree in accounting from Renmin University in 1999.

*Ning Zhang* currently serves as the founder and chairman of Red Avenue Group. Red Avenue Group researches, produces, and invests in new materials through three business units: Red Avenue New Materials Group, Red Avenue Investment Group, and Red Avenue Foundation.

*Michael Jinbo Yao* is the chairman and chief executive officer of [58.com](http://58.com). Mr. Yao founded [58.com](http://58.com) and has served as the Chairman of the Board of Directors and Chief Executive Officer of [58.com](http://58.com) since its inception. Mr. Yao is a pioneer in China's Internet industry. Prior to founding [58.com](http://58.com), Mr. Yao founded in 2000 [domain.cn](http://domain.cn), a domain name transaction and value-added service website in China. After [domain.cn](http://domain.cn) was acquired by [net.cn](http://net.cn) in the same year, Mr. Yao served in various managerial roles at [net.cn](http://net.cn), including Vice President. Mr. Yao currently serves on the board of directors of Golden Pacer and Xueda Education Group. Mr. Yao received his bachelor's degrees in computer science and chemistry from Ocean University of China (formerly known as Ocean University of Qingdao) in 1999.

*Dr. Yi Ma* currently serves as a professor at the Electrical Engineering and Computer Sciences (EECS) Department of the University of California at Berkeley. From 2014 to 2017, he was a professor and the executive dean of the School of Information and Science and Technology, Shanghai Tech University, China. From 2009 to early 2014, he was a principal researcher and research manager of the Visual Computing group at Microsoft Research Asia. From 2000 to 2011, he was an associate professor at the ECE Department of the University of Illinois at Urbana-Champaign. His main research interest is in computer vision and high-dimensional data analysis. He received his Bachelor's degree in automation and applied mathematics from Tsinghua University (Beijing, China) in 1995, Master of Science degree in EECS in 1997, Master of Arts degree in mathematics in 2000, and PhD degree in EECS in 2000, all from the University of California at Berkeley. He is an IEEE Fellow since 2013 and an ACM Fellow since 2017. He is ranked as the World's Highly Cited Researchers by Clarivate Analytics of Thomson Reuters since 2016, and ranked among the Top 50 of the World's Most Influential Authors in Computer Science by Semantic Scholar, according to the Science Magazine 2016.

*Dr. Yun Zhang* currently serves as an Associate Professor of Accountancy with Tenure at the Department of Accountancy of George Washington University. From 2009 to 2015, he was an Assistant Professor of Accountancy at the Department of Accountancy of George Washington University. From 2003 to 2009, he was an Assistant Professor of Accounting at the Duke University's Fuqua School of Business. His main research interest includes managerial accounting, corporate governance and information disclosure. He received his bachelor's degree from Renmin University of China in 1998, two master's degrees from Yale University in 2002 and a Ph.D. degree from Yale University in 2004. He began serving as our independent director since September 2020.

*Thomas Jintao Ren* has been our chief financial officer since January 2020. Prior to Cheetah Mobile, Mr. Ren served as the chief financial officer of Renren Inc. (NYSE: RENN) since September 2015. Mr. Ren also served as the chief financial officer of Kaixin Auto Holdings (NASDAQ: KXIN) from September 2015 to August 2019. Kaixin Auto Holdings was a subsidiary of Renren Inc. Prior to rejoining Renren Inc., Mr. Ren was the chief financial officer at Chukong Technologies. From 2005 to 2014, Mr. Ren served as Renren Inc.'s senior finance director. Prior to that, Mr. Ren had worked at KPMG for five years. Mr. Ren holds a bachelor's degree in economics from Renmin University of China. He is a certified public accountant in China and the United States, and a chartered professional accountant in Canada.

*Edward Mingyan Sun* joined Cheetah Mobile in 2010 and has been in charge of various mobile products, including CM Launcher, Clean Master, Security Master, Cheetah Browser for both PC and mobile, and Duba Antivirus. Prior to Cheetah Mobile, Edward worked at Qihoo 360 and Trent Micro, serving in various management roles. Edward received his college degree and continued his post-graduate studies at the University of Science and Technology of China.

## **B. Compensation**

### **Compensation of Directors and Officers**

For the fiscal year ended December 31, 2021, we paid an aggregate of approximately RMB21.9 million (US\$3.4 million) in cash to our executive officers and directors (excluding independent directors), and an aggregate of approximately RMB1.8 million (US\$0.3 million) in cash to our independent directors. Our PRC entities are required by law to make contributions equal to certain percentages of each employee's salary for his or her retirement benefit, medical insurance benefits, housing funds, unemployment and other statutory benefits. For the fiscal year ended December 31, 2021, we contributed an aggregate of approximately RMB0.9 million (US\$0.1 million) for pension, retirement benefits or other similar benefits for our executive officers and directors.

## Share Incentive Awards

### Share Incentive Plans

We adopted a share award scheme in May 2011, as amended in September 2013 and November 2016, or the 2011 Plan, a 2013 equity incentive plan in January 2014, or the 2013 Plan, and a 2014 restricted shares plan, or the 2014 Plan. The purpose of our share incentive plans is to recruit and retain key employees, directors or consultants of outstanding ability and to motivate them to deliver the best performance for the benefit of our company.

#### 1. The 2011 Plan

Under the 2011 Plan, the maximum number of shares in respect of which awards that may be granted is 100,000,000 ordinary shares of our company as at the date of such grant, excluding any shares awarded that have lapsed or have been forfeited. In May 2011, we issued 100,000,000 ordinary shares that were put on trust for the benefit of participating employees in the 2011 Plan. As of March 31, 2022, 98,668,001 restricted shares (excluding those that have been forfeited) had been granted under the 2011 Plan. The 2011 plan terminated upon its expiration in May 2021, and remaining restricted shares that have not been granted, if any, are cancelled.

The following paragraphs summarize the key terms of the as amended 2011 Plan.

**Types of Awards.** The 2011 Plan provides for the award of our ordinary shares subject to certain terms and conditions that our board of directors may determine in its absolute discretion.

**Plan Administration.** Our board or a committee of our board duly authorized for the purpose of the 2011 Plan shall administer the 2011 Plan. The plan administrator will determine in its absolute discretion the employees to receive the awards, the number of awards to be granted to each selected grantee, and the terms and conditions of each award grant. We have set up a trust pursuant to a trust deed to facilitate the administration of the 2011 Plan.

**Award Notice.** Share awards granted under the 2011 Plan are evidenced by an award notice that sets forth the terms and conditions for each grant, which relate to vesting, forfeiture or lapse of unvested awarded shares, and repurchase of vested awarded shares.

**Eligibility.** We may grant awards to any employee of our company, including without limitation an employee who is also a director of our company or subsidiaries.

**Lapse of the Awards.** An award will lapse if (i) the grantee of an award ceases to be an employee of our company or subsidiaries, (ii) the company which employs the selected employee ceases to be a subsidiary of our company, or (iii) there is an ordinary or involuntary wind-up of our company or a resolution is passed for the voluntary wind-up of our company, save for the purposes of an amalgamation, reconstruction or scheme of arrangement.

**Vesting Schedule.** The plan administrator determines the vesting schedule, which is set forth in the award notice.

**Transfer Restrictions.** Each award granted under the 2011 Plan are personal to respective grantees and may not be sold, transferred, assigned, charged, mortgaged, or encumbered with any interests in favor of any other third party.

**Termination.** The 2011 Plan will terminate in May 2021, unless terminated at an earlier date by our board of directors.

#### 2. The 2013 Plan

Under the 2013 Plan, the maximum number of our ordinary shares that may be issued is 64,497,718 ordinary shares. As of March 31, 2022, 64,270,304 restricted shares (excluding those that have been forfeited) had been granted under the 2013 Plan.

The following is a summary of the key terms of the 2013 Plan.

**Types of Awards.** The 2013 Plan provides for the grant of share options and share appreciation rights, in addition to the grant or sale of other share-based awards, such as our ordinary shares, restricted shares and awards that are valued in whole or in part by reference to or based on the fair market value of our ordinary shares.

**Plan Administration.** Our board, our compensation committee, or a subcommittee thereof duly authorized for the purpose of the Plan will be the plan administrator of our 2013 Plan. The plan administrator has the sole discretion to determine the participants to receive the awards, the number and types of awards to be granted to each participant, and the terms and conditions of each award grant.

**Award Agreement.** Awards under the 2013 Plan are evidenced by an award agreement that sets forth the terms and conditions for each grant.

**Exercise Price.** The exercise price, grant price, or purchase price of any award shall be determined by the plan administrator at its sole discretion.

**Eligibility.** We may grant awards to the employees, director or consultant of our company, Kingsoft Corporation or its affiliates.

**Term of Awards.** The term of options and share appreciation rights awarded under the 2013 Plan shall be determined by the plan administrator, subject to a maximum term of ten years after the date of grant. The term of other share-based awards shall be determined by the plan administrator.

**Lapse of Option Awards.** An option award will lapse if (i) the option has expired, (ii) the participant's relationship or employment with our company and/or affiliates has been terminated with or without cause pursuant to any applicable laws or under the participant's service contract with our company and/or affiliates, (ii) winding-up of our company has been commenced, or (iii) otherwise provided for in the award agreement.

**Vesting Schedule.** The plan administrator determines the vesting schedule, which is set forth in the award agreement.

**Transfer Restrictions.** An award may not be transferred or assigned by the participant in any manner other than by will or by the laws of descent and distribution, unless otherwise determined by the plan administrator.

**Termination.** The 2013 Plan will terminate automatically in January 2024, unless terminated at an earlier date by a resolution of our shareholders.

### 3. The 2014 Plan

We adopted the 2014 Plan in April 2014. The maximum aggregate number of shares which may be issued pursuant to all awards under the 2014 Plan is 122,545,665 Class A ordinary shares. As of March 31, 2022, 45,366,926 restricted shares (excluding those that have been forfeited) had been granted under the 2014 Plan.

The following is a summary of the key terms of the 2014 Plan.

**Types of Awards.** The 2014 Plan permits the awards of restricted shares and restricted share units.

**Plan Administration.** Our board, our compensation committee, or a subcommittee thereof duly authorized for the purpose of the Plan will be the plan administrator of our 2014 Plan. The plan administrator has the sole discretion to determine the participants to receive the awards, the number and types of awards to be granted to each participant, and the terms and conditions of each award grant.

**Award Agreement.** Awards granted under the 2014 Plan are evidenced by an award agreement that sets forth terms, conditions and limitations for each award, which may include the term of the award, the provisions applicable in the event of the grantee's employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind the award.

**Eligibility.** We may grant awards to the employees, directors and consultants of our company.

**Acceleration of Awards upon Change in Control.** If a change in control of our company occurs, the plan administrator may, in its sole discretion, provide for (i) all awards outstanding to terminate at a specific time in the future and give each participant the right to exercise the vested portion of such awards during a specific period of time, or (ii) the purchase of any award for an amount of cash equal to the amount that could have been attained upon the exercise of such award, or (iii) the replacement of such award with other rights or property selected by the plan administrator in its sole discretion, or (iv) payment of award in cash based on the value of ordinary shares on the date of the change-in-control transaction plus reasonable interest.

**Vesting Schedule.** In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

**Transfer Restrictions.** Awards may not be transferred in any manner by the recipient other than by will or the laws of descent and distribution, except as otherwise provided by the plan administrator.

**Termination of the 2014 Plan.** Unless terminated earlier, the 2014 Plan will terminate automatically in 2024. Our board of directors has the authority to amend or terminate the plan subject to shareholder approval or home country practice.

The following table summarizes, as of March 31, 2022, the restricted shares that we granted to our current directors and executive officers and to other individuals as a group under our 2011 Plan, 2013 Plan and 2014 Plan, and which remained outstanding.

	Number of Restricted Shares Outstanding	Purchase Price(US\$/Share)	Date of Grant	Expiration Date
Edward Mingyan Sun	*	N/A	October 1, 2017	January 1, 2024
	*	N/A	May 1, 2017	April 24, 2024
	*	N/A	April 1, 2018	January 1, 2024
Thomas Jintao Ren	*	N/A	March 22, 2020	January 1, 2024
Individuals as a group		—	—	—
Total				

\* Less than 1% of our total outstanding Class A and Class B ordinary shares.

All restricted shares granted prior to the completion of our initial public offering under our share incentive plans entitle the holders to our Class B ordinary shares, while all restricted shares granted thereafter entitle the holders to Class A ordinary shares.

## Employment Agreements

We have entered into employment agreements with our senior executive officers. We may terminate a senior executive officer's employment for cause at any time without remuneration for certain acts of the officer, such as being convicted of or pleads guilty to a felony or to an act of fraud, misappropriation or embezzlement, any negligence or dishonest acts to the detriment of our company, or any misconduct or failure to perform his/her duties after afforded a reasonable opportunity to cure such failure. We may also terminate a senior executive officer's employment without cause at any time by giving one month's prior written notice, and we shall provide severance payments to the officer as expressly required by the applicable law of the jurisdiction where the officer is based. A senior executive officer may terminate his or her employment at any time by giving one month's prior written notice.

In connection with the employment agreement, each senior executive officer has agreed to hold all proprietary or confidential information of our company and our affiliates or the respective clients, customers or partners, including, without limitation, all software and computer formulae, designs, specifications, drawings, data, manuals and instructions and all customer and supplier lists, sales and financial information, business plans and forecasts, all technical solutions and the trade secrets of our company, in strict confidence perpetually. Each officer also agrees that we shall own all the intellectual property developed by such officer during his or her employment.

## **C. Board Practices**

### **Board of Directors**

Our board of directors currently consists of seven directors. A director is not required to hold any shares in our company to qualify to serve as a director. A director may vote with respect to any contract or transaction in which he or she is interested provided the nature of the interest is disclosed prior to its consideration and any vote thereon. Our directors may exercise all the powers of our company to borrow money, mortgage or charge our undertaking, property and uncalled capital, and to issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of our company or of any third party.

### **Committees of the Board of Directors**

We have established an audit committee, a compensation committee and a nominating and corporate governance committee under the board of directors. We have adopted a charter for each of the three committees. Each committee's members and functions are described below.

#### ***Audit Committee***

Our audit committee consists of and is chaired by Yun Zhang. Our board of directors has determined that Yun Zhang meets the "independence" requirements of NYSE and the independence standards under Rule 10A-3 under the Exchange Act. We have determined that Yun Zhang qualifies as an "audit committee financial expert." The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- selecting the independent registered public accounting firm and pre-approving all auditing and non-auditing services permitted to be performed by the independent registered public accounting firm;
- reviewing with the independent registered public accounting firm any audit problems or difficulties and management's response;
- reviewing and approving all proposed related party transactions, as defined in Item 404 of Regulation S-K under the Securities Act;
- discussing the annual audited financial statements with management and the independent registered public accounting firm;
- reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of any material control deficiencies;
- annually reviewing and reassessing the adequacy of our audit committee charter;
- meeting separately and periodically with management and the independent registered public accounting firm; and
- reporting regularly to the board.

#### ***Compensation Committee***

Our compensation committee consists of and is chaired by Ning Zhang. Our board of directors has determined that Ning Zhang satisfies the "independence" standards under applicable NYSE corporate governance rules. The compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated upon. The compensation committee is responsible for, among other things:

- reviewing and approving, or recommending to the board for its approval, the compensation for our chief executive officer and other executive officers;



- reviewing and recommending to the board for determination with respect to the compensation of our non-employee directors;
- reviewing periodically and approving any incentive compensation or equity plans, programs or similar arrangements; and
- selecting compensation consultant, legal counsel or other adviser only after taking into consideration all factors relevant to that person's independence from management.

#### ***Nominating and Corporate Governance Committee***

Our nominating and corporate governance committee consists of Ning Zhang, and Michael Jinbo Yao and is chaired by Michael Jinbo Yao. Our board of directors has determined that Ning Zhang and Michael Jinbo Yao both satisfy the "independence" standards under applicable NYSE corporate governance rules. The committee assists the board in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The committee is responsible for, among other things:

- recommending nominees to the board for election or re-election to the board, or for appointment to fill any vacancy on the board;
- reviewing annually with the board the current composition of the board with regard to characteristics such as independence, skills, experience, expertise, diversity, and availability of service to us;
- selecting and recommending to the board the directors to serve as members of each standing committee of the board; and
- developing and reviewing periodically the corporate governance principles adopted by the board to ensure appropriateness and compliance with the requirements of the NYSE, and to recommend any desirable changes to the board.

#### **Duties of Directors**

Under Cayman Islands law, our directors have a fiduciary duty to act honestly, in good faith and with a view to our best interests. Our directors also owe to our company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and restated from time to time. Our company has the right to seek damages if a duty owed by our directors is breached.

#### **Terms of Directors and Executive Officers**

Our officers are elected by and serve at the discretion of the board. Our directors are not subject to a term of office and hold office until such time as they resign or are removed from office by ordinary resolution or the unanimous written resolution of all shareholders. A director will be removed from office automatically if, among other things, the director (1) becomes bankrupt or makes any arrangement or composition with his creditors; (2) dies or is found to be or becomes of unsound mind; or (3) without special leave of absence from the board of directors, is absent from meetings of the board for three consecutive meetings and the board resolves that his office be vacated.

#### **D. Employees**

We had 2,209, 1,044 and 851 employees as of December 31, 2019, 2020 and 2021, respectively. The following table sets forth the number of our employees, categorized by function, as of December 31, 2021:

<b>Function</b>	<b>Number of Employees</b>
Operations	90
Research and development	407
Sales and marketing	185
General and administrative	169
<b>Total</b>	<b>851</b>

#### **E. Share Ownership**

For information regarding the share ownership of our directors and officers, see “Item 7. Major Shareholders and Related Party Transactions—A. Major Shareholders.” For information as to share awards granted to our directors, executive officers and other employees, see “Item 6. Directors, Senior Management and Employees—B. Compensation—Share Incentive Awards—Share Incentive Plans.”

### **Item 7. Major Shareholders and Related Party Transactions**

#### **A. Major Shareholders**

The following table sets forth information with respect to the beneficial ownership of our shares as of March 31, 2022 by:

- each of our current directors and executive officers; and
- each person known to us to own beneficially more than 5% of our shares.

Percentage of beneficial ownership is based on 1,420,620,585 total issued and outstanding ordinary shares as of March 31, 2022, representing the sum of 450,604,900 Class A ordinary shares and 970,015,685 Class B ordinary shares of our company.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. These rules generally provide that a person is the beneficial owner of securities if such person has or shares the power to vote or direct the voting of securities, or to dispose or direct the disposition of securities or has the right to acquire such powers within 60 days. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days, including through the exercise of any option, warrant or other right or the conversion of any other security, in both the numerator and the denominator. These shares, however, are not included in the computation of the percentage ownership of any other person.

	Shares Beneficially Owned		Ordinary Shares	Voting Power
	Class A Ordinary Shares	Class B Ordinary Shares	Beneficially Owned %(1)	%(2)
<b>Directors and Executive Officers**:</b>				
Sheng Fu <sup>(3)</sup>	31,012,650	68,599,088	7.0	46.4
Tao Zou <sup>(4)</sup>	—	—	—	—
Jie Xiao	*	*	*	*
Ning Zhang <sup>(5)</sup>	*	—	*	—
Michael Jinbo Yao <sup>(6)</sup>	*	—	*	—
Dr. Yi Ma <sup>(7)</sup>	*	—	*	—
Dr. Yun Zhang <sup>(8)</sup>	*	—	*	—
Thomas Jintao Ren	*	—	*	—
Edward Mingyan Sun	*	*	*	*
All directors and executive officers as a group	43,823,810	71,899,088	8.1	46.9
<b>Principal Shareholders:</b>				
Kingsoft Corporation Limited <sup>(9)</sup>	11,800,547	662,806,049	47.5	26.1
Tencent Holdings Limited <sup>(10)</sup>	15,031,120	220,481,928	16.6	21.9%
Sheng Global Limited <sup>(11)</sup>	29,996,440	65,439,278	6.7	6.7

#### Notes

- \* Less than 1% of our total outstanding Class A and Class B ordinary shares.
- \*\* Unless otherwise indicated in the notes below, the business address for our directors and executive officers is Building No. 11 Wandong Science and Technology Cultural Innovation Park No.7 Sanjianfangnanli, Chaoyang District, Beijing 100024, People's Republic of China.
- (1) Percentage ownership is calculated by dividing the number of Class A and Class B ordinary shares beneficially owned by a given person or group by the sum of (i) 1,420,620,585 ordinary shares and (ii) the number of Class A and Class B ordinary shares that such person or group has the right to acquire upon exercise of option, warrant or other right within 60 days after March 31, 2022.
- (2) Percentage of total voting power represents voting power based on both Class A and Class B ordinary shares held by a given person or group with respect to the sum of all outstanding shares of our Class A and Class B ordinary shares. The holders of our Class B ordinary shares are entitled to ten votes per share, and holders of our Class A ordinary shares are entitled to one vote per share.
- (3) Represents (i) 25,996,440 Class A ordinary shares represented by restricted ADSs and 58,139,278 Class B ordinary shares held by Sheng Global Limited, a British Virgin Islands company wholly owned by Mr. Fu, (ii) 4,000,000 Class A ordinary shares (represented by restricted ADSs) and 7,300,000 Class B ordinary shares beneficially owned by Sheng Global Limited through FaX Vision Corporation, a British Virgin Islands company controlled by Sheng Global Limited, (iii) 585,800 Class B ordinary shares that have vested to Mr. Fu under our 2011 Plan, and (iv) 1,016,210 Class A ordinary shares and 2,574,010 Class B ordinary shares that have vested to Mr. Fu under our 2013 Plan. Kingsoft Corporation have delegated approximately 39.4% voting power of our company held by Kingsoft Corporation to Mr. Sheng Fu, effective October 1, 2017. For further details, see "Item 4. Information on the Company—A. History and Development of the Company".
- (4) The business address of Mr. Zou is c/o Kingsoft Corporation Limited, Building D, Xiaomi Campus, No.33 Xierqi Middle Road, Haidian District, Beijing, People's Republic of China.
- (5) The business address of Ning Zhang is 25th Floor, Shanghai Tower, No. 501, Yincheng Middle Road, Pudong New Area, Shanghai, PRC.
- (6) The business address of Mr. Yao is Building 101, 10 Jiuxianqiao North Road Chaoyang District, Beijing, PRC.
- (7) The business address of Dr. Ma is ECS Department, 333A Cory Hall#1770 University of California, Berkeley, CA 94720-1770, USA.
- (8) The business address of Dr. Zhang is 6402 Middleburg Ln, Bethesda, MD 20817, USA .
- (9) Represents (i) 5,040,877 Class A ordinary shares, (ii) 6,759,670 Class A ordinary shares represented by ADSs, and (iii) 662,806,049 Class B ordinary shares held by Kingsoft Corporation. Kingsoft Corporation is a Cayman Islands company listed on the Hong Kong Stock Exchange (Stock Code: 3888). Kingsoft Corporation have delegated approximately 39.4% voting power of our company held by Kingsoft Corporation to Mr. Sheng Fu, effective October 1, 2017. For further details, see "Item 4. Information on the Company—A. History and Development of the Company". Kingsoft Corporation's business address is Building D, Xiaomi Campus, No.33 Xierqi Middle Road, Haidian District, Beijing, People's Republic of China.

- (10) Represents (i) 745,410 Class A ordinary shares and 14,285,710 Class A ordinary shares represented by ADSs held by THL E Limited, a British Virgin Islands company wholly owned by Tencent Holdings Limited, and (ii) 220,481,928 Class B ordinary shares held by TCH Copper Limited, a British Virgin Islands company wholly owned by Tencent Holdings Limited, as reported on the Schedule 13D jointly filed by TCH Copper Limited, Tencent Holdings Limited and THL E Limited on May 19, 2014. Tencent Holdings Limited is a Cayman Islands company listed on the Hong Kong Stock Exchange (Stock Code: 700). The business address of Tencent Holdings Limited is 29/F, Three Pacific Place, No. 1 Queen's Road East, Wan Chai, Hong Kong.
- (11) Represents (i) 25,996,440 Class A ordinary shares represented by restricted ADSs and 58,139,278 Class B ordinary shares held by Sheng Global Limited and (ii) 4,000,000 Class A ordinary shares and 7,300,000 Class B ordinary shares held by FaX Vision Corporation, a British Virgin Islands company controlled by Sheng Global Limited. The registered address of Sheng Global Limited is Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands.

As of March 31, 2022, to our knowledge, on the same basis of calculation as above, 423,905,120 Class A ordinary shares represented by ADSs, or approximately 29.84% of our total outstanding ordinary shares were held by one record shareholder in the United States, namely The Bank of New York Mellon, the depository of our ADS program. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to ten votes per share. Apart from the delegation of voting rights pertaining up to 399,445,025 Class B ordinary shares of our company by Kingsoft Corporation to Mr. Fu, we are not aware of any arrangement in effect that will, at a subsequent date, result in a change of control of our company. None of our major shareholders have different voting rights apart from any Class B ordinary shares that they may hold in our company.

## **B. Related Party Transactions**

### **Contractual Arrangements with VIEs**

Due to certain restrictions under PRC law on foreign ownership and investment in value-added telecommunications services in China, we conduct our operations in China principally through contractual arrangements with the VIEs in China and their respective shareholders. For a description of these contractual arrangements, see "Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with the VIEs."

### **Transactions and Agreements with Kingsoft Corporation**

Kingsoft Corporation is one of our principal shareholders, with beneficial ownership and voting power of 47.5% and 26.1%, respectively, of our outstanding Class A and Class B ordinary shares on an as-converted basis as of March 31, 2022.

Our company has certain common directors and officers with Kingsoft Corporation. As of the date of this annual report, Mr. Tao Zou, one of our directors, is also the chief executive officer and director of Kingsoft Corporation.

Kingsoft Corporation is a company with shares listed on the Hong Kong Stock Exchange, and is accordingly subject to the requirements of the Hong Kong Listing Rules. Before October 1, 2017, under the Hong Kong Listing Rules, we were a "connected person" of Kingsoft Corporation.

Accordingly, transactions between us, our subsidiaries and the VIEs, on the one hand, and Kingsoft Corporation or any of its subsidiaries (excluding us and our subsidiaries and VIEs), on the other hand, were "connected transactions." Under the Hong Kong Listing Rules, all connected transactions must be carried out on normal commercial terms, and if the value of a connected transaction exceeds the applicable thresholds, it was subject to the approval of the independent shareholders of Kingsoft Corporation.

### ***Services received from Kingsoft Group***

Historically, we have entered into various transactions including promotion services, licensing services, cloud services etc. from time to time with Kingsoft Corporation, its subsidiaries and their respective associates, or collectively the Kingsoft Group. We entered into a cooperation framework agreement with Kingsoft Corporation on December 27, 2013 for an initial term until December 31, 2016. Upon expiration of the initial term, the agreement was automatically renewed for three years pursuant to its terms. This agreement governs the following transactions between our company and Kingsoft Corporation:

- *Promotion services.* We and Kingsoft Corporation mutually provided promotion services through their own products and websites for the sale of the other party's products, including but not limited to pre-installation, bundle promotion, joint operation and publishing online advertisement;
- *Licensing services.* Kingsoft Corporation granted licenses to use, among others, certain technologies, trademarks and software products. Such licenses automatically terminated upon October 1, 2017. We and Kingsoft Corporation entered into a new Trademark Licensing Contract in 2018, under which we are licensed with certain selected trademarks of Kingsoft Corporation and its relevant subsidiaries;
- *Miscellaneous services.* Kingsoft Corporation provided miscellaneous services to our company, including but not limited to leasing services, administration assistance services and technology support services.

We and Kingsoft Corporation may enter into individual contracts from time to time when necessary according to the principles and scope provided for under the framework agreement. Pursuant to the framework agreement, the transactions between us and Kingsoft Corporation will be priced based on: (i) the prevailing fair market pricing rules adopted in the same industry; (ii) a price calculated based on costs plus reasonable profit margin; or (iii) a price with reference to the price or reasonable profit margin of an independent third party.

On February 16, 2017, Kingsoft Japan entered into an exclusive licensing agreement with Kingsoft Corporation, pursuant to which Kingsoft Corporation granted Kingsoft Japan the exclusive right to use certain office software within Japan and to sub-license such software to original equipment manufacturers in Japan solely for their self-use and sale of products and services.

We entered into corporation promotion agreements with Zhuhai Kingsoft Office Software, a subsidiary of Kingsoft Corporation. Under the agreements, Zhuhai Kingsoft Office Software agreed to promote our products on its platforms. The promotion fee was priced based on effective IP clicks.

For the years ended December 31, 2019, 2020 and 2021, we recognized aggregate fees of RMB23.8 million, RMB23.9 million and RMB19.1 million (US\$3.0 million), respectively, to Kingsoft Corporation and its subsidiaries for the services they provided to us.

### ***Transactions with Tencent Group***

We entered into a strategic cooperation agreement dated December 27, 2013 with Shenzhen Tencent Computer Systems Company Limited, or Tencent Shenzhen, to promote various types of products of Tencent Holdings Limited, its subsidiaries and their respective associates, or collectively the Tencent Group, through various forms of promotion services on our mobile and PC applications and platforms. Tencent Shenzhen is a subsidiary of Tencent Holdings Limited, one of our major beneficial shareholders. The price of services provided between us and Tencent Shenzhen will be based on (i) the prevailing fair market price, (ii) the actual cost incurred plus a reasonable profit margin, or (iii) a price with reference to the price or reasonable profit margin of an independent third party conducting the similar transactions. The term of the cooperation agreement was from January 1, 2014 to December 31, 2015. On December 30, 2015, we entered into a new strategic cooperation agreement with Tencent Shenzhen, pursuant to which we and the Tencent Group will continue to provide promotion services to each other. We and Tencent Group may enter into individual agreements from time to time accordingly, and except of promotion services, we also purchase cloud services from Tencent Group. For the years ended December 31, 2019, 2020 and 2021, we recognized total revenues of RMB176.1 million, RMB73.5 million and RMB40.3 million (US\$6.3 million), respectively, from the Tencent Group, and recognized aggregate fees of RMB73.7 million, RMB51.1 million and RMB32.6 million (US\$5.1 million), respectively, to the Tencent Group.

### ***Transactions with Beijing OrionStar***

In 2017, we completed capital injection into Beijing OrionStar, an artificial intelligence company incorporated in China and controlled by Mr. Sheng Fu. As a result, we, through Beijing Security, hold approximately 30% of then equity interest in Beijing OrionStar and have a two-year warrant to subscribe to additional equity interests amounted to RMB403.4 million at the same valuation of our capital injection. In 2018, we acquired additional preferred share of Beijing OrionStar, through the exercise of part of the two-year warrant at a cash consideration of RMB203.2 million. Subsequent to the transaction, we owned 41.5% equity interest not qualified as in-substance common stock of Beijing OrionStar. In 2019, we acquired additional preferred share of Beijing OrionStar by virtue of the exercise of all our remaining warrants with a cash consideration of approximately RMB262.1 million during Beijing OrionStar's series B corporate financing transactions. Subsequent to the transaction, our equity interests of OrionStar decreased to 38.73% on a fully diluted basis.

From 2018, we entered into a distributorship and cooperation agreement and several AI robots purchase agreements with Beijing OrionStar. For the years ended December 31, 2019, 2020 and 2021, we purchased products from OrionStar of RMB98.2 million, RMB87.1 million, and RMB40.3 million (US\$6.3 million), respectively.

From December 2018, we entered into several commissioned development and service agreements, with Beijing OrionStar, pursuant to which Beijing OrionStar agrees to provide technical and promotion service to us. For the years ended December 31, 2019, 2020 and 2021, we recognized total cost of RMB16.9 million, RMB10.8 million, RMB3.8 million (US\$0.6 million), respectively.

From 2018, we entered into several service agreements with Beijing OrionStar, pursuant to which we provide technical and multi-cloud management services to Beijing OrionStar. For the years ended December 31, 2019, 2020 and 2021, we recognized total revenue of RMB20.2 million, RMB4.2 million, RMB3.9 million (US\$0.6 million), respectively.

In 2021, we provided a convertible loan of RMB100 million (US\$15.7 million) to Beijing OrionStar. The conversion features were considered as embedded derivatives that do not meet the criteria to be bifurcated and were accounted for together with the loan receivable.

#### ***Transactions with Live.me***

On September 30, 2019, Live.me amended its share incentive plan to (i) increase the number of shares to be issued under the current plan and (ii) issue shares under the plan into a trust for the benefit of current and future recipients of Live.me share incentive awards. Subsequent to the amendment, we own 49.6% voting rights of Live.me and deconsolidated Live.me as we are no longer a majority shareholder of Live.me. Live.me was considered a related party after deconsolidation. From 2019, we entered into several service agreements with Live.me, pursuant to which we provide technical, multi-cloud management and other services to Live.me. For the years ended December 31, 2019, 2020 and 2021, we recognized total revenue of RMB4.8 million, RMB27.4 million, RMB11.7 million (US\$ 1.8 million), respectively. In 2020, we disposed an internet related business to Live.me with total consideration amounted to RMB11.1 million (US\$1.7 million).

#### ***Transactions with Pixiu. Inc***

From 2017, we entered into several service agreements with Pixiu. Inc, pursuant to which we provide technical, multi-cloud management and other services to Pixiu. Inc. For the years ended December 31, 2019, 2020 and 2021, we recognized total revenue of RMB13.4 million, RMB2.0 million and RMB9.6 million (US\$1.5 million), respectively.

