

Cheetah Mobile Inc.  
Form 20-F  
April 26, 2017  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 20-F**

(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, 2016.**

**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 . . . . .

Commission file number: 001-36427

**Cheetah Mobile Inc.**

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(Exact name of Registrant as specified in its charter)

**N/A**

(Translation of Registrant's name into English)

**Cayman Islands**

(Jurisdiction of incorporation or organization)

**Building No. 8**

**Hui Tong Times Square**

**Yaojiayuan South Road**

**Beijing 100123**

**People's Republic of China**

(Address of principal executive offices)

**Yuk Keung Ng**

**Director and Principal Financial Officer**

**Cheetah Mobile Inc.**

**Building No. 8**

**Hui Tong Times Square**

**Yaojiayuan South Road**

**Beijing 100123**

**People's Republic of China**

**Tel: +86-10-6292-7779**

**Email: IR@cmcm.com**

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

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\* 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.

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

**NONE**  
(Title of Class)

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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: 410,608,263 Class A ordinary shares and 1,015,128,452 Class B ordinary shares, par value US\$0.000025 per share, as of December 31, 2016.

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

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 submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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 the definitions 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

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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 provided pursuant to Section 13(a) of the Exchange Act.

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:

- Cheetah Mobile Inc., we, us, our company or our refers to Cheetah Mobile Inc., its subsidiaries and, in context of describing our operations and consolidated financial data, also includes our variable interest entities and, in certain periods prior to January 2017, the subsidiaries of our variable interest entities;
- 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, our controlling shareholder, 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.



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**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, 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 spendings or level of engagement with us;
- our ability to expand and improve our product and service offerings;
- our ability to monetize 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 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.

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**PART I**

**Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information**

**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, 2016 and the selected consolidated balance sheets data as of December 31, 2015 and 2016 have been derived from our audited consolidated financial statements, which are included in this annual report beginning on page F-1. The selected consolidated statements of comprehensive income/(loss) data for each of the two years ended December 31, 2012 and 2013 and the selected consolidated balance sheets data as of December 31, 2012, 2013 and 2014, excluding the financial data of Kingsoft Japan Inc., or Kingsoft Japan, 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.

On January 29, 2016, we obtained control of Kingsoft Japan. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Transactions and Agreements with Kingsoft Corporation and its Subsidiaries Purchase of Equity Interest in Kingsoft Japan . As we and Kingsoft Japan were under common control by Kingsoft Corporation both before and after our acquisition of control over Kingsoft Japan, the consolidated financial data presented below have been prepared as if we had owned the assets and liabilities of and operated Kingsoft Japan throughout the periods presented, and the consolidated financial data for the years ended December 31, 2012, 2013, 2014 and 2015 have been retrospectively adjusted accordingly. The consolidated financial data set forth below as of and for each of the years ended December 31, 2012, 2013, 2014 and 2015 may not necessarily reflect the results of operations, financial position and cash flows we would have experienced with respect to Kingsoft Japan if we had owned and operated Kingsoft Japan

throughout those years.