#### **Registration Rights Agreement**

Pursuant to the registration rights agreement dated April 25, 2014 with Kingsoft Corporation, Xiaomi Ventures Limited and Baidu Holdings Limited, we agreed to grant each of the parties Form F-3 registration rights and the piggyback registration rights. In addition, we agreed to pay expenses relating to their exercise of Form F-3 registration rights and piggyback registration rights, except for underwriting discounts and commissions relating to the sale of securities, unless, subject to a few exceptions, a registration request is subsequently withdrawn at the request of a majority-in-interest of the holders requesting such registration.

#### **Employment Agreements**

See “Item 6. Directors, Senior Management and Employees—B. Compensation—Employment Agreements.”

## Share Incentive Plans

“Item 6. Directors, Senior Management and Employees—B. Compensation—Share Incentive Awards— Share Incentive Plans.”

## Other Transactions with Certain Directors and Affiliates

See “Item 6. Directors, Senior Management and Employees—B. Compensation—Compensation of Directors and Officers.”

## C. Interests of Experts and Counsel

Not applicable.

## Item 8. Financial Information

### A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report.

## Legal Proceedings

We are subject to legal proceedings and claims in our ordinary course of business from time to time.

We and certain of our current and former officers have been named as defendants in two putative securities class actions filed on June 25, 2020 and July 31, 2020 respectively in the U.S. District Court for the Central District of California. On August 24, 2020, the Court consolidated the two cases under the caption *In Re: Cheetah Mobile, Inc. Securities Litigation* (Case No. 2:20-cv-05696). On March 15, 2021, an amended complaint was filed. According to the amended complaint, the action is purportedly brought on behalf of a class of persons who allegedly suffered damages as a result of their trading in our ADRs between April 26, 2017 and March 24, 2020. The action alleges that we made false or misleading statements regarding our business and operations in violation of the Sections 10(b) and 20(a) of the U.S. Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder. Briefing on the motion to dismiss was completed in July 2021. On March 30, 2022, the Court granted the Company’s motion to dismiss, with leave for Plaintiffs to amend the complaint. On May 6, 2022, the parties reached a stipulation, pursuant to which Plaintiffs voluntarily dismissed the claims asserted in the action, and agreed that they would not amend the complaint or appeal the Court’s order. The case is now closed. For risks and uncertainties relating to any lawsuits against us, please see “Item 3. Key Information—D. Risk Factors—Risks Relating to the ADSs — We have incurred increased costs as a result of being a public company, and the costs may continue to increase in the future.” For further information on certain legal proceedings and arbitration that we are currently involved in, see “Note 16. Commitments and Contingencies—Litigation” to our consolidated financial statements for the years ended December 31, 2018, 2019 and 2020 included in this annual report.

The Staff of the Division of Enforcement of the SEC is conducting an investigation relating to our disclosures for fiscal year 2015 regarding our relationship with one of our advertising business partners. The SEC investigation also relates to Rule 10b5-1 trading plans entered into by certain of our current and former officers and directors and sales of our ADS under those plans in 2015 and 2016. We and our current and former officers and directors have been fully cooperating with the SEC and are in discussions with the SEC concerning the potential outcome of the investigation. While we believe the SEC investigation is nearing conclusion, the exact duration and outcome of the SEC matter cannot be predicted at this time. A settlement or litigation with the SEC could include allegations by the SEC of violations of the U.S. securities laws against us and/or our current and former officers and directors involved, seeking various remedies, including penalties, fines, injunctive relief, a cease and desist order, officer and director bars, certain compliance undertakings, and other limitations or sanctions under the U.S. securities laws.

In September 2011, Mr. Sheng Fu, our chief executive officer, was named as a defendant in a lawsuit filed by Qihoo in the High Court of the Hong Kong Special Administrative Region. The complaint was subsequently amended in May 2012, July 2012 and January 2014. The amended complaint alleges that Mr. Fu has breached his contractual obligations of confidentiality, non-competition, non-solicitation and non-disparagement under the agreements Mr. Fu had entered into with a subsidiary of Qihoo prior to his resignation from the subsidiary in August 2008. The complaint asserts that Mr. Fu was a product manager of Qihoo and was responsible for, and participated in, product design and research of certain antivirus products, including 360 Anti-virus and 360 Safe Guard and had access to the related confidential information, trade secret, technology and know-how.

In connection with the above claims, the complaint specifically alleges that Mr. Fu: (i) used confidential information of Qihoo to develop, by himself or through Beijing Conew and Conew Network, an anti-virus product released around May 2010 that was substantially similar to Qihoo's 360 Anti-virus and 360 Safe Guard and infringed upon the confidential information, trade secrets and other rights of Qihoo; (ii) engaged in or dealt with businesses and products that directly competed with the businesses and/or products of Qihoo within the 18-month restricted period; (iii) employed employees of Qihoo within the 18-month restricted period, including Mr. Ming Xu, our former president, who was the then director of technology of 360 Safe Guard, a division of Qihoo; and (iv) made certain negative statements publicly about Qihoo.

Qihoo is seeking a court declaration that Qihoo's repurchase of its shares previously granted to Mr. Fu under Qihoo's share incentive plan at a nominal value was valid, a court order that Mr. Fu cease to use any confidential information or know-how of Qihoo, damages for disparagement, and a court order that Mr. Fu account to Qihoo for any profits that he earned as a result of the alleged breach.

Mr. Fu joined us in October 2010 when we acquired Conew.com Corporation, for which Mr. Fu served as the chief executive officer prior to the acquisition. Our product offerings do not include, and are not derived from, the anti-virus products referenced in the complaint.

### **Dividend Policy**

We declared and paid cash dividends to our shareholders of approximately US\$72 million and US\$200 million in 2019 and 2020, respectively, which was funded by cash on our balance sheet. We currently have no plan to declare or pay any dividends in the near future on our shares or ADSs. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

We are a holding company incorporated in the Cayman Islands. We rely on a significant amount of dividends from our subsidiaries for our cash requirements, including any payment of dividends to our shareholders. With respect to our PRC subsidiaries, PRC regulations may restrict their abilities to pay dividends to us. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—We may rely on dividends paid by our subsidiaries, including PRC subsidiaries, to fund any cash and financing requirements we may have. Any limitation on the ability of our subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business and to pay dividends to holders of the ADSs and our ordinary shares." and "Item 4. Information on the Company—B. Business Overview—Regulations—Regulations of Foreign Currency Exchange, Foreign Debt and Dividend Distribution."

Our board of directors has discretion as to whether to distribute dividends, subject to applicable laws. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our directors. Under Cayman Islands law, a Cayman Islands company may pay a dividend on its shares out of either profit or share premium amount, provided that in no circumstances may a dividend be paid if this would result in our being unable to pay its debts due in the ordinary course of business. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant. If we pay any dividends, we will pay our ADS holders to the same extent as holders of our ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. See "Item 12. Description of Securities Other than Equity Securities—D. American Depositary Shares." Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.



**B. Significant Changes**

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

**Item 9. The Offer and Listing****A. Offering and Listing Details**

See “—C. Markets.”

**B. Plan of Distribution**

Not applicable.

**C. Markets**

Our ADSs have been listed on the NYSE since May 8, 2014 under the symbol “CMCM.”

**D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

**Item 10. Additional Information****A. Share Capital**

Not applicable.

**B. Memorandum and Articles of Association**

We incorporate by reference into this annual report the description of our fourth amended and restated memorandum and articles of association contained in our F-1 registration statement (File No. 333-194996), as amended, initially filed with the SEC on April 2, 2014. The fourth amended and restated memorandum and articles of association were adopted by our shareholders by a special resolution passed on April 2, 2014, and became effective immediately prior to the completion of our initial public offering of the Class A ordinary shares represented by ADSs.

**C. Material Contracts**

We have not entered into any material contracts other than in the ordinary course of business and other than those described in “Item 4. Information on the Company” or elsewhere in this annual report.

**D. Exchange Controls**

See “Item 4. Information on the Company—B. Business Overview—Regulations—Regulation of Foreign Exchange and Dividend Distribution.”

## **E. Taxation**

### **Cayman Islands Taxation**

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or after execution brought within the jurisdiction of, the Cayman Islands. There are no exchange control regulations or currency restrictions in the Cayman Islands.

### **People's Republic of China Taxation**

Under the PRC Enterprise Income Tax Law, or the EIT Law, which became effective on January 1, 2008 and was amended on and being effective from December 29, 2018, an enterprise established outside the PRC with “de facto management bodies” within the PRC is considered a “resident enterprise” for PRC enterprise income tax purposes and is generally subject to a uniform 25% enterprise income tax rate on its worldwide income.

On April 22, 2009, the State Administration of Taxation, or the SAT, issued the Notice Regarding the Determination of Chinese-Controlled Overseas Incorporated Enterprises as PRC Tax Resident Enterprise on the Basis of De Facto Management Bodies, or SAT Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC controlled enterprise that is incorporated offshore is located in China. Further to SAT Circular 82, on July 27, 2011, the SAT issued the Administrative Measures for Enterprise Income Tax of Chinese-Controlled Offshore Incorporated Resident Enterprises (Trial), or SAT Bulletin 45, to provide more guidance on the implementation of SAT Circular 82; the bulletin became effective on September 1, 2011. SAT Bulletin 45 clarified certain issues in the areas of resident status determination, post-determination administration and competent tax authorities procedures. According to SAT Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be considered as a PRC tax resident enterprise by virtue of having its “de facto management body” in China only if all of the following conditions are met: (a) the senior management and core management departments in charge of its daily operations function have their presence mainly in the PRC; (b) its financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (c) its major assets, accounting books, company seals, and minutes and files of its board and shareholders’ meetings are located or kept in the PRC; and (d) more than half of the enterprise’s directors or senior management with voting rights habitually reside in the PRC. Although SAT Circular 82 and SAT Bulletin 45 only apply to offshore incorporated enterprises controlled by PRC enterprises or PRC enterprise groups and not those controlled by PRC individuals or foreigners, the determination criteria set forth therein may reflect the SAT’s general position on how the term “de facto management body” could be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises, individuals or foreigners.

We do not believe Cheetah Mobile Inc. meets all of the criteria described above. We believe that none of Cheetah Mobile Inc. and its subsidiaries outside of China is a PRC tax resident enterprise, because none of them is controlled by a PRC enterprise or PRC enterprise group, and because their records (including the resolutions of its board of directors and the resolutions of shareholders) are maintained outside the PRC. However, as the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body” when applied to our offshore entities, we may be considered as a resident enterprise and may therefore be subject to PRC enterprise income tax at 25% on our global income. In addition, if the PRC tax authorities determine that our company is a PRC resident enterprise for PRC enterprise income tax purposes, dividends paid by us to non-PRC holders may be subject to PRC withholding tax, and gains realized on the sale or other disposition of ADSs or ordinary shares may be subject to PRC tax, at a rate of 10% in the case of non-PRC enterprises or 20% in the case of non-PRC individuals (in each case, subject to the provisions of any applicable tax treaty), if such dividends or gains are deemed to be from PRC sources. Any such tax may reduce the returns on your investment in the ADSs.

If we are considered a “non-resident enterprise” by the PRC tax authorities, the dividends paid to us by our PRC subsidiaries will be subject to a 10% withholding tax. The EIT Law also imposes a withholding income tax of 10% on dividends distributed by an foreign invested enterprise to its immediate holding company outside of China, if such immediate holding company is considered as a non-resident enterprise without any establishment or place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company’s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. The Cayman Islands, where our company is incorporated, and the British Virgin Islands, where our subsidiary Cnew.com Corporation was incorporated, do not have such tax treaties with China. None of our U.S. subsidiaries is an immediate holding company of our PRC subsidiaries. Under the Arrangement Between the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital, the dividend withholding tax rate may be reduced to 5%, if a Hong Kong resident enterprise that receives a dividend is considered a non-PRC tax resident enterprise and holds at least 25% of the equity interests in the PRC enterprise distributing the dividends, subject to approval of the PRC local tax authority. However, if the Hong Kong resident enterprise is not considered to be the beneficial owner of such dividends under applicable PRC tax regulations, such dividends may remain subject to withholding tax at a rate of 10%.

Accordingly, our Hong Kong subsidiaries may be able to enjoy the 5% withholding tax rate for the dividends they receive from our PRC subsidiaries if they satisfy the relevant conditions under tax rules and regulations, and obtain the approvals as required. According to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises issued by the PRC State Administration of Taxation on December 10, 2009, with retroactive effect from January 1, 2008, or SAT Circular 698, where a non-resident enterprise transfers the equity interests in a PRC resident enterprise indirectly through a disposition of equity interests in an overseas holding company (other than a purchase and sale of shares issued by a PRC resident enterprise in public securities market), PRC tax reporting and payment obligations may be triggered. On February 6, 2015, SAT issued a new guidance (Bulletin [2015] No. 7), or SAT Bulletin 7, on the PRC tax treatment of an indirect transfer of assets by a non-resident enterprise. SAT Bulletin 7 is the latest regulatory instrument on indirect transfers, extending to not only the indirect transfer of equity interests in PRC resident enterprises but also to assets attributed to an establishment in China and immovable property in China or, collectively, Chinese Taxable Assets. Further, on October 17, 2017, SAT issued the Matters Regarding Withholding Corporate Income Tax at Source for Non-Tax Resident Enterprises (Bulletin [2017] No. 37), or SAT Bulletin 37, abolish SAT Circular 698 and specify the withhold liability of the transferees. According to SAT Bulletin 7 and SAT Bulletin 37, when a non-resident enterprise engages in an indirect transfer of Chinese Taxable Assets, or Indirect Transfer, through an arrangement that does not have a bona fide commercial purpose in order to avoid paying enterprise income tax, the transaction should be re-characterized as a direct transfer of the Chinese assets and becomes taxable in China under the EIT Law, and gains derived from such indirect transfer may be subject to the PRC withholding tax at a rate of up to 10%, and the party who is obligated to make the transfer payments has the withholding obligation. SAT Bulletin 7 and 37 have replaced SAT Circular 698 in its entirety. They provide more comprehensive guidelines on a number of issues. Among other things, SAT Bulletin 7 substantially changes the reporting requirements in SAT Circular 698, provides more detailed guidance on how to determine a bona fide commercial purpose, and also provides for a safe harbor for certain situations, including purchase and sale of shares in an offshore listed enterprise on a public market by a non-resident enterprise, which may not be subject to the PRC enterprise income tax. In addition, SAT Circular 698 now has been abolished by Announcement of the State Administration of Taxation on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source issued by the PRC State Administration of Taxation on October 17, 2017, with retroactive effect from December 1, 2017, or SAT Circular 37.

### **United States Federal Income Taxation**

The following discussion is a summary of United States federal income tax considerations relating to the ownership, and disposition of the ADSs or Class A ordinary shares by a U.S. holder (as defined below) that holds the ADSs or Class A ordinary shares as “capital assets” (generally, property held for investment) under the United States Internal Revenue Code of 1986, as amended (the “Code”). This discussion is based upon existing United States federal income tax law, which is subject to differing interpretations or change, possibly with retroactive effect. This discussion does not address all aspects of United States federal income taxation that may be important to particular holders in light of their individual circumstances, including holders subject to special tax rules (for example, banks or other financial institutions, insurance companies, broker-dealers, pension plans, cooperatives, traders in securities that have elected the mark-to-market method of accounting for their securities, partnerships and their partners, regulated investment companies, real estate investment trusts, and tax-exempt organizations (including private foundations)), holders who are not U.S. holders, holders who own (directly, indirectly, or constructively) 10% or more of our stock (by vote or value), holders who acquired their ADSs or Class A ordinary shares pursuant to any employee share option or otherwise as compensation, holders that hold their ADSs or Class A ordinary shares as part of a straddle, hedge, conversion, constructive sale, or other integrated transaction for United States federal income tax purposes, or holders that have a functional currency other than the United States dollar, all of whom may be subject to tax rules that differ significantly from those summarized below. In addition, except to the extent described below, this discussion does not discuss any alternative minimum tax, state, or local tax, non-United States tax considerations, any non-income tax (such as the United States federal gift and estate tax) considerations, or the Medicare tax considerations. Each U.S. holder is urged to consult its tax advisors regarding the United States federal, state, local, and non-United States income and other tax considerations with respect to our ownership and disposition of the ADSs or Class A ordinary shares.

## **General**

For purposes of this discussion, a “U.S. holder” is a beneficial owner of the ADSs or Class A ordinary shares that is, for United States federal income tax purposes, (i) an individual who is a citizen or resident of the United States, (ii) a corporation (or other entity treated as a corporation for United States federal income tax purposes) created in, or organized under the laws of, the United States or any state thereof or the District of Columbia, (iii) an estate the income of which is includible in gross income for United States federal income tax purposes regardless of its source, or (iv) a trust (A) the administration of which is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust or (B) that has otherwise elected to be treated as a United States person under the Code.

If a partnership (or other entity treated as a partnership for United States federal income tax purposes) is a beneficial owner of the ADSs or Class A ordinary shares, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Partnerships holding the ADSs or Class A ordinary shares and partners in such partnerships are urged to consult their tax advisors as to the particular United States federal income tax consequences with respect to the ownership and disposition of the ADSs or Class A ordinary shares.

For United States federal income tax purposes, it is generally expected that a U.S. holder of ADSs will be treated as the beneficial owner of the underlying shares represented by the ADSs. The remainder of this discussion assumes that a holder of ADSs will be treated in this manner. Accordingly, deposits or withdrawals of Class A ordinary shares for ADSs will generally not be subject to United States federal income tax.

## **Passive Foreign Investment Company Considerations**

A non-United States corporation, such as our company, will be a “passive foreign investment company,” or “PFIC,” for United States federal income tax purposes, if, in the case of any particular taxable year, either (i) 75% or more of its gross income for such year consists of certain types of “passive” income or (ii) 50% or more of the value of its assets (generally determined on the basis of a quarterly average) during such year produce or are held for the production of passive income. For this purpose, cash is categorized as a passive asset and the company’s unbooked intangibles associated with active business activities may generally be classified as active assets. Passive income generally includes, among other things, dividends, interest, rents, royalties, and gains from the disposition of passive assets. We will be treated as owning a proportionate share of the assets held and earning a proportionate share of the income received, by any other corporation in which we own, directly or indirectly, 25% or more (by value) of the stock.

Although the law in this regard is unclear, we treat the VIEs as being owned by us for United States federal income tax purposes, not only because we exercise effective control over the operation of such entities but also because we are entitled to substantially all of their economic benefits, and, as a result, we consolidate their results of operations in our consolidated financial statements.

Based on the market price of our ADSs and the composition of assets (in particular the substantial amount of cash and investments), we believe that we were a PFIC for United States federal income tax purposes for the taxable year ended December 31, 2021, and we will likely be classified as a PFIC for our current taxable year unless the market price of our ADSs increases and /or we invest a substantial amount of the cash and other passive assets we hold in assets that produce or are held for the production of non-passive income.

If we are a PFIC for any year during which a U.S. holder holds the ADSs or Class A ordinary shares, we generally would continue to be treated as a PFIC for all succeeding years during which such U.S. holder holds the ADSs or Class A ordinary shares even if we cease to meet the threshold requirements for PFIC status, unless a U.S. holder makes a taxable “deemed sale” election that may allow the U.S. holder to eliminate the continuing PFIC status under certain circumstances. The United States federal income tax rules that apply if we are a PFIC for the current taxable year or any subsequent taxable year are generally discussed below under “Passive Foreign Investment Company Rules.”

### ***Dividends***

Subject to the PFIC rules discussed below, any cash distributions (including the amount of any tax withheld) paid on the ADSs or Class A ordinary shares out of our current or accumulated earnings and profits, as determined under United States federal income tax principles, will generally be includible in the gross income of a U.S. holder as dividend income on the day actually or constructively received by the U.S. holder, in the case of Class A ordinary shares, or by the depository, in the case of ADSs. Because we do not intend to determine our earnings and profits on the basis of United States federal income tax principles, any distribution paid will generally be reported as a “dividend” for United States federal income tax purposes. A non-corporate recipient of dividend income will generally be subject to tax on dividend income from a “qualified foreign corporation” at a reduced United States federal tax rate rather than the marginal tax rates generally applicable to ordinary income provided that certain holding period requirements are met.

A non-United States corporation (other than a corporation that is a PFIC for the taxable year in which the dividend is paid or the preceding taxable year) will generally be considered to be a qualified foreign corporation(a) if it is eligible for the benefits of a comprehensive tax treaty with the United States which the Secretary of Treasury of the United States determines is satisfactory for purposes of this provision and which includes an exchange of information program, or (b) with respect to any dividend it pays on stock (or ADSs in respect of such stock) which is readily tradable on an established securities market in the United States. Our ADSs are listed on the NYSE, which is an established securities market in the United States, and the ADSs are expected to be readily tradable for so long as they continue to be listed on the NYSE. There can be no assurance that our ADSs will be considered readily tradable on an established securities market in the current taxable year or future taxable years.

Since we do not expect that our Class A ordinary shares will be listed on an established securities markets, it is unclear whether dividends that we pay on our Class A ordinary shares that are not backed by ADSs currently meet the conditions required for the reduced tax rate. However, in the event we are deemed to be a resident enterprise under the PRC Enterprise Income Tax Law, we may be eligible for the benefits of the United States-PRC income tax treaty (which the U.S. Treasury Department has determined is satisfactory for this purpose) and in that case we would be treated as a qualified foreign corporation with respect to dividends paid on our Class A ordinary shares or ADSs. Each non-corporate U.S. holder is advised to consult its tax advisors regarding the availability of the reduced tax rate applicable to qualified dividend income for any dividends we pay with respect to the ADSs or our Class A ordinary shares. Dividends received on the ADSs or Class A ordinary shares will not be eligible for the dividends received deduction allowed to corporations.

Dividends will generally be treated as income from foreign sources for United States foreign tax credit purposes and will generally constitute passive category income. In the event that we are deemed to be a PRC “resident enterprise” under the PRC Enterprise Income Tax Law, a U.S. holder may be subject to PRC withholding taxes on dividends paid on the ADSs or Class A ordinary shares. See “—People’s Republic of China Taxation.” A U.S. holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of any foreign withholding taxes imposed on dividends received on the ADSs or Class A ordinary shares. A U.S. holder who does not elect to claim a foreign tax credit for foreign tax withheld may instead claim a deduction, for United States federal income tax purposes, in respect of such withholding taxes, but only for a year in which such U.S. holder elects to do so for all creditable foreign income taxes. The rules governing the foreign tax credit are complex. U.S. holders are advised to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

As mentioned above, we believe that we were a PFIC for the taxable year ended December 31, 2021, and we will likely be classified as a PFIC for our current taxable year. U.S. holders are urged to consult their tax advisors regarding the availability of the reduced tax rate on dividends with respect to the ADSs or Class A ordinary shares in their particular circumstances.

### ***Sale or Other Disposition of ADSs or Ordinary Shares***

Subject to the PFIC rules discussed below, a U.S. holder will generally recognize capital gain or loss upon the sale or other disposition of the ADSs or Class A ordinary shares in an amount equal to the difference between the amount realized upon the disposition and the U.S. holder's adjusted tax basis in such ADSs or Class A ordinary shares. Any capital gain or loss will be long-term if the ADSs or Class A ordinary shares have been held for more than one year and will generally be United States source gain or loss for United States foreign tax credit purposes. Long-term capital gain of non-corporate U.S. holders is generally eligible for a reduced rate of taxation. The deductibility of a capital loss may be subject to limitations. In the event that we are treated as a PRC "resident enterprise" under the PRC Enterprise Income Tax Law and gain from the disposition of the ADSs or Class A ordinary shares is subject to tax in the PRC, a U.S. holder that is eligible for the benefits of the income tax treaty between the United States and the PRC (the "Treaty") may elect to treat the gain as PRC source income. Pursuant to recently issued Treasury Regulations, however, if a U.S. Holder is not eligible for the benefits of the Treaty or does not elect to apply the Treaty, then such holder may not be able to claim a foreign tax credit arising from any PRC tax imposed on the disposition of the ADSs or ordinary shares. U.S. holders are advised to consult its tax advisors regarding the tax consequences if a foreign tax is imposed on a disposition of the ADSs or Class A ordinary shares, including the availability of the foreign tax credit or deduction under their particular circumstances, their eligibility for benefits under the Treaty and the potential impact of the recently issued Treasury Regulations.

As mentioned above, we believe that we were a PFIC for the taxable year ended December 31, 2021, and we will likely be classified as a PFIC for our current taxable year. U.S. holders are urged to consult their tax advisors regarding the tax considerations of the sale or other disposition of the ADSs or Class A ordinary shares in their particular circumstances.

### ***Passive Foreign Investment Company Rules***

As mentioned above, we believe that we were a PFIC for the taxable year ended December 31, 2021, and we will likely be classified as a PFIC for our current taxable year. If we are a PFIC for any taxable year during which a U.S. holder holds the ADSs or Class A ordinary shares, and unless the U.S. holder makes a mark-to-market election or a qualified electing fund (QEF) (as described below), the U.S. holder will generally be subject to special tax rules that have a penalizing effect, regardless of whether we remain a PFIC, for subsequent taxable years, on (i) any excess distribution that we make to the U.S. holder (which generally means any distribution paid during a taxable year to a U.S. holder that is greater than 125% of the average annual distributions paid in the three preceding taxable years or, if shorter, the U.S. holder's holding period for the ADSs or Class A ordinary shares), and (ii) any gain realized on the sale or other disposition, including, under certain circumstances, a pledge, of the ADSs or Class A ordinary shares. Under the PFIC rules:

- such excess distribution and/or gain will be allocated ratably over the U.S. holder's holding period for the ADSs or Class A ordinary shares;
- such amount allocated to the current taxable year and any taxable years in the U.S. holder's holding period prior to the first taxable year in which we are a PFIC, or pre-PFIC year, will be taxable as ordinary income;
- such amount allocated to each prior taxable year, other than a pre-PFIC year, will be subject to tax at the highest tax rate in effect applicable to the U.S. holder for that year; and an interest charge generally applicable to underpayments of tax will be imposed on the tax attributable to each prior taxable year, other than a pre-PFIC year.

If we are a PFIC for any taxable year during which a U.S. holder holds the ADSs or Class A ordinary shares and any of our non-United States subsidiaries is also a PFIC, such U.S. holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. U.S. holders are advised to consult their tax advisors regarding the application of the PFIC rules to any of our subsidiaries.

As an alternative to the foregoing rules, a U.S. holder of “marketable stock” in a PFIC may make a mark-to-market election with respect to the ADSs (but not with respect to our Class A ordinary shares, which are not listed on the NYSE), provided that the ADSs are regularly traded on NYSE. If a mark-to-market election is made, the U.S. holder will generally (i) include as ordinary income for each taxable year that we are a PFIC the excess, if any, of the fair market value of ADSs held at the end of the taxable year over the adjusted tax basis of such ADSs and (ii) deduct as an ordinary loss the excess, if any, of the adjusted tax basis of the ADSs over the fair market value of such ADSs held at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. The U.S. holder’s adjusted tax basis in the ADSs would be adjusted to reflect any income or loss resulting from the mark-to-market election. If a U.S. holder makes an effective mark-to-market election, in each year that we are a PFIC any gain recognized upon the sale or other disposition of the ADSs will be treated as ordinary income and loss will be treated as ordinary loss, but only to the extent of the net amount previously included in income as a result of the mark-to-market election.

If a U.S. holder makes a mark-to-market election in respect of a PFIC and such corporation ceases to be a PFIC, the U.S. holder will not be required to take into account the mark-to-market gain or loss described above during any period that such corporation is not a PFIC.

Because a mark-to-market election cannot technically be made for any lower-tier PFICs that a PFIC may own, a U.S. holder who makes a mark-to-market election with respect to the ADSs may continue to be subject to the general PFIC rules with respect to such U.S. holder’s indirect interest in any of our non-United States subsidiaries if any of them is a PFIC.

We do not intend to provide information necessary for U.S. holders to make qualified electing fund, or QEF elections, which, if available, would result in tax treatment different from (and generally less adverse than) the general tax treatment for PFICs described above.

As discussed above under “Dividends,” dividends that we pay on the ADSs or Class A ordinary shares will not be eligible for the reduced tax rate that applies to qualified dividend income if we are a PFIC for the taxable year in which the dividend is paid or the preceding taxable year. In addition, if a U.S. holder owns the ADSs or Class A ordinary shares during any taxable year that we are a PFIC, such holder would generally be required to file an annual IRS Form 8621. Each U.S. holder is advised to consult its tax advisors regarding the potential tax consequences to such holder if we are or become a PFIC, including the possibility of making a mark-to-market election.

#### **F. Dividends and Paying Agents**

Not applicable.

#### **G. Statement by Experts**

Not applicable.

#### **H. Documents on Display**

We previously filed with the SEC our registration statement on Form F-1, as amended and prospectus under the Securities Act of 1933, with respect to our Class A ordinary shares. We are subject to the periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F within four months after the end of each fiscal year, which is December 31. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the Commission at 1-800-SEC-0330. The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

We will furnish The Bank of New York Mellon, the depository of our ADSs, with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders’ meetings and other reports and communications that are made generally available to our shareholders. The depository will make such notices, reports and communications available to holders of ADSs and, upon our request, will mail to all record holders of ADSs the information contained in any notice of a shareholders’ meeting received by the depository from us.

In accordance with NYSE Rule 203.01, we will post this annual report on Form 20-F on our website at <http://ir.cmcm.com>. In addition, we will provide hardcopies of our annual report free of charge to shareholders and ADS holders upon request.

## **I. Subsidiary Information**

Not applicable.

### **Item 11. Quantitative and Qualitative Disclosures about Market Risk**

#### **Quantitative and Qualitative Disclosure about Market Risk**

##### ***Foreign Exchange Risk***

Our revenues and expenses are primarily denominated in RMB or U.S. dollar. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge exposure to such risk. Although our exposure to foreign exchange risks should be limited in general, the value of your investment in our ADSs will be affected by the exchange rate between U.S. dollar and Renminbi because the value of our business is effectively denominated in RMB, while our ADSs will be traded in U.S. dollars.

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between Renminbi and the U.S. dollar in the future.

To the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the RMB amount we receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amounts available to us.

##### ***Interest Rate Risk***

Our exposure to interest rate risk primarily relates to interest income generated by excess cash, which is mainly held in interest-bearing bank deposits, and interest expense generated from certain bank loans. We generated interest income of RMB110.1 million, RMB36.0 million and RMB25.4 million (US\$4.0 million), and interest expense of nil, RMB0.4 million and nil, for the years ended December 31, 2019, 2020 and 2021, respectively. Interest-earning instruments carry a degree of interest rate risk. We have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in market interest rates. However, our future interest income may fall short of expectations due to changes in market interest rates.

##### ***Market Price Risk***

We are exposed to market price risk primarily with respect to investment securities held by us which are reported at fair value. A substantial portion of our investment in equity investees are held for long-term appreciation or for strategic purposes, and are accounted for under equity method or measurement alternative and not subject to market price risk. We are also exposed to commodity price risk in our AI business as increase of hardware price may in turn increase our cost in AI hardware sales and operations.

### **Item 12. Description of Securities Other than Equity Securities**

#### **A. Debt Securities**

Not applicable.



## **B. Warrants and Rights**

Not applicable.

## **C. Other Securities**

Not applicable.

## **D. American Depositary Shares**

### **Fees and Charges Our ADS holders May Have to Pay**

The Bank of New York Mellon, the depository of our ADS program, collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depository collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depository may collect its annual fee for depository services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depository may collect any of its fees by deduction from any cash distribution payable to ADS holders that are obligated to pay those fees. The depository may generally refuse to provide fee-attracting services until its fees for those services are paid. The depository's corporate trust office at which the ADSs will be administered is located at 240 Greenwich Street, New York, NY 10286, United States. The depository's principal executive office is located at 240 Greenwich Street, New York, NY 10286, United States.

#### **Persons depositing or withdrawing shares must pay:**

\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)

\$.05 (or less) per ADS

A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs

\$.05 (or less) per ADSs per calendar year

Registration or transfer fees

Expenses of the depository

Taxes and other governmental charges the depository or the custodian has to pay on any ADSs or shares underlying ADSs, such as stock transfer taxes, stamp duty or withholding taxes

Any charges incurred by the depository or its agents for servicing the deposited securities

#### **For:**

- Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property
- Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
- Any cash distribution to ADS holders
- Distribution of securities distributed to holders of deposited securities which are distributed by the depository to ADS holders
- Depository services
- Transfer and registration of shares on our share register to or from the name of the depository or its agent when you deposit or withdraw shares
- Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)
- converting foreign currency to U.S. dollars
- As necessary
- As necessary

**Fees and Other Payments Made by the Depositary to Us**

The depositary has agreed to reimburse us annually for our expenses incurred in connection with the administration and maintenance of our ADS facility including, but not limited to, investor relations expenses, exchange listing fees, other program related expenses related to our ADS facility and the travel expense of our key personnel in connection with such programs. The depositary has also agreed to provide additional payments to us based on the applicable performance indicators relating to our ADS facility. There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to us is not necessarily tied to the amount of fees the depositary collects from investors.

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## PART II

### Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

### Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

### Item 15. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act.

Disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports that are filed or submitted under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and to ensure the information required to be disclosed is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosures.

Based upon that evaluation, our management has concluded that, as of December 31, 2021, our disclosure controls and procedures were not effective, due to the material weakness in internal control over financial reporting as described below.

#### Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined under Rule 13(a)-15(f) and 15(d)-15(f) of the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Our management, including our chief executive officer and chief financial officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework (2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO Criteria"). As defined in the standards established by the U.S. Public Company Accounting Oversight Board, or PCAOB, a "material weakness" is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

Based on this evaluation, our management concluded that, as of December 31, 2021, our internal control over financial reporting was ineffective due to the material weakness in controls over the projected financial information used in the impairment assessment of an equity investment.

Our independent registered public accounting firm, Ernst & Young Hua Ming LLP, has issued an adverse report on the operating effectiveness of our internal control over financial reporting as of December 31, 2021, as stated in its report, which appears on page F-3 of this Form 20-F.

#### **Management's Remediation Plan**

We intend to implement a number of measures to remediate the material weakness identified, including (i) additional review and monitoring controls over the projected financial information used in the impairment assessment of equity investments; (ii) formalizing the processes to retain appropriate documentation over the precision of management's review, and the completeness and accuracy of relevant underlying data used; (iii) providing specific training to the investment and finance department pertaining to projected financial information.

We will continue to monitor the effectiveness of these steps and to make any changes that our management deems appropriate.

#### **Changes in Internal Control over Financial Reporting**

In connection with the preparation and external audit of our consolidated financial statements as of and for the years ended December 31, 2020, we and our independent registered public accounting firm identified a material weakness in internal control over financial reporting and concluded that our internal control over financial reporting was ineffective as of December 31, 2020. The material weakness identified was that we did not have a sufficient complement of resources in the tax department to perform the management review controls over income taxes.

Following the identification of the above-mentioned material weakness, we have taken measures to remediate the material weakness including but not limited to (i) setting up a financial and system control framework related to tax process, and establishing two levels of effective review mechanism; (ii) establishing an inventory of tax documents, consistent with management review control requirements; (iii) maintaining all review and meeting documents and change records. During the fiscal year ended December 31, 2021, our management completed the design, implementation and testing of the newly designed and enhanced controls and determined that, as of December 31, 2021, these controls were appropriately designed and operating effectively to conclude the prior year's material weakness has been remediated.

Other than as described above, there were no changes in our internal controls over financial reporting that occurred during the period covered by this annual report on Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 16A. Audit Committee Financial Expert**

Our board of directors has determined that Dr. Yun Zhang, an independent director (under the standards set forth in the NYSE rules and Rule 10A-3 under the Exchange Act) and member of our audit committee, is an audit committee financial expert.

**Item 16B. Code of Ethics**

Our board of directors has adopted a code of ethics that applies to our directors, officers and employees, including certain provisions that specifically apply to our senior officers, including our chief executive officer, chief financial officer, other chief senior officers, senior financial officers, controllers, senior vice presidents, vice presidents and any other persons who perform similar functions for us. We have filed our code of business conduct and ethics as Exhibit 99.1 to our registration statement on Form F-1 (File Number 333-194996), as amended, filed with the SEC on April 22, 2014. The code is also available on our official website under the corporate governance section at our investor relations website <http://ir.cmc.com>.

We hereby undertake to provide to any person without charge, a copy of our code of business conduct and ethics within ten working days after we receive such person's written request.

**Item 16C. Principal Accountant Fees and Services**

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Ernst & Young Hua Ming LLP, our principal external auditors, for the periods indicated.

	2020	2021
	(in thousands)	
Audit fees <sup>(1)</sup>	US\$1,535	US\$1,683
Tax fees <sup>(2)</sup>	US\$ 286	US\$ 159

**Notes:**

- (1) Audit fees means the aggregate fees billed in each of the fiscal periods listed for professional services rendered by our principal auditors for the audit of our annual consolidated financial statements and assistance with and review of documents filed with the SEC. In 2020 and 2021, the audit refers to financial audit and audit pursuant to Section 404 of the Sarbanes-Oxley Act of 2002.
- (2) Tax fees means the aggregated fees billed in each of the fiscal periods listed for professional services rendered by our principal auditors for tax compliance, tax advice and tax planning.

The policy of our audit committee is to pre-approve all audit and non-audit services provided by Ernst & Young Hua Ming LLP, including audit services, tax services and all other fees as described above, other than those for *de minimis* services which are approved by the audit committee prior to the completion of the audit. Our audit committee has approved all of our audit fees and tax fees for the year ended December 31, 2021.

**Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not applicable.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

On September 13, 2018, our board of directors approved a share repurchase program of up to US\$100 million of our outstanding ADSs for a period not exceeding 12 months. The repurchases may be made from time to time on the open market at prevailing market prices, in privately negotiated transactions, in block trades and/or through other legally permissible means. We publicly announced the share repurchase program on September 13, 2018. The share purchase program expired on September 12, 2019 and we had repurchased approximately 4.5 million ADSs for approximately US\$32.3 million under this program prior to its expiration.

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**Item 16F. Change in Registrant’s Certifying Accountant**

Not applicable.

**Item 16G. Corporate Governance**

Prior to October 1, 2017, because Kingsoft Corporation owned more than 50% of the total voting power in our company, we were a “controlled company” under Section 303A of the Corporate Governance Rules of the NYSE. A controlled company need not comply with the applicable NYSE corporate governance rules requiring its board of directors to have a majority of independent directors and independent compensation and nominating and corporate governance committees. We availed ourselves of these controlled company exemptions. As a result, we rely on certain exemptions that are available to controlled companies from the NYSE corporate governance requirements, including the requirements that:

- a majority of our board of directors consist of independent directors;
- our compensation committee be composed entirely of independent directors; and
- our nominating and corporate governance committee be composed entirely of independent directors.

We have ceased to be a controlled company within the meaning of Section 303A of the Corporate Governance Rules of the NYSE since October 1, 2017. We have completed changes in our board and committee composition and have satisfied the full independence requirements of the NYSE corporate governance rules since March 13, 2018, including:

- we satisfy the majority independent board requirement;
- our compensation committee is fully independent; and
- our nominating and corporate governance committee is fully independent.

The Corporate Governance Rules of the NYSE permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the NYSE corporate governance listing standards. Currently, we rely on home country practice exemption with respect to the requirement for an audit committee composed of at least three members. We may also opt to rely on additional home country practice exemptions in the future. As a result, our shareholders may be afforded less protection than they otherwise would under the New York Stock Exchange corporate governance listing standards applicable to U.S. domestic issuers. See “Item 3. Key Information—D. Risk Factors—Risks Relating to the ADSs—As a company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the NYSE corporate governance rules; these practices may afford less protection to shareholders than they would enjoy if we comply fully with the NYSE corporate governance rules. In addition, we are also a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to U.S. domestic public companies.”

**Item 16H. Mine Safety Disclosure**

Not applicable.

**Item 16I. Disclosure Regarding Foreign Jurisdictions That Prevent Inspections**

### PART III

#### Item 17. Financial Statements

We have elected to provide financial statements pursuant to Item 18.

#### Item 18. Financial Statements

The consolidated financial statements of Cheetah Mobile Inc., its subsidiaries, VIEs and the then subsidiaries of VIEs are included at the end of this annual report.

#### Item 19. Exhibits

<u>Exhibit Number</u>	<u>Description of Document</u>
1.1	<a href="#"><u>Fourth amended and restated memorandum and articles of association of the Registrant (incorporated by reference to Exhibit 3.2 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 22, 2014)</u></a>
2.1	<a href="#"><u>Registrant's specimen American depository receipt (incorporated by reference to Exhibit 4.3 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 25, 2014)</u></a>
2.2	<a href="#"><u>Registrant's specimen certificate for Class A ordinary shares (incorporated by reference to Exhibit 4.2 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 22, 2014)</u></a>
2.3	<a href="#"><u>Deposit agreement dated May 7, 2014 among the Registrant, the depository and owners and holders of the American depository shares (incorporated by reference to Exhibit 4.3 to our Registration Statement on Form S-8 (file no. 333-199577) filed with the Securities and Exchange Commission on October 24, 2014)</u></a>
2.4	<a href="#"><u>Description of Securities (incorporated by reference to Exhibit 2.4 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on May 15, 2020)</u></a>
4.1	<a href="#"><u>2011 share award scheme and amendments thereto (incorporated by reference to Exhibit 4.1 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 26, 2017)</u></a>
4.2	<a href="#"><u>2013 equity incentive plan (incorporated by reference to Exhibit 10.2 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 2, 2014)</u></a>
4.3	<a href="#"><u>2014 restricted shares plan (incorporated by reference to Exhibit 10.48 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 25, 2014)</u></a>
4.4	<a href="#"><u>Form of indemnification agreement between the Registrant and its director and executive officers (incorporated by reference to Exhibit 10.3 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 2, 2014)</u></a>
4.5	<a href="#"><u>Form of employment agreement between the Registrant and its executive officers (incorporated by reference to Exhibit 10.4 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 2, 2014)</u></a>
4.6	<a href="#"><u>Business operation agreement, by and among Conew Network, Beijing Network, Ming Xu and Wei Liu, dated July 18, 2012 (incorporated by reference to Exhibit 10.6 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 2, 2014)</u></a>
4.7	<a href="#"><u>Loan agreement, by and among Conew Network, Ming Xu and Wei Liu, dated June 20, 2012 (incorporated by reference to Exhibit 10.7 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 2, 2014)</u></a>
4.8	<a href="#"><u>Exclusive technology development, support and consultancy agreement, between Conew Network and Beijing Network, dated July 18, 2012 (incorporated by reference to Exhibit 10.8 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 2, 2014)</u></a>



Exhibit Number	Description of Document
4.9	<a href="#"><u>Exclusive equity option agreement, by and among Conew Network, Beijing Network, Ming Xu and Wei Liu, dated July 18, 2012 (incorporated by reference to Exhibit 10.9 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 2, 2014).</u></a>
4.10	<a href="#"><u>Shareholder voting proxy agreement, by and among Conew Network, Beijing Network, Ming Xu and Wei Liu, dated July 18, 2012 (incorporated by reference to Exhibit 10.10 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 2, 2014).</u></a>
4.11	<a href="#"><u>Equity pledge agreement, by and among Conew Network, Beijing Network, Ming Xu and Wei Liu, dated July 18, 2012 (incorporated by reference to Exhibit 10.11 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 2, 2014).</u></a>
4.12	<a href="#"><u>Financial support undertaking letter signed by Conew Network with respect to Beijing Network, dated January 17, 2014 (incorporated by reference to Exhibit 10.12 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 2, 2014).</u></a>
4.13	<a href="#"><u>Spousal consent, signed by Xinchan Li, Wei Liu's spouse, dated July 18, 2012 (incorporated by reference to Exhibit 10.13 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 2, 2014).</u></a>
4.14	<a href="#"><u>Business operation agreement, by and among Beijing Security, Beike Internet (currently Beijing Mobile), Sheng Fu and Weiqin Qiu, dated January 1, 2011 (incorporated by reference to Exhibit 10.22 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 2, 2014).</u></a>
4.15	<a href="#"><u>Loan agreements, by and among Beijing Security, Sheng Fu and Weiqin Qiu, dated January 1, 2011 and September 21, 2012 (incorporated by reference to Exhibit 10.23 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 2, 2014).</u></a>
4.16	<a href="#"><u>Exclusive technology development, support and consultancy agreement, between Beijing Security and Beike Internet (currently Beijing Mobile), dated January 1, 2011 (incorporated by reference to Exhibit 10.24 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 2, 2014).</u></a>
4.17	<a href="#"><u>Exclusive equity option agreement, by and among Beijing Security, Beike Internet (currently Beijing Mobile), Sheng Fu and Weiqin Qiu, dated January 1, 2011 (incorporated by reference to Exhibit 10.25 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 2, 2014).</u></a>
4.18	<a href="#"><u>Shareholder voting proxy agreement, by and among Beijing Security, Beike Internet (currently Beijing Mobile), Sheng Fu and Weiqin Qiu, dated January 1, 2011 (incorporated by reference to Exhibit 10.26 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 2, 2014).</u></a>
4.19	<a href="#"><u>Equity pledge agreement, by and among Beijing Security, Beike Internet (currently Beijing Mobile), Sheng Fu and Weiqin Qiu, dated January 1, 2011 and amendment thereto, dated October 11, 2012 (incorporated by reference to Exhibit 10.27 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 2, 2014).</u></a>
4.20	<a href="#"><u>Financial support undertaking letter signed by Beijing Security with respect to Beike Internet (currently Beijing Mobile), dated January 17, 2014 (incorporated by reference to Exhibit 10.28 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 2, 2014).</u></a>
4.21	<a href="#"><u>Spousal consent, signed by Jin Wang, Weiqin Qiu's spouse, dated January 1, 2012 (incorporated by reference to Exhibit 10.29 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 2, 2014).</u></a>

Exhibit Number	Description of Document
4.22	<a href="#"><u>Cooperation framework agreement between the Registrant and Kingsoft Corporation Limited, dated December 27, 2013 and supplemental agreement thereto, dated April 1, 2014 (incorporated by reference to Exhibit 10.38 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 22, 2014).</u></a>
4.23	<a href="#"><u>Non-competition deed between the Registrant and Kingsoft Corporation Limited, dated May 14, 2014 (incorporated by reference to Exhibit 4.46 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 21, 2015).</u></a>
4.24	<a href="#"><u>Intellectual property transfer and license framework agreement the Registrant and Kingsoft Corporation, dated April 1, 2014 (incorporated by reference to Exhibit 10.46 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 22, 2014).</u></a>
4.25	<a href="#"><u>Share and asset purchase agreement among the Registrant, Hongkong Zoom Interactive Network Marketing Technology Limited and other parties thereto, dated June 6, 2014 (incorporated by reference to Exhibit 4.52 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 21, 2015).</u></a>
4.26	<a href="#"><u>Stock purchase agreement among Hongkong Cheetah Mobile Technology Limited, MobPartner SAS and other parties thereto, dated March 15, 2015 (incorporated by reference to Exhibit 4.53 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 21, 2015).</u></a>
4.27	<a href="#"><u>Parent guarantee between the Registrant and the Sellers' Representatives named therein, dated March 15, 2015 (incorporated by reference to Exhibit 4.54 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 21, 2015).</u></a>
4.28	<a href="#"><u>Share transfer agreement among Beijing Security, Weiqin Qiu and Ming Xu, dated October 19, 2015, with respect to Guangzhou Network (incorporated by reference to Exhibit 4.37 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 22, 2016).</u></a>
4.29	<a href="#"><u>VIE termination agreement among Beijing Security, Guangzhou Network, Weiqin Qiu and Ming Xu, dated October 19, 2015 (incorporated by reference to Exhibit 4.38 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 22, 2016).</u></a>
4.30	<a href="#"><u>Share transfer agreement between Beijing Security and each of Ming Xu and Wei Liu, dated October 13, 2015, with respect to Beijing Antutu (incorporated by reference to Exhibit 4.39 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 22, 2016).</u></a>
4.31	<a href="#"><u>VIE termination agreement among Beijing Security, Beijing Antutu, Ming Xu and Wei Liu, dated October 13, 2015 (incorporated by reference to Exhibit 4.40 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 22, 2016).</u></a>
4.32	<a href="#"><u>Supplemental agreements to strategic cooperation agreement between the Registrant and Shenzhen Tencent Computer Systems Company Limited, dated June 30, 2015 and November 5, 2015 (incorporated by reference to Exhibit 4.41 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 22, 2016).</u></a>
4.33	<a href="#"><u>Strategic cooperation agreement between the Registrant and Shenzhen Tencent Computer Systems Company Limited, dated December 30, 2015 (incorporated by reference to Exhibit 4.42 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 22, 2016).</u></a>
4.34	<a href="#"><u>Supplemental agreement to strategic cooperation agreement dated December 30, 2015 between the Registrant and Shenzhen Tencent Computer Systems Company Limited, dated November 19, 2016 (incorporated by reference to Exhibit 4.34 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 26, 2017)).</u></a>

Exhibit Number	Description of Document
4.35	<a href="#"><u>Supplemental agreement to share and asset purchase agreement among the Registrant, Hongkong Zoom Interactive Network Marketing Technology Limited and other parties thereto, dated March 16, 2015 (incorporated by reference to Exhibit 4.43 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 22, 2016)</u></a>
4.36	<a href="#"><u>Amendment to stock purchase agreement among Hongkong Cheetah Mobile Technology Limited, MobPartner SAS and other parties thereto, dated December 15, 2015 (incorporated by reference to Exhibit 4.44 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 22, 2016)</u></a>
4.37	<a href="#"><u>Share transfer agreement between Kun Wang and Ming Xu, dated July 3, 2018, with respect to Beijing Network (incorporated by reference to Exhibit 4.37 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 26, 2019)</u></a>
4.38	<a href="#"><u>Agreement on cancellation of contracts among Beijing Network, Conew Network, Wei Liu, Kun Wang and Ming Xu, dated July 3, 2018 (incorporated by reference to Exhibit 4.38 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 26, 2019)</u></a>
4.39	<a href="#"><u>Exclusive service agreement between Beijing Network and Conew Network, dated July 3, 2018 (incorporated by reference to Exhibit 4.39 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 26, 2019)</u></a>
4.40	<a href="#"><u>Exclusive equity option agreement, by and among Beijing Network, Conew Network, Wei Liu and Kun Wang, dated July 3, 2018 (incorporated by reference to Exhibit 4.40 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 26, 2019)</u></a>
4.41	<a href="#"><u>Proxy agreement and power of attorney, by and among Conew Network, Beijing Network, Wei Liu and Kun Wang, dated July 3, 2018 (incorporated by reference to Exhibit 4.41 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 26, 2019)</u></a>
4.42	<a href="#"><u>Equity pledge agreement, by and among Conew Network, Beijing Network, Wei Liu and Kun Wang, dated July 3, 2018 (incorporated by reference to Exhibit 4.42 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 26, 2019)</u></a>
4.43	<a href="#"><u>Spousal consent, signed by Jiayu Li, Kun Wang's spouse, dated July 3, 2018, with respect to Beijing Network (incorporated by reference to Exhibit 4.43 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 26, 2019)</u></a>
4.44	<a href="#"><u>Spousal consent, signed by Xinchun Li, Wei Liu's spouse, dated July 3, 2018, with respect to Beijing Network (incorporated by reference to Exhibit 4.44 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 26, 2019)</u></a>
4.45	<a href="#"><u>Share transfer agreement between Kun Wang and Ming Xu, dated July 5, 2018, with respect to Beijing Conew (incorporated by reference to Exhibit 4.45 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 26, 2019)</u></a>
4.46	<a href="#"><u>Agreement on cancellation of contracts among Beijing Conew, Conew Network, Sheng Fu and Ming Xu, dated July 5, 2018 (incorporated by reference to Exhibit 4.46 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 26, 2019)</u></a>
4.47	<a href="#"><u>Exclusive service agreement between Beijing Conew and Conew Network, dated July 5, 2018 (incorporated by reference to Exhibit 4.47 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 26, 2019)</u></a>
4.48	<a href="#"><u>Exclusive equity option agreement, by and among Beijing Conew, Conew Network, Sheng Fu and Kun Wang, dated July 5, 2018 (incorporated by reference to Exhibit 4.48 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 26, 2019)</u></a>
4.49	<a href="#"><u>Proxy agreement and power of attorney, by and among Conew Network, Beijing Conew, Sheng Fu and Kun Wang, dated July 5, 2018 (incorporated by reference to Exhibit 4.49 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 26, 2019)</u></a>
4.50	<a href="#"><u>Equity pledge agreement, by and among Conew Network, Beijing Conew, Sheng Fu and Kun Wang, dated July 5, 2018 (incorporated by reference to Exhibit 4.50 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 26, 2019)</u></a>

Exhibit Number	Description of Document
4.51	<a href="#"><u>Spousal consent, signed by Jiayu Li, Kun Wang's spouse, dated July 5, 2018, with respect to Beijing Conew (incorporated by reference to Exhibit 4.51 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 26, 2019).</u></a>
4.52	<a href="#"><u>Framework agreement, by and among Conew Network, Beijing Network, our company, Wei Liu and Kun Wang, dated December 20, 2019 (incorporated by reference to Exhibit 4.52 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on May 15, 2020).</u></a>
4.53	<a href="#"><u>Equity pledge agreement, by and among Conew Network, Beijing Network, Wei Liu and Kun Wang, dated December 20, 2019 (incorporated by reference to Exhibit 4.53 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on May 15, 2020).</u></a>
4.54	<a href="#"><u>Exclusive equity option agreement, by and among our company, Wei Liu, Kun Wang and Beijing Network, dated December 20, 2019 (incorporated by reference to Exhibit 4.54 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on May 15, 2020).</u></a>
4.55	<a href="#"><u>Proxy agreement and power of attorney, by and among our company, Beijing Network, Wei Liu and Kun Wang, dated December 20, 2019 (incorporated by reference to Exhibit 4.55 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on May 15, 2020).</u></a>
4.56	<a href="#"><u>Spousal consent, signed by Xinchun Li, Wei Liu's spouse, dated December 20, 2019, with respect to Beijing Network (incorporated by reference to Exhibit 4.56 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on May 15, 2020).</u></a>
4.57	<a href="#"><u>Spousal consent, signed by Jiayu Li, Kun Wang's spouse, dated December 20, 2019, with respect to Beijing Network (incorporated by reference to Exhibit 4.57 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on May 15, 2020).</u></a>
4.58	<a href="#"><u>Framework agreement, by and among Conew Network, Beijing Conew, our company, Sheng Fu and Kun Wang, dated December 20, 2019 (incorporated by reference to Exhibit 4.58 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on May 15, 2020).</u></a>
4.59	<a href="#"><u>Exclusive equity option agreement, by and among our company, Sheng Fu, Kun Wang and Beijing Conew, dated December 20, 2019 (incorporated by reference to Exhibit 4.59 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on May 15, 2020).</u></a>
4.60	<a href="#"><u>Equity pledge agreement, by and among Conew Network, Beijing Conew, Sheng Fu and Kun Wang, dated December 20, 2019 (incorporated by reference to Exhibit 4.60 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on May 15, 2020).</u></a>
4.61	<a href="#"><u>Proxy agreement and power of attorney, by and among our company, Beijing Conew, Sheng Fu and Kun Wang, dated December 20, 2019 (incorporated by reference to Exhibit 4.61 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on May 15, 2020).</u></a>
4.62	<a href="#"><u>Spousal consent, signed by Jiayu Li, Kun Wang's spouse, dated December 20, 2019, with respect to Beijing Conew (incorporated by reference to Exhibit 4.62 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on May 15, 2020).</u></a>
4.63	<a href="#"><u>Framework agreement, by and among Beijing Security, Beijing Mobile, our company, Sheng Fu and Weiqin Qiu, dated December 20, 2019 (incorporated by reference to Exhibit 4.63 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on May 15, 2020).</u></a>
4.64	<a href="#"><u>Exclusive equity option agreement, by and among our company, Sheng Fu, Weiqin Qiu and Beijing Mobile, dated December 20, 2019 (incorporated by reference to Exhibit 4.64 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on May 15, 2020).</u></a>

Exhibit Number	Description of Document
4.65	<a href="#">Equity pledge agreement, by and among Beijing Security, Beijing Mobile, Sheng Fu and Weiqin Qiu, dated December 20, 2019 (incorporated by reference to Exhibit 4.65 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on May 15, 2020).</a>
4.66	<a href="#">Proxy agreement and power of attorney, by and among our company, Beijing Mobile, Sheng Fu and Weiqin Qiu, dated December 20, 2019 (incorporated by reference to Exhibit 4.66 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on May 15, 2020).</a>
4.67	<a href="#">Asset purchase agreement, by and among our company, AppLovin Corporation and other parties thereto, dated September 21, 2020 (incorporated by reference to Exhibit 4.67 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on May 14, 2021).</a>
8.1*	<a href="#">List of significant subsidiaries and VIEs</a>
11.1	<a href="#">Code of business conduct and ethics (incorporated by reference to Exhibit 99.1 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 22, 2014).</a>
12.1*	<a href="#">Certification by principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
12.2*	<a href="#">Certification by principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
13.1*	<a href="#">Certification by principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
13.2*	<a href="#">Certification by principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
15.1*	<a href="#">Consent of Global Law Office</a>
15.2*	<a href="#">Consent of Ernst &amp; Young Hua Ming LLP</a>
101.INS*	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

\* Filed herewith.

\*\* Furnished herewith.

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing its annual report on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**Cheetah Mobile Inc.**

By: /s/ Sheng Fu

Name: Sheng Fu

Title: Chief Executive Officer and Director

Date: July 26, 2022

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Cheetah Mobile Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Cheetah Mobile Inc. (the Company) as of December 31, 2021 and 2020, the related consolidated statements of comprehensive (loss) income, cash flows and changes in shareholders' equity for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated July 26, 2022 expressed an adverse opinion thereon.

### Adoption of New Accounting Standard

As discussed in Note 2 to the consolidated financial statements, the Company changed its method for accounting for credit losses on financial instruments using the modified retrospective approach in 2020.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matter

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

#### *Valuation of an equity investment*

##### *Description of the Matter*

At December 31, 2021, the Company's equity investment in Live.me Inc. ("Live.me") measured at fair value was RMB362.2 million. As discussed in Notes 4 and 20 of the consolidated financial statements, the fair value of Live.me was determined using the discounted cash flow method with significant unobservable inputs.

Auditing the valuation of the equity investment was complex and required subjective auditor judgment due to the highly judgmental nature of determining the appropriate valuation technique and the significant inputs used when measuring the fair value of the equity investment. The significant inputs used to estimate the fair value of the equity investment included sales growth rates, EBIT margin and weighted average costs of capital. These significant inputs are forward-looking and could be materially affected by future economic and market conditions.



*How We Addressed the Matter in Our Audit*

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's fair value measurement of its equity investment. For example, we tested controls over management's review of the valuation techniques, and significant inputs described above used in the valuation.

To test the estimated fair value of the equity investment, we performed audit procedures that included, among others, assessing the valuation techniques and testing the significant inputs and the underlying data used by the Company in its cash flow projection. We compared the sales growth rates and EBIT margin used by management to the historical performance of Live.me, current industry and economic trends and other relevant external data. With the assistance of our valuation specialists, we assessed the valuation technique, evaluated the weighted average cost of capital used by management by comparing them with comparable companies, and performed an independent recalculation of the fair value of the equity investment based on management's significant inputs, and compared them to the Company's valuation result. We also performed sensitivity analyses of the significant inputs to evaluate the change in the fair value of the equity investment resulting from changes in the significant inputs.

***Impairment assessment of an equity investment accounted for using the measurement alternative***

*Description of the Matter*

As described in Notes 4 and 20 to the consolidated financial statements, as of December 31, 2021, the Company's consolidated equity investments accounted for using the measurement alternative was RMB1,349.3 million. For the year ended December 31, 2021, the Company recognized an impairment loss of RMB283.8 million for an equity investment accounted for using the measurement alternative. The impairment was determined using the discounted cash flow method with significant unobservable inputs. For equity investments accounted for using the measurement alternative, the Company makes a qualitative assessment considering impairment indicators to evaluate whether investments are impaired at each reporting date. If a qualitative assessment indicates that an investment is impaired, the Company estimates the investment's fair value and recognizes an impairment loss if the fair value is less than the investment's carrying value.

Auditing the Company's impairment assessment was challenging and required complex auditor judgment due to the (i) the material weakness in the Company's controls over the projected financial information used in the impairment assessment that required an increased extent of audit effort; and (ii) the significant judgment involved in management's assessment of whether indicators of impairment existed, and if so, determining the appropriate valuation technique and the significant inputs used in the projected financial information when measuring the fair value of the equity investment including sales growth rates, EBIT margin and weighted average costs of capital.

*How We Addressed the Matter in Our Audit*

To test the impairment assessment, we performed audit procedures that included, among others, evaluating management's assessment as to whether indicators of impairment existed and the investment was impaired by considering the financial condition and operating results of the investees, as well as other relevant market information. To test the estimated fair value of the equity investment, we performed audit procedures that included, among others, assessing the valuation techniques and testing the significant inputs and the underlying data used by the Company in its projected financial information. We compared the sales growth rates and EBIT margin used by management to the actual operating results of the investee, current industry and economic trends and other relevant external data. To respond to the material weakness, we performed incremental audit procedures over the completeness and accuracy of projected financial information used for impairment assessment. With the assistance of our valuation specialists, we assessed the valuation techniques, evaluated the weighted average cost of capital used by management by comparing them with comparable companies, and performed an independent recalculation of the fair value of these equity investments based on management's significant inputs, and compared them to the Company's valuation results.

/s/ Ernst & Young Hua Ming LLP

We have served as the Company's auditor since 2014.

Beijing, The People's Republic of China

July 26, 2022

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Cheetah Mobile Inc.

### Opinion on Internal Control Over Financial Reporting

We have audited Cheetah Mobile Inc.'s internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, because of the effect of the material weakness described below on the achievement of the objectives of the control criteria, Cheetah Mobile Inc. (the Company) has not maintained effective internal control over financial reporting as of December 31, 2021, based on the COSO criteria.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. Management has identified a material weakness in the Company's controls over the projected financial information used in the impairment assessment of an equity investment.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2021 and 2020, the related consolidated statements of comprehensive (loss) income, cash flows and changes in shareholders' equity for each of the three years in the period ended December 31, 2021, and the related notes. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the 2021 consolidated financial statements, and this report does not affect our report dated July 26, 2022, which expressed an unqualified opinion thereon.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/Ernst & Young Hua Ming LLP

Beijing, The People's Republic of China

July 26, 2022

**CHEETAH MOBILE INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF DECEMBER 31, 2020 AND 2021**

(Amounts in thousands of Renminbi (“RMB”) and U.S. Dollars (“US\$”), except for number of shares and per share (or ADS) data)

	Notes	As of December 31		
		2020 RMB	2021 RMB	US\$
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		1,299,658	1,583,926	248,553
Restricted cash		797	781	123
Short-term investments	4	360,803	262,813	41,241
Accounts receivable (net of allowance for credit losses of RMB100,020 and RMB92,695 (US\$14,545) as of December 31, 2020 and 2021, respectively)	5	225,586	170,305	26,725
Prepayments and other current assets	6	835,694	479,329	75,217
Due from related parties	14	224,323	101,333	15,901
<b>Total current assets</b>		<b>2,946,861</b>	<b>2,598,487</b>	<b>407,760</b>
<b>Non-current assets</b>				
Property and equipment, net	7	101,984	101,794	15,974
Operating lease right-of-use assets	9	17,729	45,181	7,090
Intangible assets, net	8	12,575	10,052	1,577
Long-term investments	4	2,409,726	1,994,397	312,964
Due from related parties	14	3,522	111,335	17,471
Deferred tax assets	13	15,607	14,384	2,257
Other non-current assets		105,479	102,688	16,112
<b>Total non-current assets</b>		<b>2,666,622</b>	<b>2,379,831</b>	<b>373,445</b>
<b>Total assets</b>		<b>5,613,483</b>	<b>4,978,318</b>	<b>781,205</b>
<b>LIABILITIES, NONCONTROLLING INTERESTS AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities</b> (including current liabilities of the VIEs and VIEs' subsidiaries without recourse to the Company amounting to RMB140,741 and RMB184,078 (US\$28,886) as of December 31, 2020 and 2021, respectively) (Note 1)				
Accounts payable		105,832	134,879	21,165
Accrued expenses and other current liabilities	10	1,390,042	1,137,348	178,475
Due to related parties	14	48,938	37,760	5,925
Income tax payable		27,505	43,907	6,890
<b>Total current liabilities</b>		<b>1,572,317</b>	<b>1,353,894</b>	<b>212,455</b>

**CHEETAH MOBILE INC.**  
**CONSOLIDATED BALANCE SHEETS (CONTINUED)**  
**AS OF DECEMBER 31, 2020 AND 2021**

(Amounts in thousands of Renminbi (“RMB”) and U.S. Dollars (“US\$”), except for number of shares and per share (or ADS) data)

	Notes	As of December 31		
		2020 RMB	2021 RMB	US\$
<b>Non-current liabilities</b> (including non-current liabilities of the VIEs and VIEs’ subsidiaries without recourse to the Company amounting to RMB22,141 and RMB7,947(US\$1,247) as of December 31, 2020 and 2021, respectively) (Note 1)				
Deferred tax liabilities	13	60,502	58,564	9,190
Other non-current liabilities	10	192,272	205,717	32,281
<b>Total non-current liabilities</b>		<b>252,774</b>	<b>264,281</b>	<b>41,471</b>
<b>Total liabilities</b>		<b>1,825,091</b>	<b>1,618,175</b>	<b>253,926</b>
<b>Commitments and contingencies</b>				
	16			
<b>Shareholders’ equity</b>				
Class A ordinary shares (par value of US\$0.000025 per share; 7,600,000,000 shares authorized; 482,113,756 and 487,234,522 shares issued as of December 31, 2020 and 2021, respectively; 482,113,756 and 487,234,522 shares outstanding as of December 31, 2020 and 2021, respectively)				
	17	78	79	12
Class B ordinary shares (par value of US\$0.000025 per share; 1,400,000,000 shares authorized; 957,465,244 and 957,465,244 shares issued as of December 31, 2020 and 2021, respectively; 945,496,827 and 945,496,827 shares outstanding as of December 31, 2020 and 2021, respectively)				
	17	156	156	25
Additional paid-in capital		2,726,619	2,685,544	421,420
Retained earnings	17	857,188	505,085	79,259
Accumulated other comprehensive income	17	163,340	88,262	13,850
<b>Total Cheetah Mobile Inc. shareholders’ equity</b>		<b>3,747,381</b>	<b>3,279,126</b>	<b>514,566</b>
Noncontrolling interests		41,011	81,017	12,713
<b>Total shareholders’ equity</b>		<b>3,788,392</b>	<b>3,360,143</b>	<b>527,279</b>
<b>Total liabilities and shareholders’ equity</b>		<b>5,613,483</b>	<b>4,978,318</b>	<b>781,205</b>

The accompanying notes are an integral part of these consolidated financial statements.