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	2012 (As adjusted) RMB	2013 (As adjusted) RMB	Year Ended December 31, 2014 2015 (As adjusted) RMB		2016 RMB	US\$
	(In thousands except for shares, per share and per ADS data)					
<b>Selected Consolidated Statements of Comprehensive Income/(Loss) Data:</b>						
<b>Revenues</b>	421,322	858,903	1,858,182	3,773,877	4,564,650	657,446
Online marketing services	236,412	638,668	1,339,250	3,283,423	3,950,886	569,045
Internet value-added services	2,354	83,155	400,671	395,312	500,991	72,158
Internet security services and others	182,556	137,080	118,261	95,142	112,773	16,243
Cost of revenues(1)	(138,985)	(192,720)	(438,661)	(956,353)	(1,543,817)	(222,356)
<b>Gross profit</b>	282,337	666,183	1,419,521	2,817,524	3,020,833	435,090
Operating income and expenses:						
Research and development(1)	(131,865)	(224,179)	(443,214)	(695,185)	(905,854)	(130,470)
Selling and marketing(1)	(84,481)	(221,462)	(601,433)	(1,505,951)	(1,650,581)	(237,733)
General and administrative(1)	(52,711)	(121,368)	(274,991)	(447,984)	(561,834)	(80,921)
Impairment of goodwill and intangible assets			(8,304)	(49,882)	(2,889)	(416)
Other operating income			1,087	98,376	87,877	12,657
Total operating income and expenses	(269,057)	(567,009)	(1,326,855)	(2,600,626)	(3,033,281)	(436,883)
<b>Operating profit/(loss)</b>	<b>13,280</b>	<b>99,174</b>	<b>92,666</b>	<b>216,898</b>	<b>(12,448)</b>	<b>(1,793)</b>
Other income and expenses:	4,322	19,849	6,534	21,479	(56,448)	(8,130)
Income/(Loss) before income taxes	17,602	119,023	99,200	238,377	(68,896)	(9,923)
Income tax (expenses)/benefit	(6,517)	(51,430)	(27,895)	(63,740)	12,189	1,756
<b>Net income/(loss)</b>	<b>11,085</b>	<b>67,593</b>	<b>71,305</b>	<b>174,637</b>	<b>(56,707)</b>	<b>(8,167)</b>
Less: Net income/(loss) attributable to noncontrolling interests	997	4,478	2,988	(1,710)	23,818	3,431
Net income/(loss) attributable to Cheetah Mobile Inc.	10,088	63,115	68,317	176,347	(80,525)	(11,598)
<b>Earnings/(Losses) per share</b>						
Basic	0.0110	0.0618	0.0530	0.1285	(0.0580)	(0.0084)
Diluted	0.0106	0.0587	0.0509	0.1236	(0.0580)	(0.0084)
<b>Earnings/(Losses) per ADS(2)</b>						
Basic	0.1097	0.6181	0.5301	1.2845	(0.5805)	(0.0836)
Diluted	0.1059	0.5872	0.5092	1.2360	(0.5805)	(0.0836)
<b>Weighted average number of shares used in computation:</b>						
Basic	908,457,367	929,119,153	1,210,501,020	1,372,863,321	1,387,254,551	1,387,254,551
Diluted	1,046,982,205	1,135,982,953	1,341,732,457	1,426,810,939	1,387,254,551	1,387,254,551



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

	2012		Year Ended December 31,		2016	US\$
	(As adjusted)	2013	2014	2015		
	RMB	(As adjusted)	(As adjusted)	(As adjusted)	RMB	
		RMB	RMB	RMB		
			(In thousands)			
Cost of revenues	21	10	1,393	1,523	1,490	215
Research and development	6,663	14,520	51,322	142,777	148,211	21,347
Selling and marketing	609	2,835	7,621	18,206	13,830	1,992
General and administrative	12,994	20,031	113,435	153,234	142,618	20,541
<b>Total</b>	<b>20,287</b>	<b>37,396</b>	<b>173,771</b>	<b>315,740</b>	<b>306,149</b>	<b>44,095</b>

- (2) Each ADS represents ten Class A ordinary shares.

	2012		As of December 31,		2016	US\$
	(As adjusted)	2013	2014	2015		
	RMB	(As adjusted)	(As adjusted)	(As adjusted)	RMB	
		RMB	RMB	RMB		
			(In thousands)			
<b>Selected Consolidated Balance Sheets Data:</b>						
Cash and cash equivalents	146,527	554,451	1,115,738	1,843,233	1,411,000	203,226
Short-term investments	40,376	55,780	513,621	29,234	361,499	52,067
Total assets	386,188	958,045	2,988,129	4,926,551	5,541,134	798,088
Total current liabilities	173,558	282,858	638,210	1,720,585	2,066,221	297,599
Total liabilities	185,807	340,339	740,176	1,912,106	2,339,956	337,024
Total mezzanine equity	119,976	441,941				
Total Cheetah Mobile Inc. shareholders equity	48,072	156,777	2,152,084	2,854,067	3,012,352	433,867
Total equity	80,405	175,765	2,247,953	3,014,445	3,201,178	461,064

**Exchange Rate Information**

Most of our revenues and costs are denominated in foreign currencies, primarily U.S. dollars, and the rest is denominated in Renminbi. This annual report contains translations of Renminbi 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 noon buying rate in New York City for cable transfers in RMB as certified for customs purposes by 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 RMB in this annual report were made at a rate of RMB6.9430 to US\$1.00, the noon buying rate in effect as of December 30, 2016. We make no representation that any RMB or U.S. dollar amounts 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. On April 21, 2017, the noon buying rate was RMB6.8845 to US\$1.00.

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The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated.

Period	Period End	Noon Buying Rate		
		Average(1) (RMB per U.S. Dollar)	Low	High
2012	6.2301	6.2990	6.3879	6.2221
2013	6.0537	6.1412	6.2438	6.0537
2014	6.2046	6.1704	6.2591	6.0402
2015	6.4778	6.2821	6.4896	6.1870
2016	6.9430	6.6549	6.9580	6.4480
October	6.7735	6.7303	6.7819	6.6685
November	6.8837	6.8402	6.9195	6.7534
December	6.9430	6.9198	6.9580	6.8771
2017				
January	6.8768	6.8907	6.9575	6.8360
February	6.8665	6.8694	6.8821	6.8517
March	6.8832	6.8940	6.9132	6.8687
April (through April 21)	6.8845	6.8874	6.8988	6.8778

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(1) Annual averages are calculated using the average of month-end rates of the relevant year. Monthly averages are calculated using the average of the daily rates during the relevant month.