**CHEETAH MOBILE INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021**

(Amounts in thousands of Renminbi (“RMB”) and U.S. Dollars (“US\$”), except for number of shares and per share (or ADS) data)

	Notes	For the year ended December 31,			
		2019 RMB	2020 RMB	2021 RMB	US\$
<b>Revenues (a)</b>					
Internet business		3,370,811	1,380,906	653,759	102,589
AI and others		216,884	171,739	130,857	20,534
<b>Total Revenues</b>		<b>3,587,695</b>	<b>1,552,645</b>	<b>784,616</b>	<b>123,123</b>
Cost of revenues (a)		(1,241,932)	(475,378)	(257,656)	(40,432)
<b>Gross profit</b>		<b>2,345,763</b>	<b>1,077,267</b>	<b>526,960</b>	<b>82,691</b>
<b>Operating income and expenses (a)</b>					
Research and development		(787,329)	(455,179)	(211,594)	(33,204)
Selling and marketing		(1,558,315)	(766,986)	(370,274)	(58,104)
General and administrative		(587,457)	(380,533)	(191,868)	(30,108)
Impairment of goodwill	2	(545,665)	—	—	—
Other operating income (expenses), net		22,091	(5,684)	17,205	2,700
<b>Total operating expenses</b>		<b>(3,456,675)</b>	<b>(1,608,382)</b>	<b>(756,531)</b>	<b>(118,716)</b>
<b>Operating loss</b>		<b>(1,110,912)</b>	<b>(531,115)</b>	<b>(229,571)</b>	<b>(36,025)</b>
<b>Other income (expenses)</b>					
Interest income, net		110,010	35,655	25,391	3,984
Foreign exchange gains, net		49	39,393	24,288	3,811
Other income	3/4	887,494	1,081,506	252,998	39,700
Other expense	3/4	(252,328)	(117,192)	(412,677)	(64,758)
<b>(Loss) income before income taxes</b>		<b>(365,687)</b>	<b>508,247</b>	<b>(339,571)</b>	<b>(53,288)</b>
Income tax expenses	13	(7,904)	(97,090)	(13,633)	(2,139)
<b>Net (loss) income</b>		<b>(373,591)</b>	<b>411,157</b>	<b>(353,204)</b>	<b>(55,427)</b>
<b>Less: net loss attributable to noncontrolling interests</b>		<b>(59,614)</b>	<b>(5,575)</b>	<b>(2,078)</b>	<b>(326)</b>
<b>Net (loss) income attributable to Cheetah Mobile Inc.</b>		<b>(313,977)</b>	<b>416,732</b>	<b>(351,126)</b>	<b>(55,101)</b>
<b>(Loss) earnings per share</b>					
	18				
Basic		(0.2514)	0.2895	(0.2469)	(0.0388)
Diluted		(0.2514)	0.2857	(0.2469)	(0.0388)
<b>(Loss) earnings per ADS (1 ADS represent 10 Class A ordinary share)</b>					
	18				
Basic		(2.5140)	2.8953	(2.4694)	(0.3875)
Diluted		(2.5140)	2.8575	(2.4694)	(0.3875)
<b>Weighted average number of shares used in computation of ordinary shares:</b>					
Basic		1,369,041,418	1,402,509,386	1,430,052,602	1,430,052,602
Diluted		1,369,041,418	1,421,067,906	1,430,052,602	1,430,052,602

**CHEETAH MOBILE INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021**

(Amounts in thousands of Renminbi (“RMB”) and U.S. Dollars (“US\$”), except for number of shares and per share (or ADS) data)

	Notes	For the year ended December 31,			
		2019 RMB	2020 RMB	2021 RMB	US\$
<b>Other comprehensive income (loss), net of tax of nil</b>	17				
Foreign currency translation adjustments		77,097	(167,476)	(75,536)	(11,853)
Unrealized gains (losses) on available-for-sale securities, net		10,913	(7,251)	—	—
<b>Other comprehensive income (loss)</b>		<b>88,010</b>	<b>(174,727)</b>	<b>(75,536)</b>	<b>(11,853)</b>
<b>Total comprehensive (loss) income</b>		<b>(285,581)</b>	<b>236,430</b>	<b>(428,740)</b>	<b>(67,280)</b>
<b>Less: total comprehensive (loss) income attributable to noncontrolling interests</b>		<b>(60,073)</b>	<b>(5,869)</b>	<b>(2,536)</b>	<b>(398)</b>
<b>Total comprehensive (loss) income attributable to Cheetah Mobile Inc.</b>		<b>(225,508)</b>	<b>242,299</b>	<b>(426,204)</b>	<b>(66,882)</b>

Note:

(a) The amount of transactions with related parties recorded in revenues, cost of revenues and operating expenses are as follows:

	For the year ended December 31,			
	2019 RMB	2020 RMB	2021 RMB	US\$
Revenues	216,829	112,706	70,444	11,054
Cost of revenues	(113,937)	(101,250)	(61,429)	(9,640)
Research and development	(14,775)	(12,173)	(2,557)	(401)
Selling and marketing	(7,871)	(993)	(1,178)	(185)
General and administrative	(5,148)	(4,403)	(5,303)	(832)

Details of the related party transactions are set out in Note 14(b) to the consolidated financial statements.

The accompanying notes are an integral part of these consolidated financial statements.

**CHEETAH MOBILE INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021**

(Amounts in thousands of Renminbi (“RMB”) and U.S. Dollars (“US\$”), except for number of shares and per share (or ADS) data)

	For the year ended December 31			
	2019 RMB	2020 RMB	2021 RMB	US\$
<b>Cash flows from operating activities</b>				
<b>Net (loss) income</b>	<b>(373,591)</b>	<b>411,157</b>	<b>(353,204)</b>	<b>(55,427)</b>
<b>Adjustments to reconcile net (loss) income to net cash from operating activities</b>				
Depreciation of property and equipment	37,382	52,137	45,751	7,179
Amortization of intangible assets	28,086	16,409	5,071	796
Non-cash operating lease expense	66,609	44,086	18,533	2,908
Provision for credit losses	68,515	10,607	13,688	2,148
Impairment of assets	833,805	150,381	394,979	61,980
Foreign currency exchange losses (gains)	2,074	(40,361)	(29,799)	(4,676)
Losses on disposal of property and equipment and intangible assets	146	3,422	447	70
(Gains) losses on disposal/deemed disposal of businesses and subsidiaries/VIEs	(840,589)	(394,225)	2,487	390
Gains on disposal of investments	—	(507,346)	(92,143)	(14,459)
Changes in fair value of financial assets	35,435	(127,739)	(90,606)	(14,218)
Share of (income) losses from equity method investments	(7,594)	5,231	(60,992)	(9,571)
Deferred income tax expenses (benefits)	5,981	(9,628)	920	144
Share-based compensation expenses	127,440	80,982	7,150	1,122
<b>Changes in operating assets and liabilities</b>				
Accounts receivable	163,370	179,223	56,990	8,943
Prepayments and other current assets	(198,076)	(87,319)	315,614	49,530
Due from related parties	(33,156)	(49,380)	68,753	10,789
Other non-current assets	(83,138)	18,103	979	154
Accounts payable	(14,468)	104,725	31,272	4,907
Accrued expenses and other current liabilities	3,400	63,046	(201,293)	(31,587)
Operating lease liabilities	(71,266)	(35,532)	(37,770)	(5,927)
Due to related parties	59,913	(24,650)	(10,518)	(1,651)
Income tax payable	(53,121)	(32,437)	17,954	2,817
Other non-current liabilities	3,299	122,976	(1,452)	(228)
<b>Net cash (used in) provided by operating activities</b>	<b>(239,544)</b>	<b>(46,132)</b>	<b>102,811</b>	<b>16,133</b>
<b>Cash flows from investing activities</b>				
Purchases of property, plant and equipment and intangible assets	(102,173)	(59,269)	(46,818)	(7,346)
Purchase of long-term investments	(493,665)	(185,924)	(9,500)	(1,490)
Purchase of short-term investments	(3,510,481)	(1,375,485)	(3,630,357)	(569,684)
Proceeds from maturity of short-term investments	3,266,900	2,327,147	3,726,028	584,695
Acquisition of business, net of cash acquired	(28,443)	—	—	—
(Cash-out) proceeds from disposal of businesses and subsidiaries/VIE’s subsidiaries, net of cash acquired (disposed)	(233,446)	159,817	45,043	7,068
Proceeds from disposal of property and equipment and intangible assets	1,936	2,715	199	31

**CHEETAH MOBILE INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021**

(Amounts in thousands of Renminbi (“RMB”) and U.S. Dollars (“US\$”), except for number of shares and per share (or ADS) data)

	For the year ended December 31			
	2019 RMB	2020 RMB	2021 RMB	US\$
Proceeds from disposal of long-term investments	—	1,021,746	188,193	29,532
Loans to related parties	(173,703)	(15,012)	(100,000)	(15,692)
Loans to third parties	(24,013)	(6,810)	(600)	(94)
Repayment of loans from related parties	186,862	7,608	38,848	6,096
Repayment of loans from third parties	25,000	3,830	9,800	1,538
<b>Net cash (used in) provided by investing activities</b>	<b>(1,085,226)</b>	<b>1,880,363</b>	<b>220,836</b>	<b>34,654</b>
<b>Cash flows from financing activities</b>				
Proceeds for bank loans	—	70,119	—	—
Repayment for bank loans	—	(65,423)	—	—
Proceeds and advance from share-based awards	17,000	2,511	—	—
Share repurchase	(175)	—	—	—
Purchase of shares from noncontrolling shareholders	—	—	(4,620)	(725)
Payment of dividends to noncontrolling shareholders	(1,298)	(22,089)	(5,020)	(788)
Payment of dividends to Cheetah Mobile Inc. shareholders	(500,597)	(1,435,775)	—	—
<b>Net cash used in financing activities</b>	<b>(485,070)</b>	<b>(1,450,657)</b>	<b>(9,640)</b>	<b>(1,513)</b>
<b>Effect of exchange rate changes on cash and cash equivalents and restricted cash</b>	<b>5,506</b>	<b>(68,761)</b>	<b>(29,755)</b>	<b>(4,669)</b>
<b>Net (decrease) increase in cash and cash equivalents and restricted cash</b>	<b>(1,804,334)</b>	<b>314,813</b>	<b>284,252</b>	<b>44,605</b>
<b>Cash and cash equivalents and restricted cash at beginning of year</b>	<b>2,789,976</b>	<b>985,642</b>	<b>1,300,455</b>	<b>204,070</b>
<b>Cash and cash equivalents and restricted cash at end of year</b>	<b>985,642</b>	<b>1,300,455</b>	<b>1,584,707</b>	<b>248,675</b>
<b>Supplemental disclosures</b>				
Cash payments for income taxes	(45,753)	(9,016)	(5,974)	(938)
Cash payments for interest expenses	—	(223)	(8)	(1)
Cash payments for operating leases	(70,284)	(45,342)	(37,448)	(5,876)
Right-of-use assets obtained (released) in exchange for operating lease liabilities	24,079	(113,978)	52,338	8,213
<b>Non-cash investing and financing activities:</b>				
Acquisition of property and equipment and intangible assets included in accrued expenses and other current liabilities	7,087	4,547	3,917	615
Disposal of investment, businesses and subsidiaries included in prepayments and other current assets	—	32,606	57,611	9,040
Disposal of investment, businesses and subsidiaries included in related parties	—	23,418	—	—

The accompanying notes are an integral part of these consolidated financial statements.



CHEETAH MOBILE INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021

(Amounts in thousands of Renminbi ("RMB") and U.S. Dollars ("US\$"), except for number of shares and per share (or ADS) data)

	Number of Class A Ordinary Shares	Class A Ordinary Shares RMB	Number of Class B Ordinary Shares	Class B Ordinary Shares RMB	Additional paid-in capital RMB	Treasury stock RMB	Accumulated other comprehensive income (loss) RMB	Retained earnings RMB	Total Cheetah Mobile Inc. shareholder's equity RMB	Noncontrolling interests RMB	Total equity RMB
<b>Balance at January 1, 2019</b>	464,526,067	74	946,017,565	156	2,742,893	(221,932)	249,304	2,705,970	5,476,465	118,083	5,594,548
Net loss	—	—	—	—	—	—	—	(313,977)	(313,977)	(59,614)	(373,591)
Share-based compensation	—	—	—	—	126,451	—	—	—	126,451	1,560	128,011
Exercise and vesting of share-based awards	12,731,989	2	—	—	6,078	—	—	—	6,080	—	6,080
Other comprehensive income (loss)	—	—	—	—	—	—	88,469	—	88,469	(459)	88,010
Accretion of redeemable noncontrolling interests	—	—	—	—	—	—	—	(29,865)	(29,865)	(1,797)	(31,662)
Capital contribution from noncontrolling shareholders	—	—	—	—	—	—	—	—	—	4,933	4,933
Disposal of a subsidiary	—	—	—	—	—	—	—	82,946	82,946	5,967	88,913
Cancellation of treasury stock	(45,273,040)	(7)	—	—	(221,925)	221,932	—	—	—	—	—
Dividends declared on share awards of consolidated subsidiaries	—	—	—	—	—	—	—	(1,301)	(1,301)	—	(1,301)
Dividends declared by the Company to Cheetah Mobile Inc. shareholders	—	—	—	—	—	—	—	(498,635)	(498,635)	—	(498,635)
Change in equity interest of a subsidiary	—	—	—	—	(4,155)	—	—	(200)	(4,355)	(6,404)	(10,759)
<b>Balance at December 31, 2019</b>	<b>431,985,016</b>	<b>69</b>	<b>946,017,565</b>	<b>156</b>	<b>2,649,342</b>	<b>—</b>	<b>337,773</b>	<b>1,944,938</b>	<b>4,932,278</b>	<b>62,269</b>	<b>4,994,547</b>

CHEETAH MOBILE INC.

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021**

(Amounts in thousands of Renminbi ("RMB") and U.S. Dollars ("US\$"), except for number of shares and per share (or ADS) data)

	Number of Class A Ordinary Shares	Class A Ordinary Shares RMB	Number of Class B Ordinary Shares	Class B Ordinary Shares RMB	Additional paid-in capital RMB	Accumulated other comprehensive income (loss) RMB	Retained earnings RMB	Total Cheetah Mobile Inc. shareholder's equity RMB	Noncontrolling interests RMB	Total equity RMB
Net income (loss)		—	—	—	—	—	416,732	416,732	(5,575)	411,157
Adoption of ASC 326	—	—	—	—	—	—	(40,874)	(40,874)	—	(40,874)
Cancellation of Class B ordinary shares	—	—	(15)	—	—	—	—	—	—	—
Share-based compensation	—	—	—	—	63,173	—	17,293	80,466	508	80,974
Conversion of Class B ordinary shares to Class A ordinary shares by shareholders	520,723	—	(520,723)	—	—	—	—	—	—	—
Exercise and vesting of share-based awards	49,608,017	9	—	—	14,104	—	—	14,113	—	14,113
Other comprehensive loss	—	—	—	—	—	(174,433)	—	(174,433)	(294)	(174,727)
Disposal of subsidiaries	—	—	—	—	—	—	—	—	(15,897)	(15,897)
Dividends declared on share awards of consolidated subsidiaries	—	—	—	—	—	—	(27,296)	(27,296)	—	(27,296)
Dividends declared by the Company to Cheetah Mobile Inc. shareholders	—	—	—	—	—	—	(1,453,605)	(1,453,605)	—	(1,453,605)
<b>Balance at December 31, 2020</b>	<b>482,113,756</b>	<b>78</b>	<b>945,496,827</b>	<b>156</b>	<b>2,726,619</b>	<b>163,340</b>	<b>857,188</b>	<b>3,747,381</b>	<b>41,011</b>	<b>3,788,392</b>

CHEETAH MOBILE INC.

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021**

(Amounts in thousands of Renminbi ("RMB") and U.S. Dollars ("US\$"), except for number of shares and per share (or ADS) data)

	Number of Class A Ordinary Shares	Class A Ordinary Shares RMB	Number of Class B Ordinary Shares	Class B Ordinary Shares RMB	Additional paid-in capital RMB	Accumulated other comprehensive income (loss) RMB	Retained earnings RMB	Total Cheetah Mobile Inc. shareholder's equity RMB	Noncontrolling interests RMB	Total equity RMB
Net (loss) income	—	—	—	—	—	—	(351,126)	(351,126)	(2,078)	(353,204)
Share-based compensation	—	—	—	—	6,248	—	—	6,248	—	6,248
Exercise and vesting of share-based awards, including subsidiaries' awards	5,120,766	1	—	—	(46,432)	—	—	(46,431)	46,431	—
Other comprehensive loss	—	—	—	—	—	(75,078)	—	(75,078)	(458)	(75,536)
Disposal of a subsidiary	—	—	—	—	—	—	130	130	—	130
Dividends declared on share awards of consolidated subsidiaries	—	—	—	—	—	—	(1,107)	(1,107)	(1,887)	(2,994)
Change in equity interest of consolidated subsidiaries	—	—	—	—	(891)	—	—	(891)	(2,002)	(2,893)
<b>Balance at December 31, 2021</b>	<u>487,234,522</u>	<u>79</u>	<u>945,496,827</u>	<u>156</u>	<u>2,685,544</u>	<u>88,262</u>	<u>505,085</u>	<u>3,279,126</u>	<u>81,017</u>	<u>3,360,143</u>
<b>Balance at December 31, 2021 in US\$</b>	<u>487,234,522</u>	<u>12</u>	<u>945,496,827</u>	<u>25</u>	<u>421,420</u>	<u>13,850</u>	<u>79,259</u>	<u>514,566</u>	<u>12,713</u>	<u>527,279</u>

**CHEETAH MOBILE INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021**

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

Cheetah Mobile Inc. (formerly known as Kingsoft Internet Security Software Holdings Limited) (the “Company”) is a limited company incorporated in the Cayman Islands under the laws of Cayman Islands on July 30, 2009. The Company and its consolidated subsidiaries and variable interest entities (“VIEs”) (collectively referred to the “Group”) are principally engaged in the provision of internet services (including provision of utility products and related services and mobile entrainment services) and artificial intelligence (“AI”) and other services. The Company conducts its primary business operations through its subsidiaries, VIEs and subsidiaries of VIEs.

Details of the Company’s principal subsidiaries and VIEs as of December 31, 2021 are as follows:

<u>Company</u>	<u>Date of incorporation/ registration</u>	<u>Place of incorporation/ registration</u>	<u>Percentage of ownership (i)</u>	<u>Principal activities</u>
<b><i>Principal subsidiaries of the Company:</i></b>				
Cheetah Technology Corporation Limited (“Cheetah Technology”)	August 26, 2009	Hong Kong	100%	Investment holding, provision of internet products and related services
Beijing Kingsoft Internet Security Software Co., Ltd. (“Beijing Security”)	November 30, 2009	The PRC	100%	Provision of internet products and related services, sale of AI products
Conew Network Technology (Beijing) Co., Ltd. (“Conew Network”)	March 19, 2009	The PRC	100%	Provision of internet products and related services
Hongkong Zoom Interactive Network Marketing Technology Limited (“HK Zoom”)	July 4, 2014	Hong Kong	100%	Provision of AI and other services
Cheetah Information Technology Company Limited (“Cheetah Information”)	March 9, 2015	Hong Kong	100%	Investment holding

**CHEETAH MOBILE INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021**

(Amounts in thousands of Renminbi (“RMB”) and U.S. Dollars (“US\$”), except for number of shares and per share (or ADS) data)

<b>Company</b>	<b>Date of incorporation/ registration</b>	<b>Place of incorporation/ registration</b>	<b>Percentage of ownership (i)</b>	<b>Principal activities</b>
<b>Principal subsidiaries of the Company</b>				
<i>(continued):</i>				
Cheetah Mobile Singapore Pte. Ltd. (“Cheetah Mobile Singapore”)	May 27, 2015	Singapore	100%	Provision of internet products and related services
Cheetah Mobile Hong Kong Limited (“Cheetah Mobile Hong Kong”)	February 24, 2016	Hong Kong	100%	Investment holding
Multicloud Limited	July 20, 2017	Hong Kong	100%	Provision of internet products and related services
Beijing Kingsoft Cheetah Technology Co., Ltd.	April 30, 2015	The PRC	100%	Provision of internet products and related services
Jingdezhen Jibao Information Service Co., Ltd.	August 10, 2017	The PRC	100%	Provision of internet products and related services, sale of AI products
Japan Kingsoft Inc. (“Kingsoft Japan”)	March 9, 2005	Japan	41.9%	Provision of internet products and related services
Zhuhai Baoqu Technology Co., Ltd.	July 18, 2018	The PRC	75.0%	Provision of internet products and related services
<b>VIEs:</b>				
Beijing Conew Technology Development Co., Ltd. (“Beijing Conew”)	December 22, 2005	The PRC	Nil	Dormant
Beijing Cheetah Mobile Technology Co., Ltd. (“Beijing Mobile”)	April 15, 2009	The PRC	Nil	Provision of internet products and related services
Beijing Cheetah Network Technology Co., Ltd. (“Beijing Network”)	July 18, 2012	The PRC	Nil	Provision of internet products and related services

(i) Percentage of ownership is calculated on fully diluted basis.

**VIE arrangements**

Before December 2019, in order to comply with the PRC laws and regulations which prohibit foreign control of companies involved in internet value-added business, the Group operates its website and conducts substantially the majority of its internet value-added services in the PRC through Beijing Mobile, Beijing Network, and Beijing Conew and other VIEs (collectively referred to as the “VIEs”) and its wholly-owned subsidiaries. Except for Beijing Conew, the registered capital of the VIEs was funded by Beijing Security and Conew Network (each or collectively referred to as the “Former Primary Beneficiaries”) through loans extended to the VIEs’ shareholders (the “Nominee Shareholders”), Sheng Fu, who is the Company’s director, as well as Ms. Weiqin Qiu, Kun Wang and Wei Liu. The effective control of the VIEs is held by the Former Primary Beneficiaries, through a series of contractual agreements (the “Contractual Agreements”). As a result of the Contractual Agreements, the Former Primary Beneficiaries have the power to direct the activity that most significantly impacts the economic performance of the VIEs and receive the economic benefits of the VIEs.

CHEETAH MOBILE INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
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(Amounts in thousands of Renminbi (“RMB”) and U.S. Dollars (“US\$”), except for number of shares and per share (or ADS) data)

The following is a summary of the Contractual Agreements amongst Beijing Security, as the Former Primary Beneficiary, Beijing Mobile, as the VIE and Beijing Mobile’s Nominee Shareholders before December 2019. Contractual Agreements entered with other VIEs, including but not limited to Beijing Network and Beijing Conew, are substantially similar:

*Exclusive technology development, support, and consulting agreements*

Pursuant to the exclusive technology development, support and consulting agreement entered into between the Former Primary Beneficiary and the VIE, the VIE engaged the Former Primary Beneficiary as its exclusive provider of management consulting services, technical development and support services in return for service fees of not less than 30% of the VIE’s pre-tax revenue. The Former Primary Beneficiary has the sole right to adjust the services fees upon written request and shall exclusively own any intellectual property arising from the performance of this agreement. The agreements will remain effective unless terminated upon mutual agreement by both parties. During the term of the agreement, the VIE may not enter into any agreement with third parties for the provision of any technical or management consulting services without the consent of the Former Primary Beneficiary.

*Loan agreements*

Pursuant to the loan agreements among the Former Primary Beneficiary, the Nominee Shareholders and the VIE, the Former Primary Beneficiary granted loans to the Nominee Shareholders for their sole purpose of contributing to the registered capital of the VIE or in certain cases directly to the VIE under the VIE arrangements. As of December 31, 2021, the aggregate amount of these loans was RMB16,800 (US\$2,636). At the option of the Former Primary Beneficiary, repayment may be requested at any time, which may be in the form of transferring the VIE’s equity interest to the Former Primary Beneficiary or its designees. The Nominee Shareholders may offer to repay part or the entire loans at any time, to the extent permitted by PRC laws, in the form of transferring the VIE’s equity interest to the Former Primary Beneficiary or its designees.

*Exclusive equity option agreements*

Pursuant to the exclusive equity option agreement entered into among the Former Primary Beneficiary, the VIE and the Nominee Shareholders, the Former Primary Beneficiary was granted an exclusive and irrevocable option to purchase, or designate a third party to purchase, all or part of the equity interest of the VIE held by the Nominee Shareholders. Without the prior written consent of the Former Primary Beneficiary, the Nominee Shareholders shall not assign or transfer to any third party or create or cause any equity interest in whatsoever form to be created on, all or any part of the equity interest held in the VIE. In addition, dividends and any form of distributions are not permitted without the prior consent of the Former Primary Beneficiary. The exercise consideration is equal to the minimum price permitted under the PRC laws and any amount in excess of the corresponding loan amount shall be refunded by the Nominee Shareholders to the Former Primary Beneficiary or the Former Primary Beneficiary may deduct the excess amount upon payment of consideration. The Former Primary Beneficiary or its designee(s) may exercise such option at any time until it has acquired all the equity interest of the VIE. The agreement will remain effective until all the equity interests held by the Nominee Shareholders have been lawfully transferred to the Former Primary Beneficiary or its designee(s) pursuant to the terms of the agreement.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
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**(Amounts in thousands of Renminbi (“RMB”) and U.S. Dollars (“US\$”), except for number of shares and per share (or ADS) data)**

*Equity pledge agreements*

Pursuant to the equity pledge agreement entered into among the Nominee Shareholders, the VIE and the Former Primary Beneficiary, the Nominee Shareholders pledged all of their equity interest in the VIE to the Former Primary Beneficiary as collateral for all of their payments due to the Former Primary Beneficiary and to secure their obligations under the above agreements. Without the prior written consent of the Former Primary Beneficiary, the Nominee Shareholders may not assign or transfer to any third party or create or cause any equity interest in whatsoever form to be created on, all or any part of the equity interest they hold in the VIE. The Former Primary Beneficiary is entitled to transfer or assign in full, or in part, the equity interest pledged. In the event of default, the Former Primary Beneficiary as the pledgee, has first priority to be compensated through the sale or auction of the pledged equity interest. The Nominee Shareholders agree to waive their dividend rights in relation to all of the pledged equity interest until such pledge has been lawfully discharged. The equity pledge agreement will remain effective until all the obligations under these agreements have been satisfied in full or all of the guaranteed liabilities have been repaid.

*Shareholder voting proxy agreements*

Pursuant to the shareholder voting proxy agreement signed among the Nominee Shareholders, the VIE and the Former Primary Beneficiary, each of the Nominee Shareholders irrevocably nominates, appoints and constitutes any person designated by the Primary Former Beneficiary as its attorney-in-fact to exercise on such shareholder’s behalf any and all rights that such shareholder has in respect of its equity interest in the VIE (including but not limited to the voting rights and the right to nominate executive directors of the VIE). The shareholder voting proxy agreement is effective for an initial ten years and will be automatically renewed on an annual basis thereafter if the Former Primary Beneficiary does not provide notice of termination to the Nominee Shareholders thirty days prior to expiration.

*Business operation agreements*

Pursuant to the business operations agreement entered into among the Nominee Shareholders, the VIE and the Former Primary Beneficiary, the Nominee Shareholders must appoint candidates designated by the Former Primary Beneficiary as the members of the board of the VIE and the Former Primary Beneficiary has the right to appoint senior executives of the VIE. In addition, the VIE agrees not to engage in any transaction that may materially affect its assets, obligations, rights or operation without the prior written consent of the Former Primary Beneficiary. The Nominee Shareholders also agree to unconditionally pay or transfer to the Former Primary Beneficiary any bonus, dividends or any other profits or interest (in whatever form) that they are entitled to as shareholders of the VIE, and waive any consideration connected therewith. The agreement has a term of ten years, unless otherwise terminated by the Former Primary Beneficiary. Neither the VIE nor the Nominee Shareholders may terminate this agreement.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
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(Amounts in thousands of Renminbi (“RMB”) and U.S. Dollars (“US\$”), except for number of shares and per share (or ADS) data)

*Spousal consent letters*

The spouse of certain shareholder of the VIE has executed spousal consent letter. Pursuant to such letter, the spouses of certain shareholder of the VIE acknowledged that certain equity interest in the VIE held by and registered in the name of her spouse will be disposed pursuant to relevant arrangements under the shareholder voting proxy agreement, the exclusive equity option agreement, the equity pledge agreement and the loan agreement. This spouse undertakes not to take any action to interfere with the disposition of such equity interest, including, without limitation, claiming that such equity interest constitutes communal marital property.

On January 17, 2014, the Contractual Agreements were supplemented with financial support undertaking letters executed by the Former Primary Beneficiary to memorialize the Former Primary Beneficiary’s commitment to the VIEs and the commitment shall be retrospectively effective from the date the other contractual agreements were fully executed. Pursuant to the financial support undertaking letter, the Former Primary Beneficiary commits to provide unlimited financial support to the VIE to support their operations whether or not the VIE incurs any losses, and not request for repayment if the VIE is unable to do so.

Despite the lack of technical majority ownership, there exists a parent-subsidary relationship between the Former Primary Beneficiaries and the VIEs through the irrevocable shareholder voting proxy agreements, whereby the Nominee Shareholders effectively assigned all of the voting rights underlying their equity interest in the VIEs to the Former Primary Beneficiaries. Furthermore, pursuant to the exclusive equity option agreements, which include a substantive kick-out right, the Former Primary Beneficiaries have the power to control the Nominee Shareholders, and therefore the power to govern the activities that most significantly impact the economic performance of the VIEs. In addition, through the Contractual Agreements, the Former Primary Beneficiaries demonstrate its ability and intention to continue to exercise the ability to absorb substantially all of the expected losses and the majority of the profits of the VIEs, and therefore have the rights to the economic benefits of the VIEs.

Normally, the shareholders of the VIEs have the right to elect and terminate the executive directors of the VIEs, approve the annual budget, financial statements and significant investing and financing activities of the VIEs. However, pursuant to the shareholder voting proxy agreements, the shareholders of the VIEs have assigned all of their voting rights underlying the equity interest in the VIEs to any person(s) nominated, appointed or designated by the Former Primary Beneficiaries. Senior management of the Company, all employees of the Former Primary Beneficiaries, are generally responsible for the review and approval of sales contracts, credit approval policies, pricing policies, significant marketing promotions, product development, research and development, bandwidth and traffic expenditures, as well as the appointments and terminations of personnel. Therefore, the Former Primary Beneficiaries have the power to direct the activities of the VIEs that most significantly impact their economic performance.

Thus, Beijing Security and Conew Network are considered as the Former primary beneficiaries of the VIEs. As a result of the above, the Company, through the Former Primary Beneficiaries, consolidate the VIEs in accordance with SEC Regulation S-X 3A-02 and Accounting Standards Codification (“ASC”) 810, *Consolidation* (“ASC 810”).



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
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In December 2019, the following two agreements included in the Contractual Agreements for certain VIEs, including Beijing Conew, Beijing Mobile and Beijing Network, were amended and replaced to mainly include the following terms:

a. Exclusive equity option agreements

The Company (i) has an exclusive option to purchase, when and to the extent permitted under PRC laws, all or part of the equity interests in the VIEs or all or part of the assets held by the VIEs, (ii) has an exclusive right to cause the Nominee Shareholders to transfer their equity interests in the VIE to the Company or any designated third party and (iii) may provide financial support to the VIEs (only to the extent permitted under PRC laws) when the VIEs become in need of any form of reasonable financial support in the normal operation of business. The Company will not request repayment of any outstanding loans or borrowings from the VIEs if the VIEs do not have sufficient funds or are unable to repay such loans or borrowings.

b. Proxy agreements and power of attorney

The Nominee Shareholders of the VIEs agreed to irrevocably entrust all the rights to exercise their voting power and any other rights as shareholders of the VIEs to the Company or any third party designated by the Company. The Company, or any designated third party, as the Trustee, shall have the right to exercise all the rights as shareholders of the VIEs in its sole discretion, and none of the Nominee Shareholders shall exercise any rights as shareholders of the VIEs without the prior written consent of the Company. The Nominee Shareholders of the VIEs have each executed an irrevocable power of attorney to appoint the Company as their attorney-in-fact to vote on their behalf on all matters requiring shareholder approval.

As a result, the power and the rights pursuant to the Proxy Agreements and Power of Attorney have since been effectively reassigned from the Former Primary Beneficiaries to the Company which has the power to direct the activities of the VIEs that most significantly impact the VIEs' economic performance. The Company is also obligated to absorb the expected losses of the VIE through the financial support as described above. Therefore, the Company has replaced the Former Primary Beneficiaries as the primary beneficiary of the VIEs, including but not limited to Beijing Conew, Beijing Mobile and Beijing Network since December 2019. As the VIEs were subject to indirect control by the Company through its PRC subsidiaries immediately before and direct control immediately after the Contractual Agreements were amended, the change of the primary beneficiary of the VIEs was accounted for as a common control transaction based on the carrying amount of the net assets transferred. Contractual Agreements for the VIEs effective since December, 2019 are substantially similar, including Exclusive equity option agreements and Proxy agreements and power of attorney with the Company and other agreements, including Exclusive technology development, support, and consulting agreements, Equity pledge agreements, Business operation agreements, with the Company's subsidiary(ies).

The Company, in consultation with its PRC legal counsel, believes that (i) the ownership structure of the Group, including its subsidiaries in the PRC and VIEs does not result in any violation of all existing PRC laws and regulations; (ii) each of the Contractual Agreements amongst the primary beneficiary, the VIEs and the Nominee Shareholders of the VIEs governed by PRC laws, are legal, valid and binding, enforceable against such parties, and will not result in any violation of PRC laws or regulations currently in effect; and (iii) each of the Company's PRC subsidiaries, VIEs and subsidiary of VIEs have the necessary corporate power and authority to conduct its business as described in its business scope under its business license, which is in full force and effect, and does not violate the articles of association.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
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However, uncertainties in the PRC legal system could cause the relevant regulatory authorities to find the current Contractual Agreements and businesses to be in violation of any existing or future PRC laws or regulations. If the Company, the Company’s PRC subsidiaries or any of its current or future VIEs are found in violation of any existing or future laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion in dealing with such violations, including levying fines, confiscating the income of the Company’s PRC subsidiaries, and the VIEs, revoking the business licenses or operating licenses of the Company’s PRC subsidiaries, and VIEs, shutting down the Group’s servers or blocking the Group’s websites, discontinuing or placing restrictions or onerous conditions on the Group’s operations, requiring the Group to undergo a costly and disruptive restructuring, restricting the Group’s rights to use the proceeds from this offering to finance the Group’s business and operations in PRC, or enforcement actions that could be harmful to the Group’s business. Any of these actions could cause significant disruption to the Group’s business operations and severely damage the Group’s reputation, which would in turn materially and adversely affect the Group’s business and results of operations. In addition, if the imposition of any of these penalties causes the Company to lose the rights to direct the activities of VIEs or the right to receive their economic benefits, the Company would no longer be able to consolidate the VIEs.

In addition, if the VIEs or the Nominee Shareholders fail to perform their obligations under the Contractual Agreements, the Group may have to incur substantial costs and expend resources to enforce the Primary Beneficiary’s rights under the contracts. The Group may have to rely on legal remedies under PRC laws, including seeking specific performance or injunctive relief and claiming damages, which may not be effective. All of these Contractual Agreements are governed by PRC laws and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC laws and any disputes would be resolved in accordance with PRC legal procedures. The legal system in PRC is not as developed as in other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit the Group’s ability to enforce these contractual arrangements. Under PRC laws, rulings by arbitrators are final, parties cannot appeal the arbitration results in courts, and prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would incur additional expenses and delay. In the event the Group is unable to enforce these Contractual Agreements, the Company may not be able to exert effective control over its VIEs, and the Group’s ability to conduct its business may be negatively affected.

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The assets and liabilities of the VIEs and subsidiaries of VIEs are as follows:

	As of December 31,		
	2020	2021	
	RMB	RMB	US\$
Cash and cash equivalents	28,060	37,496	5,884
Restricted cash	144	144	23
Short-term investments	15	120,197	18,862
Accounts receivable, net	19,449	12,462	1,956
Prepayments and other current assets	72,422	21,906	3,438
Due from related parties (i)	744,930	761,270	119,460
<b>Total current assets</b>	<b>865,020</b>	<b>953,475</b>	<b>149,623</b>
Property and equipment, net	2,616	25,515	4,004
Operating lease right-of-use assets	20	3,529	554
Intangible assets, net	3,000	5,097	800
Long-term investments	296,801	272,169	42,709
Other non-current assets	667	45,990	7,217
Deferred tax assets	17,124	1,180	185
<b>Total non-current assets</b>	<b>320,228</b>	<b>353,480</b>	<b>55,469</b>
<b>Total assets</b>	<b>1,185,248</b>	<b>1,306,955</b>	<b>205,092</b>
Accounts payable	8,536	7,205	1,131
Accrued expenses and other current liabilities	110,065	147,097	23,083
Due to related parties (i)	948,241	1,053,536	165,323
Income tax payable	1,791	751	118
<b>Total current liabilities</b>	<b>1,068,633</b>	<b>1,208,589</b>	<b>189,655</b>
Deferred tax liabilities	16,913	—	—
Other non-current liabilities	5,228	7,947	1,247
<b>Total non-current liabilities</b>	<b>22,141</b>	<b>7,947</b>	<b>1,247</b>
<b>Total liabilities</b>	<b>1,090,774</b>	<b>1,216,536</b>	<b>190,902</b>

- (i) The balances due from and due to related parties of the VIEs and subsidiaries of VIEs mainly represented amounts due from subsidiaries of the Group. As of December 31, 2020, and 2021, amounts due from subsidiaries of the Group were RMB684,257 and RMB706,646 (US\$110,888), respectively, while amounts due to subsidiaries of the Group were RMB927,892 and RMB1,024,511 (US\$160,768), respectively, which were eliminated upon consolidation by the Company.

The carrying amounts of the assets, liabilities and the results of operations of the VIEs and their subsidiaries are presented in aggregate due to the similarity of the purpose and design of the VIEs and their subsidiaries, the nature of the assets in these VIEs and their subsidiaries and the type of the involvement of the Company in these VIEs and their subsidiaries.

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The financial performance and cash flows of the VIEs and subsidiaries of VIEs are as follows:

	For the year ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$
Revenues	586,404	659,626	320,942	50,363
Cost of revenues	335,912	194,103	205,955	32,319
Net loss	(88,559)	(8,825)	(8,489)	(1,332)
Net cash provided by (used in) operating activities	62,401	(36,196)	209,357	32,853
Net cash (used in) provided by investing activities	(69,386)	21,168	(255,027)	(40,019)
Net cash provided by financing activities	—	—	91,093	14,294
Effect of exchange rate changes on cash, cash equivalents and restricted cash	121	(53)	(35,987)	(5,647)

The revenue producing assets that are held by the VIEs and subsidiaries of VIEs primarily comprise of leasehold improvements, servers, licensed software, network equipment, acquired trade name and acquired domain name. Substantially all of such assets are recognized in the Group’s consolidated financial statements, except for certain Internet Content Provider Licenses, internally developed software, trademarks and patent applications which were not recorded in the Company’s consolidated balance sheets as they do not meet all the capitalization criteria. The VIEs and subsidiaries of VIEs also hire assembled work force on sales, research and development and operations whose costs are expensed as incurred.

As of December 31, 2021, there was no pledge or collateralization of the VIEs’ and their subsidiaries’ assets that can only be used to settle the obligations of the VIEs and their subsidiaries, other than aforementioned pledges in the equity pledge agreements and restricted cash. The creditors of the VIEs and subsidiaries of VIEs have no recourse to the general credit of the Company.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Basis of presentation*

The consolidated financial statements of the Company have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”).

### *Principles of consolidation*

The consolidated financial statements include the financial statements of the Company, its subsidiaries, VIEs and subsidiaries of VIEs. All significant intercompany transactions and balances between the Company, its subsidiaries, VIEs and subsidiaries of VIEs are eliminated upon consolidation. Results of subsidiaries, businesses acquired from third parties, VIEs and subsidiaries of VIEs are consolidated from the date on which control is transferred to the Company.

On May 26, 2011, the board of directors of the Company approved and adopted a share award scheme (the “2011 Share Award Scheme”) in which selected employees of the Group are entitled to participate. The Group has set up a trust (the “Share Award Scheme Trust”) for the purpose of administering the 2011 Share Award Scheme and holding shares awarded to the employees before they vest and are transferred to the employees as instructed by employees. As the Group has the power to govern the financial and operating policies of the Share Award Scheme Trust and derives benefits from the contributions of the employees who have been awarded the shares of the Company through their continued employment with the Group, the Share Award Scheme Trust are included in the consolidated financial statements and any ungranted and unvested shares held by the Share Award Scheme Trust not transferred to grantees are not considered legally issued and outstanding ordinary shares of the Company.

### *Comparative information*

Certain items in prior years’ consolidated financial statements have been reclassified to conform to the current year’s presentation to facilitate comparison.

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***Use of estimates***

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Management evaluates estimates, including those related to the standalone selling prices of performance obligation of revenue contracts, the allowance for credit losses, weighted average unit price of virtual currencies of LiveMe, the average paying user lives of online games, the purchase price allocation with respect to business combinations, useful lives of long-lived assets and intangible assets, impairment of long-lived assets, impairment of investments, net realizable value of inventories, impairment of goodwill, valuation allowance for deferred tax assets, uncertain tax positions, share-based compensation, fair values of investments, and loss contingencies, among others.

***Foreign currency translation and transactions***

The functional currency of the Company is the US\$. The Company’s subsidiaries, VIEs and subsidiaries of VIEs determined their functional currency based on the criteria of ASC 830, *Foreign Currency Matters*. The Group uses RMB as its reporting currency. The Group uses the monthly average exchange rate for the year and the exchange rate at the balance sheet date to translate the operating results and financial position, respectively. Translation differences are recorded in accumulated other comprehensive income, a component of shareholders’ equity.

Transactions denominated in foreign currencies are remeasured into the functional currency at the exchange rates prevailing on the transaction dates. Foreign currency denominated financial assets and liabilities are remeasured at the exchange rates prevailing at the balance sheet date. Exchange gains and losses are included as a component of “Foreign exchange gains, net” in the consolidated statements of comprehensive (loss) income.

***Convenience translation***

Amounts in US\$ are presented for the convenience of the reader and are translated at the noon buying rate of RMB6.3726 to US\$1.00 on December 30, 2021 in the City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that the RMB amounts could have been, or could be, converted into US\$ at such rate.

***Business combinations and noncontrolling interests***

Except for business combination under common control, the Group accounts for its business combinations using the purchase method of accounting in accordance with ASC 805, *Business Combinations*. The purchase method of accounting requires that the consideration transferred to be allocated to the assets, including separately identifiable assets, and liabilities the Group acquired, based on their estimated fair values. The consideration transferred of an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, and equity instruments issued as well as the contingent considerations and all contractual contingencies as of the acquisition date. The costs directly attributable to the acquisition are expensed as incurred. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any noncontrolling interests. The excess of (i) the total of cost of acquisition, fair value of the noncontrolling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree, is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in earnings. During the measurement period, which can be up to one year from the acquisition date, the Group may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded in the consolidated statements of comprehensive (loss) income.

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In a business combination achieved in stages, the Group remeasures its previously held equity interest in the acquiree immediately before obtaining control at its acquisition-date fair value and the re-measurement gain or loss, if any, is recognized in earnings.

The determination and allocation of fair values to the identifiable assets acquired, liabilities assumed and noncontrolling interests is based on various assumptions and valuation methodologies requiring considerable judgment from management. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. The Group determines discount rates to be used based on the risk inherent in the related activity’s current business model and industry comparisons. Terminal values are based on the expected life of assets, forecasted life cycle and forecasted cash flows over that period.

For the Company’s majority-owned subsidiaries and VIEs, a noncontrolling interest is recognized to reflect the portion of their equity which is not attributable, directly or indirectly, to the Company. Consolidated net (loss) income on the consolidated statements of comprehensive (loss) income includes the net (loss) income attributable to noncontrolling interests. The cumulative results of operations attributable to noncontrolling interests are recorded as noncontrolling interests in the Group’s consolidated balance sheets.

***Cash and cash equivalents***

Cash consists of cash on hand and bank deposits, which are unrestricted to withdrawal and use. All highly liquid investments with original stated maturity of three months or less are classified as cash equivalents and are stated at cost which approximates their fair value.

***Accounts receivable and allowance for credit losses***

Prior to the adoption of ASC 326, accounts receivable is recognized and carried at original invoiced amount less an allowance for any potential uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred. The Group generally does not require collateral from its customers. The Group maintains allowances for doubtful accounts for estimated losses resulting from the failure of customers to make payments on time. The Group reviews the accounts receivable on a periodic basis and makes specific allowances when there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balances, the Group considers many factors, including the customer’s payment history, its current creditworthiness and current economic trends.

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Upon adoption of ASC 326 on January 1, 2020, the Group maintains an allowance for credit losses in accordance with ASC 326 and records the allowance for credit losses as an offset to accounts receivable, and the estimated credit losses charged to the allowance is classified as “General and administrative” in the consolidated statements of comprehensive (loss) income. The Group assesses collectability by reviewing accounts receivable on a collective basis where similar characteristics exist, primarily based on similar business line, service or product offerings and on an individual basis when the Group identifies specific customers with known disputes or collectability issues. In determining the amount of the allowance for credit losses, the Group considers historical collectability based on past due status, the age of the accounts receivable balances, credit quality of the Group’s customers based on ongoing credit evaluations, current economic conditions, reasonable and supportable forecasts of future economic conditions, and other factors that may affect the Group’s ability to collect from customers. Bad debts are written off as incurred. The Group generally does not require collateral from its customers.

***Inventories***

Inventories, consisting of products available for sale, are stated at the lower of cost and net realizable value, and are recorded in “Prepayments and other current assets”. Cost of inventories is determined using the weighted average cost method. Adjustments are recorded to write down the cost of inventories to the estimated net realizable value due to slow-moving merchandise and damaged goods, which is dependent upon factors such as historical and forecasted consumer demand, and promotional environment. Write downs of inventories are recorded in cost of revenues in the consolidated statements of comprehensive (loss) income.

***Investments***

***Short-term investments***

Investments with original maturities of greater than three months, but less than 12 months, are classified as short-term investments. Investments that are expected to be realized in cash during the next 12 months are also included in short-term investments.

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*Investment in debt securities*

The Group accounts for its investments in debt securities in accordance with ASC 320-10, *Investments-Debt Securities: Overall*. The Group classifies the investments in debt securities as “held-to-maturity”, “trading” or “available-for-sale”, whose classification determines the respective accounting methods stipulated by ASC 320-10. Dividend and interest income, including amortization of the premium and discount arising at acquisition, for all categories of investments in securities are included in earnings. Any realized gains or losses on the sale of the short-term investments are determined on a specific identification method, and such gains and losses are reflected in earnings during the period in which gains, or losses are realized.

The debt securities that the Group has positive intent and ability to hold to maturity are classified as held-to-maturity securities and stated at amortized cost. Prior to the adoption of ASC 326, for individual securities classified as held-to-maturity securities, the Group evaluates whether a decline in fair value below the amortized cost basis is other-than-temporary in accordance with the Group’s policy and ASC 320-10. When the Group intends to sell an impaired debt security or it is more likely than not that it will be required to sell prior to recovery of its amortized cost basis, an other-than-temporary impairment is deemed to have occurred. In these instances, the other-than-temporary impairment loss is recognized in earnings equal to the entire excess of the debt security’s amortized cost basis over its fair value at the balance sheet date of the reporting period for which the assessment is made. When the Group does not intend to sell an impaired debt security and it is more-likely-than-not that it will not be required to sell prior to recovery of its amortized cost basis, the Group must determine whether or not it will recover its amortized cost basis. If the Group concludes that it will not, an other-than-temporary impairment exists and that portion of the credit loss is recognized in earnings, while the portion of loss related to all other factors is recognized in other comprehensive income (loss).

Upon the adoption of ASC 326 on January 1, 2020, the allowance for credit losses of the held-to-maturity debt securities reflects the Group’s estimated expected losses over the contractual lives of the held-to-maturity debt securities and is charged to “Other expense” in the consolidated statements of comprehensive (loss) income. Estimated allowances for credit losses are determined by considering reasonable and supportable forecasts of future economic conditions in addition to information about past events and current conditions.

Debt securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities. Unrealized holding gains and losses for trading securities are included in earnings.

Debt investments not classified as trading or as held-to-maturity are classified as available-for-sale securities. Available-for-sale debt securities are reported at fair value, with unrealized gains and losses recorded in other comprehensive income (loss).

*Investment in equity securities*

The Group accounts for its investments in common stock or in-substance common stock in entities in which it can exercise significant influence but does not own a majority equity interest or control using the equity method in accordance with ASC 323-10, *Investments-Equity Method and Joint Ventures: Overall* unless the Group elects to account for the investment using the fair value option in accordance with ASC 825-10, *Financial Instruments: Fair Value Option* (“ASC 825”). The Group applies the equity method of accounting that is consistent with ASC 323-10 in limited partnership in which the Group holds a three percent or greater interest. Where the equity method is used, the Group initially records its investment at cost and the difference between the cost of the equity investee and the fair value of the underlying equity in the net assets of the equity investee is accounted for as if the investee were a consolidated subsidiary. The Group subsequently adjusts the carrying amount of the investment to recognize the Group’s proportionate share of each equity investee’s net income or loss into earnings after the date of investment. The Group evaluates the equity method investments for impairment under ASC 323-10. An impairment loss on the equity method investments is recognized in earnings when the decline in value is determined to be other-than-temporary.

The Group has elected the fair value option when it initially recognizes an equity method investment as the Group determined the fair value of this investment better represents the value of the underlying assets. Such election is irrevocable and can be applied to financial assets on an individual basis at initial recognition. Any changes in fair value are recognized in earnings in the consolidated statements of comprehensive (loss) income.



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Equity investments with readily determinable fair value, except for those accounted for under the equity method, those that result in consolidation of the investee and certain other investments, are measured at fair value, and any changes in fair value are recognized in earnings. For equity securities without readily determinable fair value and do not qualify for the existing practical expedient in ASC 820, *Fair Value Measurements and Disclosures* (“ASC 820”) to estimate fair value using the net asset value per share (or its equivalent) of the investment, the Group elected to use the measurement alternative to measure those investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer, if any.

For equity investments measured at fair value with changes in fair value recorded in earnings, the Group does not assess whether those securities are impaired. For those equity investments that the Group elects to use the measurement alternative, the Group makes a qualitative assessment of whether the investment is impaired at each reporting date. If a qualitative assessment indicates that the investment is impaired, the entity has to estimate the investment’s fair value in accordance with the principles of ASC 820. If the fair value is less than the investment’s carrying value, the Group recognizes an impairment loss in earnings equal to the difference between the carrying value and fair value.

In January 2020, the FASB issued ASU No. 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)—Clarifying the Interactions between Topic 321, Topic 323, and Topic 815 (a consensus of the Emerging Issues Task Force). The amendments in this update clarify the interaction of the accounting for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. The Group adopted the ASU on January 1, 2021, which did not have a material impact on the consolidated financial statements.

***Fair value measurements of financial instruments***

Accounting guidance establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument’s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Accounting guidance establishes three levels of inputs that may be used to measure fair value.

Financial instruments primarily consist of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, due from and due to related parties, other receivables, long-term investments, accounts payable and other current liabilities. The carrying amounts of these financial instruments, except for long-term investments approximate their fair values because of their generally short-term maturities.

The Group, with the assistance of an independent third-party valuation firm, determined the estimated fair value of its equity investments using the alternative measurement based on observable price changes and equity method investment with fair value option elected. For business disposed during the year, the Group measured fair value upon deconsolidation using the discounted cash flow approach. The Group also, with the assistance of an independent third-party valuation firm, determined the fair value of long-term investments, including equity investments using the alternative measurement, equity method investments and long-term debt securities upon impairment occurrence.

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***Property and equipment***

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, as follows:

	<b>Estimated useful life</b>
Electronic equipment	2-3 years
AI related equipment	2-3 years
Office equipment and fixtures	5 years
Motor vehicles	4 years
Leasehold improvements	Lesser of term of the lease or the estimated useful lives of the assets

Repair and maintenance costs are charged to expense as incurred, whereas the cost of renewals and betterment that extends the useful lives of plant and equipment are capitalized as additions to the related assets. Retirements, sales and disposals of assets are recorded by removing the cost and accumulated depreciation from the assets and accumulated depreciation accounts with any resulting gain or loss reflected in the consolidated statements of comprehensive (loss) income.

All direct and indirect costs that are related to the construction of fixed assets and incurred before the assets are ready for their intended use are capitalized as construction in progress. Construction in progress is transferred to specific fixed assets items and depreciation of these assets commences when they are ready for their intended use.

***Goodwill***

The Group assesses goodwill for impairment in accordance with ASC 350, *Intangibles-Goodwill and Other: Goodwill* (“ASC 350-20”), which requires that goodwill to be tested for impairment at the reporting unit level at least annually and more frequently upon the occurrence of certain events. The Group has the option to assess qualitative factors first to determine whether it is necessary to perform the two-step test in accordance with ASC 350-20. If the Group believes, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of the reporting unit is less than its carrying amount, the two-step quantitative impairment test described above is required. Otherwise, no further testing is required. In the qualitative assessment, the Group considers primary factors such as industry and market considerations, overall financial performance of the reporting unit, and other specific information related to the operations. In performing the two-step quantitative impairment test, the first step compares the carrying amount of the reporting unit to the fair value of the reporting unit based on either quoted market prices of the ordinary shares or estimated fair value using the income approach. If the fair value of the reporting unit exceeds the carrying value of the reporting unit, goodwill is not impaired, and the Group is not required to perform further testing. If the carrying value of the reporting unit exceeds the fair value of the reporting unit, then the Group must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit’s goodwill. The fair value of the reporting unit is allocated to its assets and liabilities in a manner similar to a purchase price allocation in order to determine the implied fair value of the reporting unit goodwill. If the carrying amount of the goodwill is greater than its implied fair value, the excess is recognized as an impairment loss. As the Company’s market capitalization was lower than the carrying amount of the net assets, the Group performed impairment assessment for the goodwill of all reporting units using the two-step process, and goodwill amounted to RMB545,665 was fully impaired for the year ended December 31, 2019.

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On disposal of a portion of reporting unit that constitutes a business, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of a business within the reporting unit, the amount of goodwill disposed is measured based on the relative fair value of the business disposed and the portion of the reporting unit retained. This relative fair value approach is not used when the business to be disposed was not integrated into the reporting unit after its acquisition, in which case the current carrying amount of the acquired goodwill should be included in the carrying amount of the business to be disposed.

*Intangible assets*

Intangible assets are carried at cost less accumulated amortization and any recorded impairment. Intangible assets acquired in a business combination were recognized initially at fair value at the date of acquisition. Intangible assets with finite useful lives are amortized using a straight-line method of amortization that reflects the estimated pattern in which the economic benefits of the intangible asset are to be consumed. The estimated useful life for the intangible assets is as follows:

	Estimated useful life
Customer relationship	2-6 years
Trademarks	3-10 years
Technology	1-11 years
Online game licenses	1-5 years
User base	1 year
Domain names	1-10 years
Platform	5-6 years

If an intangible asset is determined to have an indefinite life, it should not be amortized until its useful life is determined to be no longer indefinite. As of December 31, 2020 and 2021, the Group did not have any intangible assets with an indefinite life.

*Impairment of long-lived assets and intangible assets*

The Group evaluates its long-lived assets or asset group, including intangible assets with indefinite and finite lives, for impairment. Intangible assets with indefinite lives that are not subject to amortization are tested for impairment at least annually or more frequently if events or changes in circumstances indicate that the assets might be impaired in accordance with ASC 350-30, *Intangibles-Goodwill and Other: General Intangibles Other than Goodwill*. Such impairment test compares the fair values of assets with their carrying values with an impairment loss recognized when the carrying values exceed fair values. For long-lived assets and intangible assets with finite lives that are subject to depreciation and amortization are tested for impairment whenever events or changes in circumstances (such as a significant adverse change to market conditions that will impact the future use of the assets) indicate that the carrying amount of an asset or a group of long-lived assets may not be recoverable. When these events occur, the Group evaluates impairment by comparing the carrying amount of the assets to future undiscounted net cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flows is less than the carrying amount of the assets, the Group would recognize an impairment loss based on the excess of the carrying amount of the asset group over its fair value.

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**Treasury stock**

Treasury stock represents ordinary shares repurchased by the Company that are no longer outstanding and are held by the Group. Treasury stock is accounted for under the cost method. Under this method, repurchase of ordinary shares was recorded as treasury stock at historical purchase price. At retirement, the ordinary shares account is charged only for the aggregate par value of the shares. The excess of the acquisition cost of treasury shares over the aggregate par value is allocated between additional paid-in capital (up to the amount credited to the additional paid-in capital upon original issuance of the shares) and retained earnings.

**Revenue recognition**

The Group generates its revenues primarily through internet business, AI and others. The Group recognizes revenue when it has approval and commitment from the customer, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. Pursuant to ASC 606-10-32-2A, the Group also elected to exclude sales taxes and other similar taxes from the measurement of the transaction price. Therefore, revenues are recognized net of value added taxes (“VAT”) and surcharges.

The following table presents the Company’s revenues disaggregated by revenue source:

	For the year ended December 31,			
	2019 RMB	2020 RMB	2021 RMB	US\$
Revenues:				
Internet business				
Online advertising	2,074,256	855,430	354,604	55,645
Internet value-added services	1,296,555	525,476	299,155	46,944
AI and others				
Advertising agency services(i)	73,762	84,993	61,588	9,665
Multi-cloud Management Services	—	3,501	41,443	6,503
Technical consulting and other services	58,607	35,504	17,236	2,704
Sale of AI hardware products	84,515	47,741	10,590	1,662
<b>Total consolidated revenues</b>	<b><u>3,587,695</u></b>	<b><u>1,552,645</u></b>	<b><u>784,616</u></b>	<b><u>123,123</u></b>

- (i) As disclosed under Segment reporting, the Group realigned its segments as CODM changed how it manages and assesses the Group’s segment performance. business. As such, the Group has retrospectively revised disaggregated revenue disclosure accordingly. Please refer to Note 2 Segment reporting for more information.

*(1) Internet business*

*Online advertising*

Online advertising revenue is primarily derived from displaying advertising customer’s advertisements on the Group’s online platforms including duba.com and other websites, browsers, PC and mobile applications, and to a lesser extent, on third-party advertising publishers’ websites or mobile applications. The Group has three general pricing models for its advertising products: cost over a time period, cost for performance basis and cost per impression basis. For advertising contracts over a time period, the Group generally recognizes revenue ratably over time, because the customer simultaneously receives and consumes the benefits as the Group performs throughout a fixed contract term. For contracts that are charged on the cost for performance basis, the Group charges an agreed-upon fee to its customers determined based on the effectiveness of advertising links, which is typically measured by clicks, transactions, installations, user registrations, and other actions originating from the Group’s online platforms. Revenue is recognized at a point in time when there is an effective click, transaction, installations, user registrations, and other actions originating from the Group’s online platforms. For contracts that are charged on the cost per impression basis, the Group recognizes the revenue at a point in time when the impressions are delivered. For online advertising services arrangement involving third-party advertising publishers’ websites or mobile publications, the Group recognizes gross revenue the amount of fees received or receivable from customers as the Group has control over the advertising services before they are transferred to the customer, and therefore, the Group is not arranging for the advertising services to be provided by third parties on their internet properties. Revenue for online advertising services involving third-party advertising publishers’ websites or mobile publications is recognized at a point in time when all the revenue recognition criteria are met. Payments made to the third-party advertising publishers or content providers are included in cost of revenues.

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*Internet value-added services*

The Group generates value-added services revenue principally from fee-based services, mainly including VIP membership, software subscription, game-related and live streaming services.

*VIP membership and software subscription.* The Group provides non-cancellable VIP membership services and hosted software subscription services to individual and enterprise customers, which can obtain the access to the related services over a fixed period of time at a fixed price as specified in the contract. Our VIP membership services are provided to customers with various privileges, which primarily include access to advertising-free and value-added services such as file and data recovery, malicious pop-up interception, PDF converting etc. The Group also provides various software such as anti-virus, security protection, immediate communication and etc. to individual and enterprise customers. The software license and the when-and-if-available updates are accounted for as a single performance obligation as the license and the updates are inputs to a combined items in the contract. The VIP membership services and software subscription services are primarily sold in short term period, typically, no more than 12 months. Certain services have contracts with no fixed duration. For these indefinite term subscriptions, the Group estimated the expected contract period based on historical usage pattern and recognizes related revenue over the expected contract period. Upfront payment is generally required and upon the receipt of membership fees and software subscription fees, the Group recognizes the excess of payment received as compared to the recognized revenue as deferred revenue in “Accrued expenses and other liabilities” and revenue is recognized ratably over the membership period or the subscription period as services are rendered.

*Game-related services.* The Group sells both perpetual and consumable in-game virtual items. Perpetual in-game virtual items represent items that are accessible to the paying users as long as the users continue to play. Consumable virtual items represent items that can be consumed by specific user actions. The Group recognizes revenues from the perpetual in-game virtual items over the estimated average paying users’ life, and revenues from the consumable in-game virtual items at a point in time when specific user actions are taken by paying users.

The Group tracks the in-game virtual item purchases and log-in history of the paying users to calculate the retention of game users based on a statistical model in order to arrive at the best estimate of the average paying users’ life of each game. For newly launched games with a limited period of paying users’ data available for the estimate, the Group considers the estimated average paying users’ life of other recently launched games with similar characteristics.

*Live streaming services.* The Group creates and offers virtual items to be used by users on mobile live broadcast application “LiveMe”, which was operated and maintained by the Group. All “LiveMe” live video shows are available free of charge and fans can purchase virtual items on the platform with virtual currencies to support their favorite performers. The Group recognizes revenue from LiveMe on a gross basis as it has control over the fulfillment of providing mobile live broadcasts on the LiveMe platform, and records payments to the performers and third-party payment platforms as cost of revenues. When virtual currencies are converted into virtual items which are consumed simultaneously, performers receive a certain number of virtual diamonds as a result. When performers receive virtual diamonds, they have a choice to either cash out the virtual diamonds or convert them into virtual currencies and continue to consume the virtual currencies on the platform. Since the performers can convert the virtual items into cash and recharge into their account (if they do) or directly convert into virtual currencies, the Group believes that the conversion into virtual currencies is analogous to recharge by cash and revenue should be recognized when virtual currencies converted from virtual items are consumed. Proceeds received from users for the sales of virtual currencies are recorded as contract liability, representing prepayments received from users in the form of the Group’s virtual currency not yet converted into virtual items. Revenue recognized is based on the weighted average unit price of virtual currencies and the quantities of virtual currencies converted into virtual items. The weighted average unit price of virtual currencies is calculated on a monthly basis as the sum of the contract liability at the beginning of the month, proceeds received during the month and the cash value of the virtual diamonds converted into virtual currencies divided by the sum of the virtual currencies balance at the beginning of the month plus the quantity of virtual currencies generated during the month. Commission fees paid to distribution platforms and payment channels and the fees shared by the third-party game developers are recorded as cost of revenues. The Group ceases to provide this service as Live.me was deconsolidated on September 30, 2019 (Note 3).

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(2) *AI and others*

*Advertising agency services*

The Group provides advertising agency services by arranging advertisers to purchase various advertisement products from certain online networks. The Group receives from the online network performance-based commissions, which are determined based on a pre-specified percentage of the payment by the advertisers for the online network’s various advertisement products. The Group acts as an agent to arrange for the advertising services to be provided by third parties on their internet properties and incentives provided to the end customers are typically market-wide promotions that result in lower fee earned by the Group, and therefore are recorded as a reduction of revenue at the date the Group records the corresponding revenue transaction. Revenue from advertising agency services is recognized on a net basis at a point in time when the advertisement products are delivered by the online networks. The revenue is estimated by the Group based on the real-time advertising performance results provided by the online networks and the commission rates pre-determined in contracts signed with relevant online networks. There was no significant difference between the Group’s estimates and the subsequent periodic invoices provided by the online network for all the periods presented. Receivables from advertising agency services were included in other receivables from advertisers in “Prepayments and other current assets” and payable to online networks were included in payable to online advertising platforms as agency in “Accrued expenses and other current liabilities” on the consolidated balance sheets.

*Multi-Cloud Management services*

The Group provides multi-cloud management services through cloud management platform. The nature of the Group’s performance obligation is a single performance obligation to stand ready to provide integrated technical cloud-based solution or sale cloud resources to customers. Revenue is recognized over time when related solutions or resources are provided to customers. The Group evaluates whether it is appropriate to record the revenue on gross or net basis based on whether it acts as a principal or as an agent. This determination is reviewed for each specified service provided to the customer and may involve significant judgment. In certain cases, the Group concludes that it controls the solutions and resources before they are transferred to end customers, as the Group integrates the cloud resources with its technical expertise to provide ongoing customized cloud-based solutions, is primarily responsible for the fulfillment, and has inventory risk before the specified solutions and resources have been transferred to the customers and revenue is recognized on a gross basis. In other cases, the Group acts as a reseller of cloud resources and during which the Group acts as an agent to arrange for the resources to be provided by third parties and revenue is recognized on a net basis.

*Sale of AI hardware products, technical consulting service and others*

The Group recognizes revenue generally at a point in time for the sale of AI hardware products when the products are delivered to customers. Technical consulting services are recognized over time because the customer simultaneously receives and consumes the benefits as the Group performs throughout a fixed term.

(3) *Other revenue recognition related policies*

For arrangements that include multiple performance obligations, the Group would evaluate all the performance obligations in the arrangement to determine whether each performance obligation is distinct in the context of contract. Consideration is allocated to each performance obligation based on its standalone selling price. If a promised good or service does not meet the criteria to be considered distinct in the context of contract, it is combined with other promised goods or services until a distinct bundle of goods or services exists.

The Group provides sales incentives to customers which entitle them to receive reductions in the price. The Group accounts for these incentives granted to customers as variable consideration and records it as reduction of revenue. The amount of variable consideration is measured based on the most likely amount of incentives to be provided to customers. The Group believes that there will not be significant changes to its estimate of variable consideration.

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*Deferred revenue*

The Group recognizes a contract liability in the consolidated balance sheets for the contracts where the Group received the payments but have not satisfied the related performance obligation. Contract liabilities were mainly related to advance from customers in online advertising services and internet value-added services to be provided over a period of time and purchase of virtual currencies from users in mobile game and live broadcast application, which were included in “Accrued expenses and other liabilities”. Balances of contract liabilities were RMB112,016 and RMB164,749 (US\$25,853) as of December 31, 2020 and December 31, 2021, respectively. The increase in deferred revenue as compared to the year ended December 31, 2020 is a result of the increase in fees received from membership services. Revenue recognized that was included in deferred revenue balance at the beginning of year were RMB84,703, RMB94,056 and RMB74,996 (US\$11,769) for the years ended December 31, 2019, 2020 and 2021, respectively.

*Cost of revenues*

Cost of revenues primarily consists of traffic acquisition cost, bandwidth and cloud service costs, content and channel costs, royalty fees, salaries and benefits, share-based compensation expenses, depreciation of equipment, amortization of intangible assets and cost of products sold.

*Selling and marketing expenses*

Selling and marketing expenses consist primarily of advertising and promotional expenses, staff costs, share-based compensation expenses and other related incidental expenses that are incurred directly to attract or retain users and customers for the Group’s websites, applications, software, online platforms and products. Advertising and promotional expenses are expensed when incurred. For the years ended December 31, 2019, 2020 and 2021, advertising and promotional expenses were RMB1,305,720, RMB550,566 and RMB242,354 (US\$38,031), respectively.

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#### *Research and development expenses*

Research and development consist primarily of employee costs and rental expenses related to personnel involved in the development and enhancement of the Group’s service offerings on its websites, PC software, mobile applications and products and amortization of intangible assets used in research and development. The Group expenses these costs as incurred, unless such costs qualify for capitalization as software development costs, including (i) preliminary project is completed, (ii) management has committed to funding the project and it is probable that the project will be completed and the software will be used to perform the function intended, and (iii) they result in significant additional functionality in the Group’s products. Capitalized software development costs were not material for all periods presented.

#### *Government subsidies*

Government subsidies primarily consist of financial subsidies received from provincial and local governments, for operating a business in their jurisdictions or conducting research and development projects pursuant to specific policies promoted by the local governments. There are no defined rules and regulations to govern the criteria necessary for companies to receive such benefits, and the amount of financial subsidy is determined at the discretion of the relevant government authorities. For the government subsidies with non-operating feature and with no further conditions to be met, the amounts are recorded in “Other income” when received; for the government subsidies with operating feature and with no further conditions or specific use requirements to be met, the amount are recorded in “Other operating income” when received; and for the government subsidies related to research and development projects, the amounts are recorded in others in “Accrued expenses and other liabilities” when received and will be offset against “Research and development” expenses over the project period when no further conditions are to be met.

#### *Leases*

Prior to the adoption of ASC 842, *Leases* (“ASC 842”) on January 1, 2019 leases have been classified as either capital or operating leases at the inception date. Leases that transfer substantially all the benefits and risks incidental to the ownership of assets are accounted for as if there was an acquisition of an asset and incurrence of an obligation at the inception of the lease. All other leases are accounted for as operating leases wherein rental payments are expensed on a straight-line basis over the periods of their respective lease terms. The Group leases office space under operating lease agreements. Certain of the lease agreements contain rent holidays. Rent holidays are considered in determining the straight-line rent expense to be recorded over the lease term. The lease term begins on the date of initial possession of the lease property for purposes of recognizing lease expense on a straight-line basis over the term of the lease.

The Group adopted ASC 842 on January 1, 2019 using the modified retrospective method and did not restate the comparable periods. The Group elected the package of practical expedients, which allow the Group to carry forward the historical lease classification, not to reassess whether a contract is or contains a lease and initial direct costs for any leases that exist prior to adoption of the new standard. The Group also elected the practical expedient not to separate lease and non-lease components for certain classes of underlying assets and the short-term lease exemption for contracts with lease terms of 12 months or less.

The Group determines if an arrangement is a lease or contains a lease at lease inception. For operating leases, the Group recognizes right-of-use assets and lease liabilities based on the present value of the lease payments over the lease term on the consolidated balance sheets at commencement date. For finance leases, assets are included in property and equipment on the consolidated balance sheets. As most of the Group’s leases do not provide an implicit rate, the Group estimates its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, and in economic environments where the leased asset is located. The Group’s leases often include options to extend and lease terms include such extended terms when the Group is reasonably certain to exercise those options. Lease terms also include periods covered by options to terminate the leases when the Group is reasonably certain not to exercise those options. Lease expense is recorded on a straight-line basis over the lease term.



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*Comprehensive income*

Comprehensive income is defined to include all changes in shareholders’ equity except those resulting from investments by owners and distributions to owners. Among other disclosures, ASC 220-10, *Comprehensive Income: Overall* requires that all items that are required to be recognized under current accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements.

*Income taxes*

The Group accounts for income taxes using the liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the period in which the differences are expected to reverse. The Group records a valuation allowance against deferred tax assets if, based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

The Group applies ASC 740, *Accounting for Income Taxes*, to account for uncertainty in income taxes. ASC 740 prescribes a recognition threshold a tax position is required to meet before being recognized in the financial statements. The Group has recorded unrecognized tax benefits in the other non-current liabilities in the accompanying consolidated balance sheets. The Group has elected to classify interest and penalties related to unrecognized tax benefits, if and when required, as part of “Income tax expenses”, in the consolidated statements of comprehensive (loss) income.

The Group’s estimated liability for unrecognized tax benefits and the related interest and penalties are periodically assessed for adequacy and may be affected by changing interpretations of laws, rulings by tax authorities, changes and/or developments with respect to tax audits, and expiration of the statute of limitations. The actual benefits ultimately realized may differ from the Group’s estimates. As each audit is concluded, adjustments, if any, are recorded in the Group’s consolidated financial statements. Additionally, in future periods, changes in facts and circumstances, and new information may require the Group to adjust the recognition and measurement estimates with regard to individual tax positions. Changes in recognition and measurement estimates are recognized in the period in which they occur.

*Share-based compensation*

The Group accounts for share-based compensation in accordance with ASC 718, *Compensation-Stock Compensation: Overall*.

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In accordance with ASC 718, the Group determines whether an award should be classified and accounted for as a liability award or equity award. All grants of share-based awards to employees and non-employees classified as equity awards are recognized in the financial statements based on their grant date fair values.

The Group has elected to recognize share-based compensation using the accelerated method, for all share-based awards granted with graded vesting based on service conditions and for awards with performance conditions if it is probable that the performance condition will be achieved. The Group account for forfeitures as they occur, if required vesting conditions are not met and the share-based awards are forfeited, previously recognized compensation expenses relating to those awards are reversed. The Group, with the assistance of an independent third-party valuation firm determined the fair value of the share-based awards granted to employees and non-employees, if applicable. The binomial tree option pricing model was applied in determining the estimated fair value of the awards.

A change in any of the terms or conditions of share options is accounted for as a modification of share-based awards. The Group calculates the incremental compensation cost of a modification as the excess of the fair value of the modified option over the fair value of the original option immediately before its terms are modified, measured based on the share price and other pertinent factors at the modification date. For vested share-based awards, the Group recognizes incremental compensation cost in the period the modification occurred. For unvested share-based award, the Group recognizes, over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award on the modification date.

***(Loss) earnings per share***

(Loss) earnings per share are calculated in accordance with ASC 260-10, *Earnings per Share: Overall*. Basic earnings per share are computed by dividing net (loss) income attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the year using the two-class method. Under the two-class method, net (loss) income, accretion of the redeemable noncontrolling interests and dilution effect arising from share-based awards issued by subsidiaries are allocated to ordinary shares based on their participating rights in the undistributed earnings as if all the earnings for the reporting period had been distributed.

Diluted earnings per share is calculated by dividing net (loss) income attributable to ordinary shareholders by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period. Ordinary equivalent shares consist of the vesting of restricted shares and the exercising of option using the treasury stock method. The computation of the dilutive (loss) earnings per share of Class A ordinary share assumes the conversion of Class B ordinary shares. Ordinary share equivalents are excluded from the computation of diluted loss per share if their effects are anti-dilutive.

***Contingencies***

The Group records accruals for certain of its outstanding legal proceedings or claims when it is probable that a liability will be incurred, and the amount of loss can be reasonably estimated. The Group evaluates the developments in legal proceedings or claims that could affect the amount of any accrual, as well as any developments that would make a loss contingency both probable and reasonably estimable. The Group discloses the amount of the accrual if it is material.

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#### *Segment reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (the “CODM”), which is the chief executive officer. Starting from 2017, the Group reorganized its operation into three segments: utility products and related services, mobile entertainment business and AI and others. In 2020, the Group disposed certain gaming-related businesses in the overseas markets. As a result, the Group expects the revenue contribution from the mobile game business to decrease in the foreseeable future. Therefore, the Group started reporting its revenues and operating profits by two segments: internet business and AI and others. In 2021, the Group realigned its segments as the CODM changed how he manages and assesses the Group’s segment performance. The Group’s overseas advertising agency services, which assists domestic companies to launch advertisement on overseas advertising platforms, are changed from the Internet business into AI and others due to the synergies created between the Group’s advertising agency services and global multi-cloud management services. The Group has retrospectively revised segment information for the comparative periods to conform to the current period.

#### *Concentration of risks*

##### *Concentration of credit risk*

Financial instruments that are potentially subject to credit risk consist of cash and cash equivalents, restricted cash, short-term investments, available-for-sale debt securities, accounts receivable and other receivables. The carrying amounts of these financial instruments represent the maximum amount of loss due to credit risk. As of December 31, 2021, the Group has RMB1,847,520 (US\$289,917) in cash and cash equivalents, restricted cash, short-term investments and available-for-sale debt securities, and 64.3% and 35.7% of which are held by financial institutions in the PRC and international financial institutions outside of the PRC, respectively. Deposits held with financial institutions were not protected by statutory or commercial insurance. In the event of bankruptcy of one of these financial institutions, the Group may be unlikely to claim its deposits back in full.

Management believes that these financial institutions are of high credit quality and continually monitors the credit worthiness of these financial institutions.

Under PRC law, it is generally required that a commercial bank in the PRC that holds third-party cash deposits protect the depositors’ rights over and interests in their deposited money; PRC banks are subject to a series of risk control regulatory standards; and PRC bank regulatory authorities are empowered to take over the operation and management of any PRC bank that faces a material credit crisis.

Accounts receivable and other receivables are both typically unsecured and are derived from revenue earned from customers or cash receivables on behalf of publishers. The risk is mitigated by credit evaluations the Group performs on its ongoing credit evaluations of its customers’ financial conditions and ongoing monitoring process of outstanding balances. The Group maintains reserves for estimated credit losses and these losses have generally been within expectations.

##### *Business, customer, political, social and economic risks*

The Group participates in a dynamic high technology industry and believes that changes in any of the following areas could have a material adverse effect on the Group’s future financial position, results of operations or cash flows: changes in the overall demand for services and products; competitive pressures due to new entrants; advances and new trends in new technologies and industry standards; changes in bandwidth suppliers; changes in certain strategic relationships or customer relationships; regulatory considerations; copyright regulations; and risks associated with the Group’s ability to attract and retain employees necessary to support its growth and risks related to outbreaks of epidemics, such as COVID-19. On February 21, 2020, the Company’s Google Play Store, Google AdMob, and Google AdManager accounts had been disabled, which adversely affected its ability to attract new users and generate revenue from Google.

For the year ended December 31, 2019, approximately 13.8%, and 8.1% of the Group’s total revenue were derived from Google and consumption of virtual items by users via Google, respectively. For the year ended December 31, 2020 and 2021, no individual customer accounted for over 10% of the Group’s total revenue.

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The Group’s operations could be adversely affected by significant political, economic and social uncertainties in the PRC. Internet related businesses are subject to significant restrictions under current PRC laws and regulations. Specifically, foreign investors are not allowed to own more than 50% equity interests in any Internet Content Provider (“ICP”) business.

*Currency convertibility risk*

A significant portion of the Group’s operating activities as well as the assets and liabilities are denominated in RMB which is not freely convertible into foreign currencies. The Group’s financing activities are denominated in US\$. On January 1, 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted daily by the People’s Bank of PRC (the “PBOC”). However, the unification of the exchange rates does not imply that the RMB may be readily convertible into US\$ or other foreign currencies. All foreign exchange transactions continue to take place either through the PBOC or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the PBOC. Approval of foreign currency payments by the PBOC or other institutions requires submitting a payment application form together with suppliers’ invoices, shipping documents and signed contracts.

Additionally, the value of the RMB is subject to changes in central government policies and international economic and political developments affecting supply and demand in the PRC foreign exchange trading system market.

*Foreign currency exchange rate risk*

While the Group’s reporting currency is RMB, a portion of the Group’s revenues and costs are generated and denominated in US\$. As a result, the Group is exposed to foreign exchange risk as its revenues and results of operations may be affected by fluctuations in the exchange rate between U.S. dollar and RMB. If the US\$ depreciates against the RMB, the value of the Group’s US\$ revenues expressed in the RMB financial statements will decline. On June 19, 2010, the People’s Bank of China announced the end of the RMB’s de facto peg to US\$, a policy which was instituted in late 2008 in the face of the global financial crisis, to further reform the RMB exchange rate regime and to enhance the RMB exchange rate flexibility. The appreciation of the RMB against US\$ was approximately 4.1% for the year ended December 31, 2019, the appreciation of the RMB against US\$ was approximately 6.27% for the years ended December 31, 2020 and the appreciation of the RMB against US\$ was approximately 2.34% for the years ended December 31, 2021. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the US\$ in the future.

*Impact of COVID-19*

The COVID-19 pandemic continues to evolve. There are still uncertainties of COVID-19’s future impact, and the extent of the impact will depend on a number of factors, including the duration and severity of COVID-19, possibility of a Delta and Omicron outbreak, the development and progress of distribution of COVID-19 vaccine and other medical treatment, the potential change in user behavior, especially on internet usage due to the prolonged impact of COVID-19, the actions taken by government authorities, particularly to contain the outbreak, stimulate the economy to improve business condition, almost all of which are beyond the Group’s control. As a result, certain of the Group’s estimates and assumptions, including the allowance for credit losses, the valuation of certain debt and equity investments, long-term investments, and long-lived assets subject to impairment assessments, require significant judgments and carry a higher degree of variabilities and volatilities that could result in material changes to the Group’s current estimates in future periods.

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***Recently issued accounting pronouncements***

In October 2021, the FASB issued ASU 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers, which clarifies that an acquirer of a business should recognize and measure contract assets and contract liabilities in a business combination in accordance with Topic 606, Revenue from Contracts with Customers. The new amendments are effective for us are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The amendments should be applied prospectively to business combinations occurring on or after the effective date of the amendments, with early adoption permitted. The Group is currently evaluating the impact on our consolidated financial statements of adopting this guidance.

In November 2021, the FASB issued ASU 2021-10, Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance. This update requires certain annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy. This update is effective for annual periods beginning after December 15, 2021, and early application is permitted. This guidance should be applied either prospectively to all transactions that are reflected in financial statements at the date of initial application and new transactions that are entered into after the date of initial application or retrospectively to those transactions. The Group is currently evaluating the impact on our consolidated financial statements of adopting this guidance.

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#### 3. BUSINESS COMBINATIONS AND DECONSOLIDATIONS

##### Deconsolidation in 2020

During the year ended December 31, 2020, the Group disposed certain gaming related business and one utility product in its Internet Business segment to a third party and a related party. Consequently, the Group lost control over such businesses and deconsolidated their financial results from the Group’s financial statements from the date of disposal with total consideration of RMB202,275 and contingency consideration of RMB11,745. The Group recognized a total gain of RMB226,502 from these transactions in “Other income” in the consolidated statements of comprehensive income for the year ended December 31, 2020.

The Group further disposed its major gaming related business to certain investees. Consequently, the Group lost control over such businesses and deconsolidated their financial results from the Group’s financial statements from the date of disposal. The Group measured shares acquired during the disposal from certain investees at fair value and recognized a total gain of RMB182,550 from the transactions in “Other income” in the consolidated statements of comprehensive income for the year ended December 31, 2020. The Group owns 36% voting rights of these investees, which might be further increased to a higher percentage, expecting 75% as the highest subject to further adjustments as share split, share combination, etc. in some of the investees, provided that the Group chooses to convert its preferred shares into ordinary shares in full or in part upon certain conversion events. As the Group’s equity interests are not in-substance common stock and the investment does not have readily determinable fair value, the interests was accounted for using the measurement alternative. These equity investees will be considered related parties after deconsolidation.

The Group also disposed its partial interest in an entity operating utility related business through the sale of shares. Consequently, the Group lost control over such businesses and deconsolidated their financial results from the Group’s financial statements from the date of disposal. The Group measured the remaining interests at fair value upon deconsolidation and recognized a total loss of RMB14,827 from the transactions in “Other expenses” in the consolidated statements of comprehensive income for the year ended December 31, 2020. Subsequent to the deconsolidation, the Group owns 47.1% voting rights and the remaining interests are accounted for as equity method. These equity investees will be considered related parties after deconsolidation.

The deconsolidation of these businesses did not meet the definition of a discontinued operation in accordance with ASC 205-20, Presentation of Financial Statements – Discontinued Operations (“ASC 205-20”), as the disposal did not represent a shift in the Group’s strategy that has (or will have) a major effect on an entity’s operations and financial results.

##### Business combination in 2019

In June 2019, the Group completed a business combination, which the Group expected to enhance the Group’s expertise in hardware services. The total purchase consideration was RMB25,000. The acquired entity was considered insignificant. The results of the acquired entity’s operations have been included in the Group’s consolidated financial statements since June 2019.

##### Deconsolidation in 2019

In September 2019, Live.me Inc (“Live.me”), a former subsidiary of the Company, amended its share incentive plan to increase the number of shares to be issued under the current plan, and issued certain number of new shares into a trust under the plan for the benefit of current and future recipients of Live.me’s share incentive awards. Consequently, the Company was no longer a majority shareholder of Live.me and deconsolidated Live.me’s financial results from the Company’s financial statements from September 30, 2019. The Group recognized a total gain of RMB839,834 from the transaction in “Other income” in the consolidated statements of comprehensive loss for the year ended December 31, 2019. The deconsolidation of Live.me did not meet the definition of a discontinued operation in accordance with ASC 205-20 as the disposal of Live.me did not represent a shift in the Group’s strategy that has (or will have) a major effect on an entity’s operations and financial results. Subsequent to the deconsolidation, the Group owns 49.6% voting rights of Live.me. The remaining interests is accounted for equity investment using the fair value option in accordance with ASC 825 and Live.me was considered a related party after deconsolidation.

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4. INVESTMENTS

*(a) Short-term investments*

As of December 31, 2020, and 2021, short-term investments included time deposits, and structured notes in commercial banks which are classified as available-for-sale debt securities in accordance with ASC 320-10, of RMB360,803 and RMB262,813 (US\$41,241), respectively.

For the years ended December 31, 2019, 2020 and 2021, the Group recognized interest income from its short-term investments of RMB45,993, RMB23,780 and RMB12,687 (US\$1,991), respectively. For the years ended December 31, 2019, 2020 and 2021, the Group recognized fair value gains (losses) on available-for-sale debt securities of RMB6,049, nil and nil in other comprehensive income, respectively.

For the years ended December 31, 2019, 2020 and 2021, the Group recognized a credit loss on short-term investments of RMB3,506, RMB7,096 and RMB715 (US\$112) in “other expense” in the consolidated comprehensive income (loss), respectively.

*(b) Long-term investments*

The Group’s long-term investments include equity investments accounted for using the measurement alternative, equity investments with readily determinable fair value, equity investments accounted for using equity method, equity method investments accounted for using fair value option and available-for-sale debt securities.

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*Equity investments accounted for using the measurement alternative*

In accordance with ASC 321, the Group elected to use the measurement alternative to measure such investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer, if any. As of December 31, 2020 and 2021, the carrying amount of the Group’s equity investments accounted for using the alternative measurement was RMB1,817,891 and RMB1,349,272 (US\$211,731), including RMB641,969 and RMB942,605 (US\$147,915) accumulated impairment, and RMB231,092 and RMB287,339 (US\$45,090) accumulated upward adjustment, respectively. During the years ended December 31, 2020 and 2021, certain equity investments were remeasured based on observable price changes in orderly transactions for an identical or similar investment of the same issuer, the aggregate carrying amount of these investments was RMB243,525 and RMB154,488 (US\$24,243) as of December 31, 2020 and 2021, respectively.

Total unrealized and realized gains and losses of equity securities without readily determinable fair values for the years ended December 31, 2019, 2020 and 2021 were as follows:

	For the year ended December 31			
	2019 RMB	2020 RMB	2021 RMB	US\$
Gross unrealized gains (upward adjustments)	78,321	121,555	82,504	12,947
Gross unrealized losses (impairment)	(180,913)	(66,063)	(351,380)	(55,139)
<b>Net unrealized (losses) gains on equity securities held</b>	<b>(102,592)</b>	<b>55,492</b>	<b>(268,876)</b>	<b>(42,192)</b>
Net realized gains on equity securities sold	—	482,202	67,105	10,530
<b>Total net (losses) gains recognized in other income, net</b>	<b>(102,592)</b>	<b>537,694</b>	<b>(201,771)</b>	<b>(31,662)</b>

In 2021, the Group: i) acquired equity interests in two equity investees for a total consideration of RMB7,000 (US\$1,098). ii) disposed certain equity interest in equity investees and recognized a disposal gain of RMB67,105 (US\$10,530) in “Other income”.

In 2020, the Group: i) acquired equity interests in three equity investees for a total consideration of RMB20,000. ii) disposed the remaining portion of equity ownership of Bytedance and recognized a disposal gain of RMB465,877 in “Other income” (iii) recognized RMB342,433 of remaining interest in the gaming related business as result of the deconsolidation.

In 2019, the Group: i) acquired additional preferred shares of Beijing OrionStar Technology Co., Ltd. (“Beijing OrionStar”) with a cash consideration of RMB262,072. Subsequent to the transaction, the Group owned 38.7% equity interests not qualified as in-substance common stock of Beijing OrionStar. ii) acquired other equity interests in 14 equity investees for total consideration of RMB172,033.



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The Group received dividends from investees of RMB13,217, RMB4,002 and RMB2,558 (US\$401) which were recorded in “Other income” in the consolidated comprehensive income (loss) for the years ended December 31, 2019, 2020 and 2021, respectively.

*Equity investments with readily determinable fair value*

The Group purchased equity interest of a company listed on the HK Stock Exchange in 2019 and disposed all the equity interest of the Company in 2021. The fair value of the share interests was RMB11,411 and nil as of December 31, 2020 and 2021. Unrealized gains for the equity investments with readily determinable fair value were RMB2,853, RMB5,327 and nil, which were recorded in “Other income” in the consolidated comprehensive (loss) income for years ended December 31, 2019, 2020 and 2021, respectively. Realized gains were nil, RMB18,488 and RMB767 (US\$120), which were recorded in “Other income” in the consolidated comprehensive (loss) income for years ended December 31, 2019, 2020 and 2021, respectively.

*Equity investment accounted for using fair value option*

In September 2019, the Group owned 49.6% equity interest of Live.me on a fully dilutive basis after deconsolidation (Note 3). The fair value of the remaining share interests was RMB388,581, RMB364,298 and RMB362,235 (USD\$56,843) as of December 31, 2019, 2020 and 2021, respectively. Unrealized (losses) gain for Equity investments accounted for using fair value option were RMB(102,555), RMB857 and RMB6,537 (US\$1,026), which were recorded in “Other income” in the consolidated comprehensive (loss) income for the years ended December 31, 2019, 2020 and 2021, respectively.

*Equity investments accounted for using equity method*

The carrying amount of the Company’s equity method investments were RMB216,126 and RMB236,552 (US\$37,120) as of December 31, 2020 and 2021, respectively.

In 2021, the Group acquired an equity method investment with total consideration of RMB2,500 (US\$392).

In 2020, the Group acquired equity method investments with aggregate consideration of RMB15,040, and recognized RMB18,000 of equity method investments as result of the deconsolidation of a business in the Group’s Internet Business segment.

In 2019, the Group acquired: i) equity interests in Ziniu Fund, L.P. with a cash consideration of RMB30,000; and ii) other equity method investments with aggregate consideration of RMB4,026.

The Group recorded its share of income of RMB7,594, share of loss of RMB5,231 and share of income of RMB60,992 (US\$9,571) from equity investments accounted for using equity method for the years ended December 31, 2019, 2020 and 2021, respectively. The Group also recognized impairment losses of nil, nil and nil for the years ended December 31, 2019, 2020 and 2021, respectively.

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None of equity method investments, including the investment that the Group elects to account for using the fair value option, was considered individually material for the years ended December 31, 2019, 2020 and 2021. The Group summarized the unaudited condensed financial information of the Group’s equity method investments as a group below in accordance with Rule 4-08 of Regulation S-X:

	<b>As of December 31,</b>			
	<b>2020</b>	<b>2021</b>		
	<b>RMB</b>	<b>RMB</b>	<b>US\$</b>	
<b>Balance sheet data:</b>				
Current assets	452,904	520,871	81,736	
Non-current assets	1,072,284	1,798,402	282,208	
Current liabilities	220,499	182,176	28,587	
Non-current liabilities	7,771	7,746	1,216	
Redeemable preferred shares	875,199	906,420	142,237	
	<b>For the year ended December 31,</b>			
	<b>2019</b>	<b>2020</b>	<b>2021</b>	
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>US\$</b>
<b>Operating data:</b>				
Revenues	970,017	944,974	925,020	145,156
Gross profit	223,883	307,531	407,487	63,944
Operating (loss) income	(66,751)	109,456	459,079	72,039
Net (loss) income	(78,146)	115,962	464,352	72,867

*Available-for-sale debt securities*

Available-for-sale debt securities in long-term investments primarily represent convertible debt instruments issued by private companies and investments in preferred shares that are redeemable at the Group’s option, which are measured at fair value.

In 2021, the Group sold part of equity interest of an investment previously accounted for using the measurement alternative and the remaining equity interest held was reclassified and accounted for as available-for-sale debt securities since the Group has a put option to require the equity investee to redeem the Group’s equity interest at the Group’s option. The Group remeasured the fair value of the investment upon the reclassification with a remeasurement loss of RMB42,883 (US\$6,729) recorded in “Other expense” in the consolidated comprehensive (loss) income.

As of December 31, 2020, and 2021, long-term available-for-sale debt securities were nil and RMB46,339 (US\$7,272), respectively.

For the years ended December 31, 2019, 2020 and 2021, the Group recognized fair value (loss) gain on long-term available-for-sale debt securities of RMB4,864, nil and nil, respectively in other comprehensive income.

**5. ACCOUNTS RECEIVABLE, NET**

	<b>As of December 31,</b>		
	<b>2020</b>	<b>2021</b>	
	<b>RMB</b>	<b>RMB</b>	<b>US\$</b>
Accounts receivable	325,606	263,000	41,270
Allowance for credit losses	(100,020)	(92,695)	(14,545)
<b>Accounts receivable, net</b>	<b>225,586</b>	<b>170,305</b>	<b>26,725</b>

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The movements in the allowance for credit losses were as follows:

	Year ended December 31		
	2020	2021	
	RMB	RMB	USD
Balance as of January 1	109,315	100,020	15,695
Adoption of ASC 326	9,053	—	—
Amounts charged to expenses	(2,973)	(1,462)	(230)
Amounts written off	(10,099)	(3,951)	(620)
Disposal of a subsidiary	(68)	—	—
Foreign Exchange effect	(5,208)	(1,912)	(300)
<b>Balance as of December 31</b>	<b>100,020</b>	<b>92,695</b>	<b>14,545</b>

6. PREPAYMENTS AND OTHER CURRENT ASSETS

	As of December 31,		
	2020	2021	
	RMB	RMB	US\$
Other receivables from advertisers	726,945	397,700	62,408
Advances to suppliers	110,816	108,263	16,989
Prepaid expenses	42,464	29,592	4,644
Inventories (i)	24,062	15,415	2,419
Receivable from third-party payment platform	14,848	16,785	2,634
Convertible loans (ii)	83,357	8,240	1,293
Others	113,560	104,324	16,371
Impairment of prepayments and inventory	(108,739)	(98,005)	(15,379)
Allowance for credit losses	(171,619)	(102,985)	(16,162)
<b>Total</b>	<b>835,694</b>	<b>479,329</b>	<b>75,217</b>

- (i) Inventory consists of finished goods, as of December 31, 2020 and 2021, inventories net of impairment reserve were RMB1,465 and RMB265 (US\$42). Reserve for inventory for the years ended December 31, 2019, 2020 and 2021 were RMB2,800, RMB23,694 and RMB7,618 (US\$1,195), respectively.
- (ii) As of December 31, 2020 and 2021, convertible loans were fully impaired.

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The movements in the allowance for credit losses were as follows:

	Year ended December 31		
	2020	2021	
	RMB	RMB	USD
Balance as of January 1	144,622	171,619	26,932
Adoption of ASC 326	19,765	—	—
Amounts charged to expenses	10,862	(696)	(109)
Amounts written off	—	(66,658)	(10,460)
Disposal of a subsidiary	(11)	(1)	—
Foreign Exchange effect	(3,619)	(1,279)	(201)
<b>Balance as of December 31</b>	<b><u>171,619</u></b>	<b><u>102,985</u></b>	<b><u>16,162</u></b>

Provision for credit losses and impairment of assets for the years ended December 31, 2019, 2020 and 2021 were RMB109,408, RMB32,999 and RMB493 (US\$77), respectively.

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7. PROPERTY AND EQUIPMENT, NET

	As of December 31,		
	2020	2021	
	RMB	RMB	US\$
Electronic equipment	86,602	64,420	10,109
AI related equipment	118,039	152,177	23,880
Leasehold improvements	60,392	14,522	2,279
Office equipment and fixtures	26,039	20,867	3,274
Motor vehicles	4,176	4,045	635
Less: Accumulated depreciation	184,038	145,529	22,837
Less: Accumulated impairment	9,226	8,708	1,366
<b>Property and equipment, net</b>	<b>101,984</b>	<b>101,794</b>	<b>15,974</b>

Depreciation expense of property and equipment for the years ended December 31, 2019, 2020 and 2021 were RMB37,382, RMB52,137 and RMB45,751 (US\$7,179), respectively. The impairment recognized on property and equipment were nil, RMB9,226 and nil for the years ended December 31, 2019, 2020 and 2021, respectively. The Group recorded impairment loss in “Other operating income (expense), net”.

8. INTANGIBLE ASSETS, NET

Intangible assets and the related accumulated amortization were summarized as follows:

	As of December 31, 2021				
	Gross Carrying value	Accumulated amortization	Accumulated impairment	Net carrying value	
	RMB	RMB	RMB	RMB	US\$
Online game licenses	174,252	(128,035)	(45,331)	886	139
Technology	131,664	(106,928)	(17,631)	7,105	1,115
Platform	70,142	(38,582)	(31,560)	—	—
Customer relationship	45,665	(43,076)	(2,589)	—	—
User base	43,954	(43,954)	—	—	—
Trademarks	16,974	(13,437)	(2,114)	1,423	223
Domain names	4,860	(4,222)	—	638	100
Non-compete agreements	1,610	(1,610)	—	—	—
<b>Total</b>	<b>489,121</b>	<b>(379,844)</b>	<b>(99,225)</b>	<b>10,052</b>	<b>1,577</b>

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	As of December 31, 2020			
	Gross carrying value	Accumulated amortization	Accumulated impairment	Net carrying value
	RMB	RMB	RMB	RMB
Online game licenses	179,843	(122,515)	(54,238)	3,090
Technology	139,367	(118,478)	(12,069)	8,820
Platform	71,783	(39,485)	(32,298)	—
Customer relationship	46,570	(43,920)	(2,650)	—
User base	45,321	(45,321)	—	—
Trademarks	15,820	(13,674)	(2,142)	4
Domain names	4,576	(3,915)	—	661
Non-compete agreements	1,610	(1,610)	—	—
<b>Total</b>	<b>504,890</b>	<b>(388,918)</b>	<b>(103,397)</b>	<b>12,575</b>

The Group recorded impairment loss in “Other operating income (expense), net”. The impairment recognized on intangible assets were RMB8,800, RMB17,746 and nil for the years ended December 31, 2019, 2020 and 2021, respectively.

Amortization expense of intangible assets for the years ended December 31, 2019, 2020 and 2021 were RMB28,086, RMB16,409 and RMB5,071 (US\$796), respectively. Estimated amortization expense relating to the existing intangible assets with finite lives for each of next five years and thereafter is as follows:

	For the year ending December 31,	
	RMB	US\$
2022	1,975	310
2023	1,574	247
2024	1,357	213
2025	1,314	206
2026	1,258	197
Thereafter	2,574	404
<b>Total</b>	<b>10,052</b>	<b>1,577</b>

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**9. LEASE**

The Group’s operating leases mainly related to offices and employees’ accommodation facilities. For leases with terms greater than 12 months, the Group records the related assets and lease liabilities at the present value of lease payments over the term. Certain leases include rental-free periods and renewal options, which are factored into the Group’s determination of lease payments when appropriate. As of December 31, 2020 and 2021, the Group had no finance leases.

As of December 31, 2020 and 2021, the weighted average remaining lease term was 3.0 years and 4.0 years, respectively, and the weighted average discount rate was 4.7% and 4.9% for the Group’s operating leases respectively.

Operating lease cost for the year ended December 31, 2019, 2020 and 2021, was RMB66,609, RMB50,035 and RMB20,613 (US\$3,235) respectively, which excluded cost of short-term contracts. Short-term lease cost for the year ended December 31, 2019, 2020 and 2021 was RMB7,039, RMB9,864 and RMB28,488 (US\$4,470), respectively. For the years ended December 31, 2019, 2020 and 2021, no lease cost was capitalized.

Future lease payments under operating leases as of December 31, 2021 were as follows:

	<b>For the year ending December 31,</b>	
	<b>RMB</b>	<b>US\$</b>
2022	17,906	2,810
2023	11,485	1,802
2024	8,627	1,354
2025	8,615	1,352
2026	6,277	985
<b>Total future lease payments</b>	<b>52,910</b>	<b>8,303</b>
Less: imputed interest	4,781	751
<b>Total lease liability balance</b>	<b>48,129</b>	<b>7,552</b>

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**10. ACCRUED EXPENSES AND OTHER LIABILITIES**

*Accrued expenses and other current liabilities*

	As of December 31,		
	2020	2021	
	RMB	RMB	US\$
Payable to online advertising platforms as agency	744,314	495,875	77,814
Accrued operating expenses	203,820	148,863	23,360
Salary and welfare payable	104,716	56,073	8,799
Advance received in advertising agency services	73,034	137,267	21,540
Accrued advertising, marketing and promotional expenses	48,027	51,193	8,033
Deferred revenue	108,376	156,994	24,636
Operating lease liabilities current portion	6,876	17,452	2,739
Other taxes payable	23,468	17,678	2,774
Accrued bandwidth and cloud service costs	1,853	363	57
Others	75,558	55,590	8,723
<b>Total</b>	<b>1,390,042</b>	<b>1,137,348</b>	<b>178,475</b>

*Other non-current liabilities*

	As of December 31,		
	2020	2021	
	RMB	RMB	US\$
Uncertain tax position	174,113	161,485	25,341
Operating lease liabilities non-current portion	11,957	30,677	4,814
Others	6,202	13,555	2,126
<b>Total</b>	<b>192,272</b>	<b>205,717</b>	<b>32,281</b>

**11. SEGMENT INFORMATION**

The Company presents segment information after elimination of inter-company transactions. In general, revenues, cost of revenues and operating expenses are directly attributable, or are allocated, to each segment. The Company allocates cost of revenues and operating expenses that are not directly attributable to a specific segment, such as those that support infrastructure across different segments, to different segments mainly on the basis of usage, revenue or headcount, depending on the nature of the relevant cost of revenues and operating expenses. The Company does not allocate assets to its segments as the CODM does not evaluate the performance of segments using asset information.



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The following tables present the summary of each segment’s revenues, operating income (loss) which were considered as segment operating performance measure, for the years ended December 31, 2019, 2020 and 2021:

	For the year ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$
<b>Revenues:</b>				
Internet business	3,370,811	1,380,906	653,759	102,589
AI and others	216,884	171,739	130,857	20,534
<b>Total revenues</b>	<b><u>3,587,695</u></b>	<b><u>1,552,645</u></b>	<b><u>784,616</u></b>	<b><u>123,123</u></b>
<b>Operating (loss) income:</b>				
Internet business	(74,406)	147,070	(14,178)	(2,225)
AI and others	(363,401)	(597,203)	(208,243)	(32,678)
Unallocated expenses(i)	(673,105)	(80,982)	(7,150)	(1,122)
<b>Total operating loss</b>	<b><u>(1,110,912)</u></b>	<b><u>(531,115)</u></b>	<b><u>(229,571)</u></b>	<b><u>(36,025)</u></b>

(i) Unallocated items include share-based compensation and goodwill impairment which were not allocated to segments.



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**Japan**

Kingsoft Japan is incorporated in Japan with paid-in capital in excess of Japanese Yen (“JPY”) 100 million and is subject to a national corporate income tax rate of 23.4% and 23.2% since April 1, 2016 and April 1, 2018. The subsidiary of Kingsoft Japan with paid-in capital of no more than JPY100 million is taxed at a tax rate of 15% on first JPY8 million and at 23.2% on the portion over JPY8 million from April 1, 2018. Local income taxes, which are local inhabitant tax and enterprise tax, are also imposed on corporate income.

**PRC**

The Company’s subsidiaries in the PRC and the VIEs are subject to the statutory rate of 25%, unless otherwise specified, in accordance with the Enterprise Income Tax law (the “EIT Law”), which was effective since January 1, 2008.

Beijing Security, being qualified as High New Technology Enterprise (“HNTE”), is entitled to the preferential income tax rate of 15% from 2020 to 2022. As qualified HNTEs, Beijing Kingsoft Cheetah Technology Co., Ltd. is entitled to the preferential income tax rate of 15% from 2019 to 2021; Antutu is entitled to the preferential income tax rate of 15% from 2020 to 2022.

Pursuant to Ministry of Finance and State Administration of Taxation Announcement [2019] No.68, new Software development enterprise are each entitled to a tax holiday of two-year full EIT exemption followed by three-year 50% EIT reduction (“2+3 tax holiday”) starting from their respective first profit-making year prior to December 31, 2018. Zhuhai Baoqu Technology Co., Ltd. being qualifying as a new software development enterprise in the first year is entitled to a tax holiday of 50% EIT exemption in 2020.

Without the tax holidays and preferential tax, the Group’s income tax expenses would have increased by RMB84,520 for the year ended December 31, 2019 and decreased by RMB18,671 and RMB44,909 (US\$7,047) for the years ended December 31, 2020 and 2021, respectively. The impacts of the tax holidays and preferential tax rates were an increase in the basic earnings per share of RMB0.0617 for the year ended December 31, 2019 and a decrease in the loss per share of RMB0.0133 and RMB0.0314 (US\$0.0049), for the year ended December 31, 2020, and 2021, respectively.

Under the EIT Law, dividends paid by PRC enterprises out of profits earned post-2007 to non-PRC tax resident investors are subject to PRC dividend withholding tax of 10%. A lower withholding tax rate may be applied based on applicable tax treaties with certain jurisdictions.

Income (loss) before income taxes consists of:

	Year ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$
PRC	(589,752)	(325,686)	(490,025)	(76,897)
Non-PRC	224,065	833,933	150,454	23,609
<b>Total</b>	<b>(365,687)</b>	<b>508,247</b>	<b>(339,571)</b>	<b>(53,288)</b>

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The current and deferred portions of income tax expenses included in the consolidated statements of comprehensive (loss) income are as follows:

	Year ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$
Current income tax expenses	1,923	106,718	12,713	1,995
Deferred income tax expenses (benefits)	5,981	(9,628)	920	144
<b>Income tax expenses</b>	<b>7,904</b>	<b>97,090</b>	<b>13,633</b>	<b>2,139</b>

A reconciliation of the differences between the statutory tax rate and the effective tax rate for enterprise income tax is as follows:

	Year ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$
(Loss) income before income tax	(365,687)	508,247	(339,571)	(53,288)
Income tax expense computed at the PRC statutory tax rate of 25%	(91,423)	127,062	(84,894)	(13,322)
Effect of different tax rates in different jurisdictions	(178,059)	(150,466)	(16,764)	(2,631)
Effect of tax holiday and preferential tax rates	84,520	18,671	44,909	7,047
Research and development super-deduction	(105,443)	(46,153)	(12,660)	(1,987)
Non-taxable income(i)	(15,804)	(44,177)	(25,713)	(4,035)
Non-deductible expenses(ii)	165,580	21,681	8,614	1,352
Effect of change in tax rate	(7,991)	—	(12,327)	(1,934)
Outside basis difference on investment	(30,681)	(17,482)	63	10
Withholding tax and others	(5,470)	97,270	18,524	2,907
Changes in valuation allowance	192,675	90,684	93,881	14,732
<b>Income tax expenses</b>	<b>7,904</b>	<b>97,090</b>	<b>13,633</b>	<b>2,139</b>

- (i) Non-taxable income mainly consists of gains on disposal of subsidiaries and long-term investments that are not subject to tax under the tax laws of different jurisdictions.
- (ii) Non-deductible expenses mainly consist of share-based compensation expenses, entertainments and other expenses that are not allowed to be deducted under the tax laws of different jurisdictions.

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Deferred taxes were measured using the enacted tax rates for the periods in which the temporary differences are expected to be reversed. The tax effects of temporary differences that give rise to the deferred tax balances as of December 31, 2020 and 2021 are as follows:

	As of December 31,		
	2020	2021	
	RMB	RMB	US\$
<b>Deferred tax assets:</b>			
Tax losses carry forward	257,328	316,845	49,720
Equity investment loss	45,958	73,035	11,461
Allowance for credit losses	22,435	28,476	4,469
Intangible assets and accrued expenses	7,952	8,953	1,405
Deferred revenue	2,153	—	—
Share-based compensation	3,223	1,654	260
Fixed assets depreciation	4,414	235	37
Intercompany transfer of long-lived assets	2,921	1,181	185
Others	5,306	9,562	1,500
Valuation allowance	(328,956)	(422,837)	(66,353)
<b>Deferred tax assets</b>	<b>22,734</b>	<b>17,104</b>	<b>2,684</b>
<b>Deferred tax liabilities:</b>			
Outside basis difference on investment	57,341	54,893	8,614
Equity method investment and unrealized gains	6,063	6,322	992
Right-of-use asset and others	4,225	69	11
<b>Deferred tax liabilities</b>	<b>67,629</b>	<b>61,284</b>	<b>9,617</b>

	As of December 31,	
	2021	
	RMB	US\$
<b>Classification in the consolidated balance sheets:</b>		
Deferred tax assets	14,384	2,257
Deferred tax liabilities	58,564	9,190

The Group operates through several subsidiaries, VIEs and subsidiaries of VIEs and the valuation allowance is considered for each subsidiary, VIE and subsidiary of VIE on an individual basis. As of December 31, 2020, and 2021, the Group’s total deferred tax assets before valuation allowances were RMB351,690 and RMB439,941 (US\$69,037) respectively. As of December 31, 2020 and 2021, the Group recorded valuation allowances of RMB328,956 and RMB422,837 (US\$66,353), respectively, on its deferred tax assets that are sufficient to reduce the deferred tax assets to the amounts that are more-likely-than-not to be realized.

Undistributed earnings of certain of the Company’s PRC subsidiaries amounted to approximately RMB781,772 and RMB741,272 (US\$116,322) on December 31, 2020 and 2021, respectively. Those earnings are considered to be indefinitely reinvested; accordingly, no provision for PRC withholding tax has been provided thereon. Upon repatriation of those earnings in the form of dividends, the Group would be subject to PRC withholding tax at 10%. The PRC withholding tax rate could be reduced to 5% should the treaty benefit between Hong Kong and the PRC be applicable. As such, the amount of unrecognized deferred income tax liabilities is approximately ranging from RMB39,089 to RMB78,177 and RMB37,064 (US\$5,816) to RMB74,127 (US\$11,632) as of December 31, 2020 and 2021, respectively.

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As of December 31, 2021, the Group had taxable losses of approximately RMB2,105,820 (US\$330,449) primarily deriving from entities in the PRC, Hong Kong and Singapore, which can be carried forward per tax regulation to offset future net profit for income tax purposes. The PRC taxable loss will expire from 2022 to 2031 and Hong Kong and Singapore taxable loss can be carried forward without an expiration date.

***Unrecognized tax benefits***

As of December 31, 2020 and 2021, the Group had unrecognized tax benefits of RMB179,492 and RMB177,526 (US\$27,858), of which RMB17,445 and RMB26,657 (US\$4,183), respectively, were deducted against the deferred tax assets on tax losses carry forward, and the remaining amounts of RMB162,047 and RMB150,869 (US\$23,675), respectively were presented in the other non-current liabilities in the consolidated balance sheets. The Group’s unrecognized tax benefits for the years ended December 31, 2020 and 2021 were primarily related to the tax-deduction of share-based compensation expenses and disposal of long-term investments. It is possible that the amount of unrecognized benefits will change in the next 12 months; however, an estimate of the range of the possible change cannot be made at this moment. As of December 31, 2020, and 2021, there were RMB162,047 and RMB150,869 (US\$23,675) of unrecognized tax benefits that if recognized would impact the annual effective tax rate. A reconciliation of the beginning and ending amount of unrecognized tax benefit is as follows:

	<u>2020</u>	<u>2021</u>	
	RMB	RMB	US\$
Balance at January 1	65,936	179,492	28,166
Additions based on tax positions related to current year	138,583	2,040	320
Reversal based on tax positions related to prior years	(25,027)	(4,006)	(628)
Balance at December 31	<u>179,492</u>	<u>177,526</u>	<u>27,858</u>

The Group recognizes accrued interest related to unrecognized tax benefits in income tax expenses. For the year ended December 31, 2020 and 2021, the Group reversed RMB9,099, and RMB1,449 (US\$227) in interest, respectively. The Group did not record any penalties related to unrecognized tax benefits.

As of December 31, 2021, the tax years ended December 31, 2016 through 2021 for the Group’s subsidiaries in the PRC and the VIEs are generally subject to examination by the PRC tax authorities. The tax years ended December 31, 2016 through 2021 for the Group’s subsidiary in the Singapore is generally subject to examination by the Singapore tax authorities. The tax years ended December 31, 2015 through 2021 for the Group’s subsidiaries in Hong Kong are generally subject to examination by the Hong Kong tax authorities.

**14. RELATED PARTY TRANSACTIONS**

a. Principal related parties

<b>Name of related parties</b>	<b>Relationship with the Group</b>
Tencent and its subsidiaries (“Tencent Group”)	Entities controlled by a shareholder of the Group
Kingsoft and its subsidiaries (“Kingsoft Group”)	Entities controlled by a shareholder of the Group
OrionStar and its subsidiaries (“OrionStar Group”)	Entities controlled by a director of the Group
Shenzhen Feipai Technology Co., Ltd. (“Shenzhen Feipai”)	Entities influenced materially by the Group
Pixiu Inc. and its subsidiaries (“Pixiu Group”)	Entities influenced materially by the Group
Live.me and its subsidiaries (“Live.me Group”)	Entities influenced materially by the Group

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b. In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material related party transactions for the years ended December 31, 2019, 2020 and 2021:

		For the year ended December 31,			
		2019	2020	2021	
		RMB	RMB	RMB	US\$
<b>Services received from:</b>	(i)				
Kingsoft Group		23,804	23,897	19,139	3,003
Tencent Group		73,655	51,147	32,594	5,115
OrionStar Group		16,857	10,793	3,756	589
<b>Services provided to:</b>	(ii)				
Tencent Group		176,099	73,462	40,333	6,329
OrionStar Group		20,242	4,207	3,862	606
Pixiu Group		13,450	2,033	9,614	1,509
Live.me Group		4,796	27,376	11,718	1,839
<b>Purchase of products and equipment:</b>					
OrionStar Group	(iii)	98,197	87,090	40,290	6,322
<b>Loans and investments provided to:</b>					
OrionStar Group	(iv)	450,486	—	100,000	15,692
Pixiu Group	(v)	69,402	7,085	—	—
Shenzhen Feipai	(vi)	3,000	2,500	—	—
Others		59,816	—	—	—
<b>Selling business to:</b>					
Live.me Group		—	11,060	—	—

- (i) The Group entered into agreements with Kingsoft Group pursuant to which Kingsoft Group provided services including promotion, technical support services and other services to the Group; The Group entered into agreements with Tencent Group pursuant to which Tencent Group provided promotion and technical support services to the Group; The Group entered into agreements with OrionStar Group pursuant to which OrionStar Group provided technical support services to the Group.
- (ii) The Group entered into agreement with Tencent Group to provide online marketing services to Tencent Group; The Group entered into agreement with Live.me, Pixiu Group and OrionStar Group to provide technical support, multi-cloud management and other services.
- (iii) The Group entered into a distributorship and cooperation agreement with OrionStar Group, pursuant to which the Group purchased robotics products from OrionStar Group.
- (iv) In 2019, the Group acquired additional preferred shares of Beijing OrionStar by virtue of the exercise of warrants during Beijing OrionStar’s series B corporate financing transactions. In 2021, the Group provided a convertible loan of RMB100,000 (US\$15,692) at an annual simple interest rate of 8% with 2 years maturity term to Beijing OrionStar. The Group does not have right to convert all or part of the principal and accumulated unpaid interest into the Beijing OrionStar’s equity interest until a qualified equity financing occurs or upon maturity. The conversion features were considered as embedded derivatives that do not meet the criteria to be bifurcated and were accounted for together with the loan receivable.
- (v) The Group entered into loan agreements with Pixiu Group including a 3-year capital allocation loan which latest termination date is January 2022 and the remaining principal balance is revolved to January 2024 in 2021.
- (vi) The Group entered into convertible loans agreements with Shenzhen Feipai which were fully impaired in 2020. Except for the above-mentioned related parties, the Group also provided investments to several investees with investment agreements.

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c. The balances between the Group and its related parties as of December 31, 2020 and 2021 are listed below:

(1) Amount due from related parties

	As of December 31,		
	2020	2021	
	RMB	RMB	US\$
Live.me Group	78,008	7,334	1,151
Tencent Group	49,474	15,995	2,510
Pixiu Group	50,674	26,625	4,178
OrionStar Group(i)	26,280	137,157	21,523
Kingsoft Group	3,150	8,164	1,281
Other related parties (ii)	20,259	17,393	2,729
<b>Total</b>	<b>227,845</b>	<b>212,668</b>	<b>33,372</b>

- (i) As of December 31, 2021, the balances of due from OrionStar Group primarily included convertible loan of RMB100,000 (US\$15,692) and prepayments made for the purchase of robotics products.
- (ii) As of December 31, 2020 and 2021, the amount of due from related parties included convertible loans of RMB21,000 to a related party, which has been fully impaired as of December 31, 2020 and 2021.

Balances with related parties that were unsecured and repayable on demand, including non-trading receivables from selling business and providing loans RMB58,068 and RMB110,289 (US\$17,307) as of December 31, 2020 and 2021, respectively. The balance of RMB3,784 and RMB110,073 (US\$17,273) were long-term nature as of December 31, 2020 and 2021, respectively.

The movements in the allowance for credit losses were as follows:

	Year ended December 31,		
	2020	2021	
	RMB	RMB	USD
Balance as of January 1	34,027	46,204	7,250
Adoption of ASC 326	12,056	—	—
Amounts charged to expenses	128	15,563	2,442
Amounts written off	—	(2,917)	(458)
Foreign Exchange effect	(7)	(64)	(10)
<b>Total</b>	<b>46,204</b>	<b>58,786</b>	<b>9,224</b>

(2) Amount due to related parties

	As of December 31,		
	2020	2021	
	RMB	RMB	US\$
OrionStar Group	8,752	811	127
Tencent Group	22,573	24,944	3,914
Live.me Group	662	1,431	225
Kingsoft Group	6,811	6,372	1,000
Other related parties	10,140	4,202	659
<b>Total</b>	<b>48,938</b>	<b>37,760</b>	<b>5,925</b>



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**15. SHARE-BASED COMPENSATION**

**2014 Restricted Shares Plan**

On April 22 and April 24, 2014, the board of directors and the shareholders of the Company approved to adopt a restricted shares plan (the “2014 Restricted Shares Plan”), respectively. Under the 2014 Restricted Shares Plan, the Company is authorized to issue up to 122,545,665 Class A ordinary shares (excluding shares which have lapsed or have been forfeited) pursuant to the grant of restricted shares and restricted share units thereunder. Unless terminated earlier, the 2014 Restricted Shares Plan will terminate automatically in 2024. The share awards granted under 2014 Restricted Shares Plan had vesting terms of no longer than 5 years from the date of grant. Except for service conditions, there were no other vesting conditions for all the awards under 2014 Restricted Shares Plan. The following table summarizes the Company’s option activity under the 2014 Restricted Shares Plan during the years ended December 31, 2019, 2020 and 2021, respectively:

	Number of shares	Weighted Average Exercise Price (US\$)	Weighted Average Grant Date Fair Value (US\$)	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (US\$)
Outstanding at January 1, 2019	30,652,305	0.22	1.15	5.31	11,835
Granted	6,820,900	0.03	0.60		
Forfeited	(7,159,989)	0.13	0.81		
Exercised	(4,950,497)	0.10	1.08		
Modified in August 2019	(18,835,215)	0.17	0.98		
Outstanding at December 31, 2019	6,527,504	0.34	1.50	4.31	150
Exercised	(1,001,674)	0.34	1.91		
Modified in June 2020	(5,525,830)	0.34	1.42		
Outstanding at December 31, 2020	—				
Exercised	—				
Outstanding at December 31, 2021	—				
Vested and expected to vest at December 31, 2021	—				
Exercisable as at December 31, 2021	—				

The weighted-average grant-date fair value of options granted during the year 2019 was US\$0.60.

The grant date fair value of each option before modification is estimated on the date of grant using the binomial tree option pricing model with the following assumptions used for years presented:

	Year ended December 31, 2019
Fair value of ordinary share (US\$)	0.36~0.68
Risk-free interest rates	1.70%~3.25%
Expected volatility range	57.1%~62.9%
Expected dividend yield	0%
Expected exercise multiple	2.2
Fair value per option granted (US\$)	0.36~0.68

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The risk-free interest rate for periods within the contractual life of the options is based on the U.S. Treasury yield curve in effect at the time of grant for a term consistent with the contractual term of the awards. Expected volatility is estimated based on the historical volatility ordinary shares of several comparable companies in the same industry. The dividend yield is estimated based on expected dividend policy over the expected term of the options. The expected exercise multiple is based on management’s estimation, which the Company believes is representative of the future.

On August 1, 2019 and June 23, 2020, the Company’s compensation committee approved to reduce the exercise price to nil for all unvested and vested options, respectively, granted by the Company under the 2014 Restricted Shares Plan. Accordingly, the awards were considered in-substance restricted shares for all grantees. Such exercise price cancellation was accounted by the Company as a share option modification and required remeasurement at the time of the modification. The total incremental cost as a result of the modification were RMB12,510 and RMB4,770, respectively.

The following table summarizes the restricted shares activity pursuant to the 2014 Restricted Shares Plan for the years ended December 31, 2019, 2020 and 2021, respectively:

	<u>Number of shares</u>	<u>Weighted average grant date fair value (US\$) after modification</u>
Unvested at January 1, 2019		
Modified in August 2019	18,835,215	0.97
Vested	(2,164,800)	1.31
Forfeited	(221,450)	1.36
Unvested at December 31, 2019	16,448,965	0.92
Modified in June 2020	5,525,830	1.62
Vested	(12,272,973)	1.32
Forfeited	(6,061,820)	0.77
Unvested at December 31, 2020	3,640,002	0.88
Granted	5,994,400	0.14
Vested	(2,016,463)	0.78
Forfeited	(1,055,299)	1.00
Unvested at December 31, 2021	<u>6,562,640</u>	0.22

The fair value of the restricted shares was determined based on the price of the Company’s publicly traded ADSs.

As of December 31, 2021, the total estimated unrecognized share-based compensation expenses related to restricted shares awarded amounted to RMB5,238 (US\$822), and is expected to be recognized over a weighted-average period of 2.2 years.

The total fair value of vested restricted shares on their respective vesting dates during the years ended December 31, 2020 and 2021 were RMB18,263 and RMB2,696 (US\$423), respectively.

***2013 Incentive Scheme***

On January 2, 2014, the Company adopted an equity incentive scheme (the “2013 Incentive Scheme”). The 2013 Incentive Scheme provides for the grant of ordinary shares, restricted shares, share options and share appreciation rights to the employees, directors or non-employee consultants of the Company. The maximum number of the Company’s ordinary shares which may be issued under the 2013 Incentive Scheme is 64,497,718 (excluding shares which have lapsed or have been forfeited). The 2013 Incentive Scheme is valid and effective for a term of ten years commencing from its adoption. Except for service conditions, there were no other vesting conditions for all the awards under 2013 Incentive Scheme. As of December 31, 2021, all the share awards granted under 2013 Incentive Scheme had vesting terms of no longer than 5 years from the date of grant.

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The following table summarizes the Group’s options activity under the 2013 Incentive Scheme during the years ended December 31, 2019, 2020 and 2021, respectively:

	Number of shares	Weighted Average Exercise Price (US\$)	Weighted Average Grant Date Fair Value (US\$)	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (US\$)
Outstanding at January 1, 2019	44,791,941	0.33	1.13	5.01	12,546
Granted	—	—	—		
Forfeited	(3,417,123)	0.34	1.02		
Exercised	(2,111,674)	0.15	1.59		
Modified in August 2019	(5,990,119)	0.33	1.06		
Outstanding at December 31, 2019	33,273,025	0.34	1.13	4.01	765
Exercised	(4,852,510)	0.34	1.10		
Modified in June 2020	(28,420,515)	0.34	1.13		
Outstanding at December 31, 2020	—	—	—	—	—
Exercised Outstanding at December 31, 2021	—	—	—	—	—
Vested and expected to vest at December 31, 2021	—				
Exercisable as at December 31, 2021	—				

	Year ended December 31, 2018
Fair value of ordinary share (US\$)	1.06~1.43
Risk-free interest rates	2.97%~3.58%
Expected volatility range	56.3%~57.2%
Expected dividend yield	0%
Expected exercise multiple	2.2
Fair value per option granted (US\$)	0.79~1.15

On August 1, 2019 and June 23, 2020, the Company’s compensation committee approved to cancel the exercise price for all unvested and vested options previously granted by the Company under the 2013 Incentive Scheme Plan. Such exercise price cancellation was accounted by the Company as a share option modification and required remeasurement at the time of the modification. The total incremental cost as a result of the modification were RMB7,588 and RMB24,860, respectively.

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The following table summarizes the restricted shares activity pursuant to the 2013 Incentive Scheme for the years ended December 31, 2019, 2020 and 2021, respectively:

	<u>Number of shares</u>	<u>Weighted average grant date fair value (US\$) after modification</u>
Unvested at January 1, 2019	—	—
Modified in August 2019	5,990,119	1.15
Vested	(1,052,547)	1.02
Forfeited	(28,515)	1.33
Outstanding at January 1, 2020	4,909,057	1.06
Modified in June 2020	28,420,515	1.33
Granted	1,600,000	0.21
Vested	(30,310,465)	1.33
Forfeited	(364,377)	0.90
Unvested at December 31, 2020	4,254,730	0.64
Granted	5,773,520	0.17
Vested	(1,416,898)	0.79
Forfeited	(1,014,882)	0.81
Unvested at December 31, 2021	<u>7,596,470</u>	0.23

The fair value of the restricted shares was determined based on the price of the Company’s publicly traded ADSs. The weighted-average grant-date fair value of restricted share granted during the years 2021 was US\$0.17.

As of December 31, 2021, the total estimated unrecognized share-based compensation expenses related to restricted shares awarded amounted to RMB6,111 (US\$959), and is expected to be recognized over a weighted-average period of 2.1 years.

The total fair value of vested restricted shares on their respective vesting dates for the years ended December 31, 2020 and 2021 were RMB46,906 and RMB2,199 (US\$345).

***2011 Share Award Scheme***

On May 26, 2011, the board of directors of the Company approved and adopted the 2011 Share Award Scheme, as amended in September 2013 and November 2016, to recognize the contributions of certain employees and to give incentives thereto in order to retain them for the continued operation and development of the Group. Under the 2011 Share Award Scheme, the board of directors may grant restricted shares to its employees and directors to receive an aggregate of no more than 100,000,000 ordinary shares of the Company (excluding shares which have lapsed or have been forfeited) as at the date of such grant. Unless early terminated by the board of directors of the Company, the 2011 Share Award Scheme is valid and effective for a term of ten years commencing from its adoption. Under the 2011 Share Award Scheme, grantees have no dividend or voting rights until the restricted shares are vested.

The Group has set up the Share Award Scheme Trust for the purpose of administering the 2011 Share Award Scheme and holding shares awarded to the employees before they vest. As of December 31, 2021, 1,331,999 (2020: 1,284,629) forfeited and ungranted restricted shares are held by the Share Award Scheme and available to be granted in the future.

The fair value of the restricted shares was determined based on the price of the Company’s publicly traded ADSs.

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The following table summarizes the restricted shares activity pursuant to the 2011 Share Award Scheme for the years ended December 31, 2019, 2020 and 2021, respectively:

	<u>Number of shares</u>	<u>Weighted average grant date fair value (US\$)</u>
Unvested at January 1, 2019	5,739,320	1.06
Granted	2,189,310	0.37
Vested	(2,452,468)	1.08
Forfeited	(1,409,359)	1.05
Unvested at December 31, 2020	4,066,803	0.69
Granted	596,920	0.21
Vested	(1,170,395)	0.68
Forfeited	(1,549,603)	0.57
Unvested at December 31, 2020	1,943,725	0.64
Granted	1,596,100	0.26
Vested	(1,687,405)	0.36
Forfeited	(1,643,470)	0.59
Unvested at December 31, 2021	<u>208,950</u>	0.39

As of December 31, 2021, the total estimated unrecognized share-based compensation expenses related to restricted shares awarded amounted to RMB166 (US\$26), and is expected to be recognized over a weighted-average period of 1.2 years.

The total fair value of vested restricted shares on their respective vesting dates for the years ended December 31, 2019, 2020 and 2021 were RMB9,357, RMB1,697 and RMB2,154 (US\$338), respectively.

***Share-based Awards of subsidiaries***

Subsidiaries of the Group also have equity incentive plans granting share-based awards.

The grant date fair value of each share-based award is estimated on the date of grant using the binomial tree option pricing model with the following assumptions used for years presented:

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2020</u>	<u>Year ended December 31, 2021</u>
Fair value of ordinary share (US\$)	0.42~0.94	0.09	4.34~4.87
Risk-free interest rates	2.57%~3.73%	0.66%	0.07%
Expected volatility range	57.2%~59.2%	59.2%	52.02%
Expected dividend yield	8.61%~8.72%	0.82%	0.00%
Fair value per option granted (US\$)	0.22~0.27	0.02	2.44~2.56

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The following table summarizes the share-based compensation expenses of subsidiaries’ share-based awards recognized by the Group:

	For the years ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$
Cost of revenues	—	728	858	135
Research and development	31,907	20,376	7,400	1,161
Selling and marketing	1,479	996	342	54
General and administrative	15,286	11,879	361	57
<b>Total</b>	<b>48,672</b>	<b>33,979</b>	<b>8,961</b>	<b>1,407</b>

As of December 31, 2021, there was RMB4,863 (US\$763) unrecognized share-based compensation expenses related to incentive plans, which is expected to be recognized over a vesting period of 1.4 years.

Total share-based compensation expenses recorded by the Group are as follows:

	For the years ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$
Cost of revenues	524	1,044	1,027	161
Research and development	59,771	29,091	5,996	941
Selling and marketing	3,818	(1,087)	1,339	210
General and administrative	63,327	51,934	(1,212)	(190)
<b>Total</b>	<b>127,440</b>	<b>80,982</b>	<b>7,150</b>	<b>1,122</b>

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**16. COMMITMENT AND CONTINGENCIES**

***Commitment for cloud services***

Future minimum payments under non-cancelable agreements for cloud services consist of the following as of December 31, 2021.

	<u>Total</u>	<u>Less than 1 Year</u>	<u>1-3 Years</u>	<u>More than 3 Years</u>
Purchase obligations	108,334	54,167	54,167	—

***Capital commitment***

As of December 31, 2021, commitments for the purchase of fixed assets are immaterial.

***Litigation and investigation***

The Group and certain of its current and former officers have been named as defendants in two putative securities class actions filed on June 25, 2020 and July 31, 2020 respectively in the U.S. District Court for the Central District of California. On August 24, 2020, the Court consolidated the two cases under the caption *In Re: Cheetah Mobile, Inc. Securities Litigation* (Case No. 2:20-cv-05696). On March 15, 2021, an amended complaint was filed. According to the amended complaint, the action is purportedly brought on behalf of a class of persons who allegedly suffered damages as a result of their trading in our ADRs between April 26, 2017 and March 24, 2020. The action alleges that the Group made false or misleading statements regarding the Group’s business and operations in violation of the Sections 10(b) and 20(a) of the U.S. Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder. Briefing on the Group’s motion to dismiss the complaint was completed in July 2021. On March 30, 2022, the Court granted the Group’s motion to dismiss, with leave for Plaintiffs to amend the complaint. On May 6, 2022, the parties reached a stipulation, pursuant to which Plaintiffs voluntarily dismissed the claims asserted in the action, and agreed that they would not amend the complaint or appeal the Court’s order. The case is now closed. Lawsuits such as this could divert a significant amount of the Group’s attention and other resources from the Group’s business and operations, which could harm the Group’s results of operations and require the Group to incur significant expenses to defend the lawsuit. Any such lawsuit, whether or not successful, could harm the Group’s reputation and restrict the Group’s ability to raise capital in the future. In addition, if a claim is successfully made against the Group, the Group may be required to pay significant damages, which could have a material adverse effect on the Group’s financial condition and results of operations. Furthermore, there can be no assurance that the Group’s insurance carriers will cover all or part of the defense costs, or any liabilities that may arise from these matters. The Group also may be subject to claims for indemnification related to these matters, and the Group cannot predict the impact that indemnification claims may have on the Group’s business, financial condition or results of operations.

The Staff of the Division of Enforcement of the SEC is conducting an investigation relating to the Company’s disclosures for fiscal year 2015 regarding its relationship with one of its advertising business partners. The SEC investigation also relates to Rule 10b5-1 trading plans entered into by certain current and former officers and directors of the Company and sales of the Company’s ADS under those plans in 2015 and 2016. The Company and its current and former officers and directors have been fully cooperating with the SEC and are in discussions with the SEC concerning the potential outcome of the investigation. While the Group believe the SEC investigation is nearing conclusion, the exact duration and outcome of the SEC matter cannot be predicted at this time. A settlement or litigation with the SEC could include allegations by the SEC of violations of the U.S. securities laws against the Company and/or the current and former officers and directors of the Company involved, seeking various remedies, including penalties, fines, injunctive relief, a cease and desist order, officer and director bars, certain compliance undertakings and other limitations or sanctions under the U.S. securities laws. The Company recorded a loss contingency amounting to US\$1.5 million as of December 31, 2020. Based on recent developments, in the opinion of management and based on advice of the Company’s legal counsel, the Company is currently unable to ascertain the ultimate outcome, including an estimate of the amount of the loss or a range of loss, if any, in connection with the SEC investigation or any potential litigation. Therefore, the amount of loss cannot be reasonably estimated, and the Company reversed the previously accrued loss contingency as of December 31, 2021.

Except for the class actions and investigation mentioned above, the Group is involved in several other proceedings as of December 31, 2021 which are either immaterial, or the Group does not believe that a reasonable possibility of loss has been incurred as the proceedings are in the early stages, and/or there is a lack of clear or consistent interpretation of laws specific to the industry-specific complaints among different jurisdictions. As a result, there is considerable uncertainty regarding the timing or ultimate resolution of such matters, which includes eventual loss, fine, penalty or business impact, if any, and therefore, an estimate for the reasonably possible loss or a range of reasonably possible losses cannot be made. However, the Group believes that such matters, individually and in the aggregate, when finally resolved, are reasonably likely not to have a material adverse effect on the Group’s consolidated results of operations, financial position and cash flows.

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**17. SHAREHOLDERS’ EQUITY**

*Ordinary shares*

Immediately following the IPO, the Memorandum and Articles of Association were amended and restated such that the authorized share capital of the Company was reclassified and redesignated into 10,000,000,000 shares comprising of (i) 7,600,000,000 Class A ordinary shares; (ii) 1,400,000,000 Class B ordinary shares; and (iii) 1,000,000,000 reserved shares at par value of US\$0.000025 per share. The rights of the holders of Class A and Class B ordinary shares are identical, except with respect to voting and conversion rights. Each share of Class A ordinary shares is entitled to one vote per share and is not convertible into Class B ordinary shares under any circumstances. Each share of Class B ordinary shares is entitled to ten votes per share and is convertible into one Class A ordinary share at any time by the holder thereof. Upon any transfer of Class B ordinary shares by the holder thereof to any person or entity that is not an affiliate of such holder, such Class B ordinary shares would be automatically converted into an equal number of Class A ordinary shares. There were 520,723 and nil Class B ordinary shares transferred to Class A ordinary shares in the years ended December 31, 2020 and 2021, respectively.

As of December 31, 2020, there were 482,113,756 and 945,496,827 Class A and Class B ordinary shares outstanding. As of December 31, 2021, there were 487,234,522 and 945,496,827 Class A and Class B ordinary shares outstanding. The vested restricted shares but have not physically been issued are considered outstanding as each period end and included in the calculation of basic (loss) earning per share.

*Retained earnings*

In accordance with the PRC Regulations on Enterprises with Foreign Investment and their articles of association, a foreign invested enterprise established in the PRC is required to provide certain statutory reserves, namely general reserve fund, the enterprise expansion fund and staff welfare and bonus fund which are appropriated from net profit as reported in the enterprise’s PRC statutory accounts. A foreign invested enterprise is required to allocate at least 10% of its annual after-tax profit to the general reserve until such reserve has reached 50% of its respective registered capital based on the enterprise’s PRC statutory accounts. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the board of directors for all foreign invested enterprises. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends.

Additionally, in accordance with the Company Law of the PRC, a domestic enterprise is required to provide statutory common reserve of at least 10% of its annual after-tax profit until such reserve has reached 50% of its respective registered capital based on the enterprise’s PRC statutory accounts. A domestic enterprise is also required to provide a statutory public welfare fund and a discretionary surplus reserve, at the discretion of the board of directors, from the profits determined in accordance with the enterprise’s PRC statutory accounts. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends.

	As of December 31,		
	2020	2021	
	RMB	RMB	US\$
PRC statutory reserve funds	54,992	57,616	9,041
Unreserved retained earnings	802,196	447,469	70,218
<b>Total retained earnings</b>	<b>857,188</b>	<b>505,085</b>	<b>79,259</b>



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Under PRC laws and regulations, there are restrictions on the Company’s subsidiaries in the PRC and VIEs with respect to transferring certain of their net assets to the Company either in the form of dividends, loans, or advances. Such restriction amounted to RMB1,399,065 (US\$219,544) as of December 31, 2021.

Furthermore, cash transfers from the Company’s subsidiaries in the PRC to its subsidiaries outside of China are subject to PRC government control of currency conversion. Shortages in the availability of foreign currency may restrict the ability of the subsidiaries in the PRC and VIEs to remit sufficient foreign currency to pay dividends or other payments to the Company, or otherwise satisfy their foreign currency denominated obligations.

***Accumulated other comprehensive income***

The components of accumulated other comprehensive income were as follows:

	<b>Foreign currency translation adjustment</b>	<b>Unrealized gains on available- for sale Securities</b>	<b>Total</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
Balance at January 1, 2019	253,054	(3,750)	249,304
Other comprehensive income before reclassification	77,097	10,913	88,010
Other comprehensive income attribute to noncontrolling interests	459	—	459
Balance at December 31, 2019	330,610	7,163	337,773
Other comprehensive loss before reclassification	(167,476)	(7,251)	(174,727)
Other comprehensive income attribute to noncontrolling interests	294	—	294
Balance at December 31, 2020	163,428	(88)	163,340
Other comprehensive loss before reclassification	(75,536)	—	(75,536)
Other comprehensive income attribute to noncontrolling interests	458	—	458
Balance at December 31, 2021	88,350	(88)	88,262
Balance at December 31, 2021, in US\$	13,864	(14)	13,850

There was nil tax expense or benefit recognized related to the changes of each component of accumulated other comprehensive income for the years ended December 31, 2019, 2020 and 2021.

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**18. (LOSS) EARNINGS PER SHARE**

Basic and diluted earnings per share for each of the years presented are calculated as follows, the effect of share options and restricted share units were excluded from the computation of diluted net loss per share for the years ended December 31, 2019 and 2021, as its effect would be anti-dilutive:

	Year ended December 31					
	2019	2020	2021			
	Ordinary shares RMB	Ordinary shares RMB	Class A Ordinary shares RMB	Class A Ordinary shares US\$	Class B Ordinary shares RMB	Class B Ordinary shares US\$
<b>(Loss) earnings per share—basic</b>						
<b>Numerator:</b>						
Net (loss) income attributable to Cheetah Mobile Inc.	(313,977)	416,732	(118,975)	(18,670)	(232,151)	(36,430)
Accretion of redeemable noncontrolling interests	(29,865)	—	—	—	—	—
Dilution effect arising from dividends declared on share awards of consolidated subsidiaries	(326)	(10,669)	(681)	(107)	(1,328)	(208)
Net (loss) income attributable to Cheetah Mobile Inc. after accretion of redeemable noncontrolling interests and dilution effect arising from share-based awards issued by subsidiaries	(344,168)	406,063	(119,656)	(18,777)	(233,479)	(36,638)
<b>Denominator:</b>						
Weighted average number of ordinary shares outstanding	1,369,041,418	1,402,509,386	484,555,775	484,555,775	945,496,827	945,496,827
(Loss) earnings per share—basic	<u>(0.2514)</u>	<u>0.2895</u>	<u>(0.2469)</u>	<u>(0.0388)</u>	<u>(0.2469)</u>	<u>(0.0388)</u>
<b>(Loss) earnings per share—diluted</b>						
<b>Numerator:</b>						
Net (loss) income attributable to Cheetah Mobile Inc. after accretion of redeemable noncontrolling interests and dilution effect arising from share-based awards issued by subsidiaries	(344,168)	406,063	(119,656)	(18,777)	(233,479)	(36,638)
Reallocation of net income as a result of conversion of Class B into Class A ordinary shares	—	—	(233,479)	(36,638)	—	—
Net (loss) income attributable to ordinary shareholders	<u>(344,168)</u>	<u>406,063</u>	<u>(353,135)</u>	<u>(55,415)</u>	<u>(233,479)</u>	<u>(36,638)</u>
<b>Denominator:</b>						
Weighted average ordinary shares outstanding	1,369,041,418	1,402,509,386	484,555,775	484,555,775	945,496,827	945,496,827
Dilutive effect of Share-based awards	—	18,558,520	—	—	—	—
Conversion of Class B into Class A ordinary shares	—	—	945,496,827	945,496,827	—	—
Denominator used for (loss) earnings per share	<u>1,369,041,418</u>	<u>1,421,067,906</u>	<u>1,430,052,602</u>	<u>1,430,052,602</u>	<u>945,496,827</u>	<u>945,496,827</u>
(Loss) earnings per share—diluted	<u>(0.2514)</u>	<u>0.2857</u>	<u>(0.2469)</u>	<u>(0.0388)</u>	<u>(0.2469)</u>	<u>(0.0388)</u>
<b>(Loss) earnings per ADS:</b>						
Denominator used for (loss) earnings per ADS—basic	136,904,142	140,250,939	48,455,578	48,455,578	—	—
Denominator used for (loss) earnings per ADS—diluted	136,904,142	142,106,791	143,005,260	143,005,260	—	—
(Loss) earnings per ADS—basic	<u>(2.5140)</u>	<u>2.8953</u>	<u>(2.4694)</u>	<u>(0.3875)</u>	—	—
(Loss) earnings per ADS—diluted	<u>(2.5140)</u>	<u>2.8575</u>	<u>(2.4694)</u>	<u>(0.3875)</u>	—	—

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**19. EMPLOYEE BENEFIT**

Full time employees of the Group participate in government mandated defined contribution plan, pursuant to which certain welfare benefits are provided to employees. The Group has no legal obligation for the benefits beyond the contributions made. The total amounts for such employee benefits, which were expensed as incurred, were approximately RMB193,990, RMB93,658 and RMB56,490 (US\$8,865) for the years ended December 31, 2019, 2020 and 2021, respectively.

**20. FAIR VALUE MEASUREMENT**

ASC 820-10, Fair Value Measurements and Disclosures: Overall (“ASC 820-10”), establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 — Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets

Level 2 — Include other inputs that are directly or indirectly observable in the marketplace

Level 3 — Unobservable inputs which are supported by little or no market activity

ASC 820-10 describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

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*Assets and liabilities measured or disclosed at fair value on a recurring basis*

In accordance with ASC 820-10, the Group measures equity investments with readily determinable fair value, equity investment accounted for using fair value option and available-for-sale debt securities at fair value on a recurring basis. The equity investments with readily determinable fair value and short-term available-for-sale debt securities are classified within Level 1 as the fair value is measured using quoted market data, or Level 2 as the fair value is measured by using indirectly inputs observable in the marketplace. The equity investment accounted for using fair value option and long-term available-for-sale debt securities are classified with in Level 3 in the fair value hierarchy.

Assets and liabilities measured on a recurring basis or disclosed at fair value are summarized below:

	<u>Total Fair Value</u> RMB	<u>Total Fair Value</u> US\$	<u>Quoted prices in active markets for identical assets (Level 1)</u> RMB	<u>Significant other observable inputs (Level 2)</u> RMB	<u>Significant unobservable inputs (Level 3)</u> RMB	<u>Total gains (losses)</u> RMB
<b><i>Fair value measurement—Recurring:</i></b>						
<b>As of December 31, 2021</b>						
<b>Short-term investment</b>						
Available-for-sale debt securities	262,169	41,140		262,169		1,441
<b>Long-term Investment</b>						
Available-for-sale debt securities	46,339	7,272			46,339	
Equity investments accounted for using fair value option	362,235	56,843			362,235	6,537
<b>As of December 31, 2020</b>						
<b>Short-term investment</b>						
Available-for-sale debt securities	1,830			1,830		(7,365)
<b>Long-term Investment</b>						
Equity investments with readily determinable fair value	11,411		11,411			5,327
Equity investments accounted for using fair value option	364,298				364,298	857

Reconciliations of assets categorized within Level 3 under the fair value hierarchy are as follow:

	<u>Amounts</u> RMB
Balance as of January 1, 2019	—
Addition	497,796
Fair value change	(102,555)
Foreign exchange translation adjustments	(6,660)
Balance as of December 31, 2019	388,581
Addition	—
Fair value change	857
Foreign exchange translation adjustments	(25,140)
Balance as of December 31, 2020	364,298
Addition	46,339
Fair value change	6,537
Foreign exchange translation adjustments	(8,600)
Balance as of December 31, 2021	408,574
Balance as of December 31, 2021 in US\$	64,114

(i) There were no transfers of fair value measurements into or out of Level 3 for the years ended December 31, 2019, 2020 and 2021.

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The Group measured equity investment accounted for using fair value option and available-for-sale debt securities on recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2021. The significant unobservable inputs used in the fair value measurement and the corresponding impacts to the fair values are presented below:

	<u>Fair value</u>	<u>Valuation technique</u>	<u>Unobservable inputs</u>	<u>Range</u>
Equity investments accounted for using fair value option	362,235	Discount cash flow method	<ul style="list-style-type: none"> <li>• Weighted average cost of capital (“WACC”)</li> <li>• Compound Annual Growth Rate (“CAGR”)</li> <li>• EBIT Margin</li> </ul>	<p>17.5%</p> <p>16.4%</p> <p>7.7%~16.2%</p>

A sensitivity analysis of the investment in equity investment accounted for using fair value option shows that, with all other variables hold constant, an increase/decrease of 0.5% in the CAGR would cause the fair value of the investment increase/decrease by 1.8% and 1.7%, respectively; an increase/decrease of 0.5% in the WACC would cause the fair value of the investment decrease/increase by 5.4% and 5.8%, respectively; and an increase/decrease of 5% in the EBIT margin would cause the fair value of the investment increase/decrease by 9.0% and 8.8%, respectively.

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*Assets and liabilities measured or disclosed at fair value on a non-recurring basis*

The Group measures certain financial assets as equity investments accounted for using equity method at fair value on a nonrecurring basis only if an impairment loss were to be recognized. The Group measures equity securities accounted for using measurement alternative on a non-recurring basis only if there are observable price changes in orderly transactions for identical or similar investments of the same issuer, or an impairment loss were to be recognized. The Group also measures the remaining interests upon deconsolidation of certain businesses at fair value on a non-recurring basis. The Group’s non-financial assets, such as intangible assets, goodwill and property and equipment, would be measured at fair value only if they were determined to be impaired.

The following table summarizes the Company’s assets held as of December 31, 2020 and 2021 for which a non-recurring fair value measurement was recorded during the years ended December 31, 2020 and 2021:

	<u>Total Balance</u> RMB	<u>Total Balance</u> US\$	<u>Quoted prices in active markets for identical assets (Level 1)</u> RMB	<u>Significant other observable inputs (Level 2)</u> RMB	<u>Significant unobservable inputs (Level 3)</u> RMB	<u>Total (losses) gains</u> RMB
<b><i>Fair value measurement—Non-Recurring:</i></b>						
<b>As of December 31, 2021</b>						
Equity investments accounted for using the measurement alternative	738,292	115,854			738,292	(284,736)
<b>As of December 31, 2020</b>						
Property and equipment, net	85,094				85,094	(9,226)
Intangible assets, net	—				—	(17,746)
Equity investments accounted for using the measurement alternative	585,958				585,958	55,942
Equity investments accounted using equity method	18,000				18,000	—

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For equity securities accounted for under the measurement alternative, when there are observable price changes in orderly transactions for identical or similar investments of the same issuer, the investments are re-measured to fair value (Note 4). The non-recurring fair value measurements to the carrying amount of an investment usually requires management to estimate a price adjustment for the different rights and obligations between a similar instrument of the same issuer with an observable price change in an orderly transaction and the investment held by the Group. These non-recurring fair value measurements were measured as of the observable transaction dates. The valuation methodologies involved require management to use the observable transaction price at the transaction date and other unobservable inputs (level 3) such as volatility of comparable companies and probability of exit events as it relates to liquidation and redemption preferences. When there is impairment of equity securities accounted for under the measurement alternative, the non-recurring fair value measurements are measured at the date of impairment. The Company uses valuation methodologies, the market approach and income approach, which requires management to use unobservable inputs (level 3). All impairments recorded in the year ended December 31, 2021 were resulted from full impairments except for certain equity investments, which were written down from carrying value of RMB908,184 to fair value of RMB583,804 (US\$91,612) as of December 31, 2021. In 2021, the Group sold part of equity interest of an investment previously accounted for using the measurement alternative and the remaining equity interest held was reclassified and accounted for as available-for-sale debt securities since the Group has a put option to require the equity investee to redeem the Group’s equity interest at the Group’s option. The Group remeasured the fair value of the investment upon the reclassification with a remeasurement loss of RMB42,883 (US\$6,729) recorded in “Other expense” in the consolidated comprehensive (loss) income. The significant unobservable inputs used in the fair value measurement and the corresponding impacts to the fair values are presented below:

	<u>Fair value</u>	<u>Valuation technique</u>	<u>Unobservable inputs</u>	<u>Range</u>
Equity investments accounted for using measurement alternative	738,292	Black-Scholes method	<ul style="list-style-type: none"> <li>• IPO Probability</li> </ul>	30% to 40%
		Market Approach	<ul style="list-style-type: none"> <li>• Volatility</li> <li>• IPO Probability</li> <li>• Volatility</li> <li>• DLOM</li> </ul>	49% to 54% 25% 57% 10%
		Discount cash flow method	<ul style="list-style-type: none"> <li>• WACC</li> <li>• CAGR</li> <li>• EBIT Margin</li> </ul>	19.50% 32.9% -33.2%~29.2%

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A sensitivity analysis of the fair value including the impairment of the equity investments accounted for using the measurement alternative shows that, with all other variables hold constant, an increase/decrease of 5% in the IPO probability would cause the fair value of the investments increase/decrease by 1.2%, respectively; an increase/decrease of 5% in the volatility would cause the fair value of the investments increase/decrease by 0.3% and 0.2%, respectively; an increase/decrease 5% in the DLOM would cause the fair value of the investments decrease/increase by 1.8%, respectively; an increase/decrease of 0.5% in the CAGR would cause the fair value of the investment increase/decrease by 1%, respectively; an increase/decrease of 0.5% in the WACC would cause the fair value of the investment decrease/increase by 3%, respectively; and an increase/decrease of 5% in the EBIT margin would cause the fair value of the investment increase/decrease by 4%, respectively.



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**21. CONDENSED FINANCIAL INFORMATION OF THE COMPANY**

*Balance Sheets*

	As of December 31,		
	2020 RMB	2021 RMB	US\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	18,243	20,401	3,201
Short-term investments	—	—	—
Prepayments and other current assets	131,128	147,396	23,130
Due from subsidiaries and related parties	1,429,987	3,124,311	490,273
<b>Total current assets</b>	<b>1,579,358</b>	<b>3,292,108</b>	<b>516,604</b>
<b>Non-current assets</b>			
Long-term investments	492,714	446,969	70,139
Investment in subsidiaries	2,625,791	897,699	140,869
Other non-current assets	—	2,881	450
<b>Total non-current assets</b>	<b>3,118,505</b>	<b>1,347,549</b>	<b>211,458</b>
<b>Total assets</b>	<b>4,697,863</b>	<b>4,639,657</b>	<b>728,062</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accrued expenses and other current liabilities	22,893	19,110	2,999
Due to subsidiaries and related parties	754,136	1,159,795	181,997
Income tax payable	2,769	11,997	1,883
<b>Total current liabilities</b>	<b>779,798</b>	<b>1,190,902</b>	<b>186,879</b>
Deferred tax liabilities	39,830	40,908	6,419
Other non-current liabilities	130,854	128,721	20,199
<b>Total non-current liabilities</b>	<b>170,684</b>	<b>169,629</b>	<b>26,618</b>
<b>Total liabilities</b>	<b>950,482</b>	<b>1,360,531</b>	<b>213,497</b>
<b>Shareholders' equity</b>			
Class A ordinary shares (par value of US\$0.000025 per share; 7,600,000,000 shares authorized; 482,113,756 and 487,234,522 shares issued as of December 31, 2020 and 2021, respectively; 482,113,756 and 487,234,522 shares outstanding as of December 31, 2020 and 2021, respectively)	78	79	12
Class B ordinary shares (par value of US\$0.000025 per share; 1,400,000,000 shares authorized; 957,465,244 and 957,465,244 shares issued as of December 31, 2020 and 2021, respectively; 945,496,827 and 945,496,827 shares outstanding as of December 31, 2020 and 2021, respectively)	156	156	24
Additional paid-in capital	2,726,619	2,685,544	421,420
Retained earnings	857,188	505,085	79,259
Accumulated other comprehensive income	163,340	88,262	13,850
<b>Total shareholders' equity</b>	<b>3,747,381</b>	<b>3,279,126</b>	<b>514,565</b>
<b>Total liabilities and shareholders' equity</b>	<b>4,697,863</b>	<b>4,639,657</b>	<b>728,062</b>

CHEETAH MOBILE INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021

(Amounts in thousands of Renminbi (“RMB”) and U.S. Dollars (“US\$”), except for number of shares and per share (or ADS) data)

*Statements of Comprehensive (loss) income*

	For the years ended December 31,			
	2019 RMB	2020 RMB	2021 RMB	US\$
<b>Revenues</b>	—	—	—	—
Cost of revenues	(5)	—	—	—
<b>Gross profit</b>	<b>(5)</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Operating expenses</b>				
Research and development	(858)	(482)	(3)	—
General and administrative	(41,872)	(45,159)	(21,978)	(3,449)
Impairment of goodwill	(64,154)	—	—	—
<b>Total operating expenses</b>	<b>(106,884)</b>	<b>(45,641)</b>	<b>(21,981)</b>	<b>(3,449)</b>
Equity in loss of subsidiaries	(495,735)	(168,217)	(352,616)	(55,336)
Interest income (expense), net	21,677	2,325	(9)	(1)
Foreign exchange gains (loss), net	152	(315)	71	11
Other income, net	306,006	711,629	35,537	5,577
<b>(Loss) income before income taxes</b>	<b>(274,789)</b>	<b>499,781</b>	<b>(338,998)</b>	<b>(53,198)</b>
Income tax expenses	(39,188)	(83,049)	(12,128)	(1,903)
<b>Net (loss) income</b>	<b>(313,977)</b>	<b>416,732</b>	<b>(351,126)</b>	<b>(55,101)</b>
<b>Other comprehensive income (loss), net of tax of nil</b>				
Unrealized gains (losses) on available-for-sale securities, net	10,913	(7,250)	—	—
Foreign currency translation adjustments	77,556	(167,183)	(75,078)	(11,781)
<b>Other comprehensive income (loss)</b>	<b>88,469</b>	<b>(174,433)</b>	<b>(75,078)</b>	<b>(11,781)</b>
<b>Total comprehensive (loss) income</b>	<b>(225,508)</b>	<b>242,299</b>	<b>(426,204)</b>	<b>(66,882)</b>

CHEETAH MOBILE INC.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021**

(Amounts in thousands of Renminbi (“RMB”) and U.S. Dollars (“US\$”), except for number of shares and per share (or ADS) data)

*Statements of Cash Flows*

	For the years ended December 31,			
	2019	2020	2021	
	RMB	RMB	RMB	US\$
Net cash (used in) provided by operating activities	(15,258)	(2,186)	666	105
Net cash provided (used in) by investing activities	375,584	1,345,523	(864,999)	(135,737)
Net cash (used in) provided by financing activities	(494,055)	(1,453,285)	891,960	139,968
Effect of exchange rate changes on cash and cash equivalents and restricted cash	64,769	(121,395)	(25,469)	(3,997)
<b>Net (decrease) increase in cash and cash equivalents and restricted cash</b>	<b>(68,960)</b>	<b>(231,343)</b>	<b>2,158</b>	<b>339</b>
<b>Cash and cash equivalents and restricted cash at beginning of the year</b>	<b>318,546</b>	<b>249,586</b>	<b>18,243</b>	<b>2,863</b>
<b>Cash and cash equivalents and restricted cash at end of the year</b>	<b>249,586</b>	<b>18,243</b>	<b>20,401</b>	<b>3,202</b>

*(a) Basis of presentation*

For the Company only condensed financial information, the Company records its investment in its subsidiaries, VIEs and subsidiaries of VIEs under the equity method of accounting. Such investment is presented on the condensed balance sheets as “Investment in subsidiaries” and share of their income as “Equity in profit (loss) of subsidiaries” on the condensed statements of comprehensive (loss) income. The subsidiaries VIEs and subsidiaries of VIEs did not pay any dividends to the Company for any of the years presented.

The Company only condensed financial information should be read in conjunction with the Group’s consolidated financial statements.

*(b) Commitments and contingencies*

The Company does not have any significant commitments or long-term obligations as of any of the periods presented.

The Company and certain of its current and former officers have been named as defendants in two putative securities class actions filed on June 25, 2020 and July 31, 2020 respectively in the U.S. District Court for the Central District of California. On August 24, 2020, the Court consolidated the two cases under the caption *In Re: Cheetah Mobile, Inc. Securities Litigation* (Case No. 2:20-cv-05696). On March 15, 2021, an amended complaint was filed. According to the amended complaint, the action is purportedly brought on behalf of a class of persons who allegedly suffered damages as a result of their trading in our ADRs between April 26, 2017 and March 24, 2020. The action alleges that the Company made false or misleading statements regarding the Company’s business and operations in violation of the Sections 10(b) and 20(a) of the U.S. Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder. Briefing on the Company’s motion to dismiss the complaint was completed in July 2021. On March 30, 2022, the Court granted the Company’s motion to dismiss, with leave for Plaintiffs to amend the complaint. On May 6, 2022, the parties reached a stipulation, pursuant to which Plaintiffs voluntarily dismissed the claims asserted in the action, and agreed that they would not amend the complaint or appeal the Court’s order. The case is now closed. Lawsuits such as this could divert a significant amount of the Company’s attention and other resources from the Company’s business and operations, which could harm the Company’s results of operations and require the Company to incur significant expenses to defend the lawsuit. Any such lawsuit, whether or not successful, could harm the Company’s reputation and restrict the Company’s ability to raise capital in the future. In addition, if a claim is successfully made against the Company, the Company may be required to pay significant damages, which could have a material adverse effect on the Company’s financial condition and results of operations. Furthermore, there can be no assurance that the Company’s insurance carriers will cover all or part of the defense costs, or any liabilities that may arise from these matters. The Company also may be subject to claims for indemnification related to these matters, and the Company cannot predict the impact that indemnification claims may have on the Company’s business, financial condition or results of operations.

**CHEETAH MOBILE INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021**

**(Amounts in thousands of Renminbi (“RMB”) and U.S. Dollars (“US\$”), except for number of shares and per share (or ADS) data)**

The Staff of the Division of Enforcement of the SEC is conducting an investigation relating to the Company’s disclosures for fiscal year 2015 regarding its relationship with one of its advertising business partners. The SEC investigation also relates to Rule 10b5-1 trading plans entered into by certain current and former officers and directors of the Company and sales of the Company’s ADS under those plans in 2015 and 2016. The Company and its current and former officers and directors have been fully cooperating with the SEC and are in discussions with the SEC concerning the potential outcome of the investigation. While the Company believe the SEC investigation is nearing conclusion, the exact duration and outcome of the SEC matter cannot be predicted at this time. A settlement or litigation with the SEC could include allegations by the SEC of violations of the U.S. securities laws against the Company and/or the current and former officers and directors of the Company involved, seeking various remedies, including penalties, fines, injunctive relief, a cease and desist order, officer and director bars, certain compliance undertakings and other limitations or sanctions under the U.S. securities laws. The Company recorded a loss contingency amounting to US\$1.5 million as of December 31, 2020. Based on recent developments, in the opinion of management and based on advice of the Company’s legal counsel, the Company is currently unable to ascertain the ultimate outcome, including an estimate of the amount of the loss or a range of loss, if any, in connection with the SEC investigation or any potential litigation. Therefore, the amount of loss cannot be reasonably estimated, and the Company reversed the previously accrued loss contingency as of December 31, 2021.

Except for the class action and investigation mentioned above, the Company is involved in several other proceedings as of December 31, 2021 which are either immaterial, or the Company does not believe that a reasonable possibility of loss has been incurred as the proceedings are in the early stages, and/or there is a lack of clear or consistent interpretation of laws specific to the industry-specific complaints among different jurisdictions. As a result, there is considerable uncertainty regarding the timing or ultimate resolution of such matters, which includes eventual loss, fine, penalty or business impact, if any, and therefore, an estimate for the reasonably possible loss or a range of reasonably possible losses cannot be made. However, the Company believes that such matters, individually and in the aggregate, when finally resolved, are reasonably likely not to have a material adverse effect on the Company’s consolidated results of operations, financial position and cash flows.

## LIST OF SIGNIFICANT SUBSIDIARIES AND VIES

Subsidiaries	Place of Incorporation
Cheetah Information Technology Company Limited	Hong Kong
Cheetah Mobile Hong Kong Limited	Hong Kong
Cheetah Technology Corporation Limited	Hong Kong
Hongkong Zoom Interactive Network Marketing Technology Limited	Hong Kong
Multicloud Limited	Hong Kong
Japan Kingsoft Inc.	Japan
Cheetah Mobile Singapore Pte. Ltd.	Singapore
Beijing Kingsoft Internet Security Software Co., Ltd.	People's Republic of China
Conew Network Technology (Beijing) Co., Ltd.	People's Republic of China
Beijing Kingsoft Cheetah Technology Co., Ltd.	People's Republic of China
Zhuhai Baoqu Technology Co., Ltd.	People's Republic of China
Jingdezhen Jibao Information Service Co., Ltd.	People's Republic of China
<b>Variable Interest Entities</b>	
Beijing Cheetah Network Technology Co., Ltd.	People's Republic of China
Beijing Conew Technology Development Co., Ltd.	People's Republic of China
Beijing Cheetah Mobile Technology Co., Ltd.	People's Republic of China

**Certification by the Principal Executive Officer**

**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Sheng Fu, certify that:

1. I have reviewed this annual report on Form 20-F of Cheetah Mobile Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: July 26, 2022

By: /s/ Sheng Fu

Name: Sheng Fu

Title: Chief Executive Officer

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**Certification by the Principal Financial Officer**

**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Thomas Jintao Ren, certify that:

1. I have reviewed this annual report on Form 20-F of Cheetah Mobile Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act s 13a-15(f) and 15d-15(f)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: July 26, 2022

By: /s/ Thomas Jintao Ren

Name: Thomas Jintao Ren

Title: Chief Financial Officer

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**Certification by the Principal Executive Officer**

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Cheetah Mobile Inc. (the “Company”) on Form 20-F for the year ended December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Sheng Fu, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 26, 2022

By: /s/ Sheng Fu

Name: Sheng Fu

Title: Chief Executive Officer

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**Certification by the Principal Financial Officer  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Cheetah Mobile Inc. (the "Company") on Form 20-F for the year ended December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas Jintao Ren, Interim Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 26, 2022

By: /s/ Thomas Jintao Ren  
Name: Thomas Jintao Ren  
Title: Chief Financial Officer

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July 26, 2022

Cheetah Mobile Inc.

Building No. 11

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No.7 Sanjianfangnanli

Chaoyang District, Beijing 100124

People's Republic of China

Dear Sirs,

We hereby consent to the reference of our name under the headings “Item 3. Key Information—D. Risk Factors”, “Item 4. Information on the Company—B. Business Overview—Regulations” and “Item 4. Information on the Company—C. Organizational Structure” in Cheetah Mobile Inc.’s Annual Report on Form 20-F for the year ended December 31, 2021 (the “**Annual Report**”), which will be filed with the Securities and Exchange Commission (the “**SEC**”) in the month of July 2022, and further consent to the incorporation by reference into the Registration Statement on Form S-8 (No. 333-199577) filed with the SEC on October 24, 2015 of the summary of our opinions and advice under the headings “Item 3. Key Information—D. Risk Factors,” “Item 4. Information on the Company—B. Business Overview—Regulation” and “Item 4. Information on the Company—C. Organizational Structure” in the Annual Report. We also consent to the filing of this consent letter with the SEC as an exhibit to the Annual Report.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Very truly yours,



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Global Law Office

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statement (Form S-8 File No. 333-199577) pertaining to the 2013 Equity Incentive Plan and 2014 Restricted Shares Plan of Cheetah Mobile Inc. of our reports dated July 26, 2022, with respect to the consolidated financial statements of Cheetah Mobile Inc., and the effectiveness of internal control over financial reporting of Cheetah Mobile Inc., included in this Annual Report (Form 20-F) for the year ended December 31, 2021.

/s/ Ernst & Young Hua Ming LLP  
Beijing, the People's Republic of China  
July 26, 2022