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**B. Capitalization and Indebtedness**

Not applicable.

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

Not applicable.

**D. Risk Factors**

**Risks Relating to Our Business and Industry**

*We experienced a decline in our monthly active users in 2016. If we fail to retain or grow our user base, or if our users decrease their level of engagement with our mobile and PC applications, 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 adding, retaining and engaging active users. We have been consistently anticipating user demand and developing innovative products and services in an effort 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. To the extent our user growth rate slows, our success will become increasingly dependent on our ability to increase levels of user engagement and monetization. While our mobile monthly active users grew from 395.4 million in December 2014 to 635.5 million in December 2015, our mobile monthly active users dropped slightly to 622.9 million in December 2016. We intend to increase our user engagement level by continuing to develop our content-driven products and introduce the large amount of content on News Republic to users of our utility applications. We expect the user base for our PC applications to continue to decrease, as the overall PC usage continues to decrease in China.

Our user growth and engagement could be adversely affected if:

- we fail to maintain the popularity of our existing products for users in China and globally;

- 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;
- our products are displaced by products adopting new technologies;
- 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;
- we fail to provide adequate customer service to users; or
- we do not maintain our brand image or our reputation is damaged.

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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. We have not incurred any material costs to address the complaints. If we are unable to address user complaints timely or at all, our reputation may be harmed and our user base may 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 or continue to grow 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.

***We only began to offer and monetize our mobile applications in recent years, and there is uncertainty as to whether we can achieve continued growth in, or successful monetization of, our mobile business operations.***

We only began to offer and monetize our mobile applications in recent years. In 2013, 2014, 2015 and 2016, 7.9%, 25.7%, 65.6% and 77.3% of our revenues were derived from our mobile applications, respectively. Although our mobile applications have proven to be highly popular, we have a short operating history and limited experience in the mobile internet industry. We launched our first mobile application, Battery Doctor, in July 2011, and have since then launched a number of new mobile utility applications on the Android and iOS platforms. Leveraging our large user base built across our utility applications, we have started to invest in content-driven applications since 2015. We are also in the process of introducing the large amount of content on News Republic to users of our utility applications. The competition among content-driven applications has become increasingly intense both in China and globally, and our competitors may have much more experience and resources than us in developing and operating content-driven applications. We may not be able to successfully implement our content strategy in a cost-effective manner, and we may not be able to recoup the investments and expenditures involved. Our interim results may also experience more significant fluctuations while we continue to implement our content strategy.

The mobile internet industry is characterized by constant change, including but not limited to rapid technological evolution, shifting user demands, frequent introduction of new products and services, and constant emergence of new industry standards, operating systems and practices. As a result of these factors and our limited mobile internet industry experience, we may not be able to sustain the popularity of our existing mobile applications or introduce new mobile applications that meet the expectations of our users and customers. Even if we succeed in continuing to grow the user base for our mobile applications and increase revenues generated from our mobile business, we may not be able to maintain the growth trajectories. The mobile internet industry only began to experience rapid growth in recent years, and there are relatively few proven models for us to monetize our mobile traffic. We are still exploring a number of monetization models for our mobile business, such as online advertising services, game publishing services and the sale of virtual items on Live.me. If the mobile advertising industry fails to grow as we expect, or if we fail to develop or maintain effective monetization models for our mobile applications, our business, financial condition and results of operations may be materially and adversely affected.

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***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.***

Currently, a limited number of customers contribute a significant portion of our revenues. Our customers, in the case of online marketing services, primarily comprise mobile application developers, mobile game developers, mobile advertising networks, e-commerce companies and search engines to which we refer traffic and sell advertisements. In 2014, 2015 and 2016, our five largest customers in aggregate contributed approximately 52.7%, 57.7% and 47.9% of our revenues, respectively, and our largest customer, Facebook, contributed 3.9%, 28.7% and 19.9% 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, 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.

***We rely on online marketing for the majority of our revenues, and our profitability and financial prospects may be affected by a decline in revenue contribution from our online marketing customers.***

We generated 72.1%, 87.0% and 86.6% of our revenues from online marketing services in 2014, 2015 and 2016, respectively. We generate revenues from our online marketing services primarily by providing mobile advertising services to advertisers worldwide, as well as selling advertisements and referring user traffic on our mobile and PC platforms. In the overseas markets, we derive a significant portion of our revenues from our partnering third-party mobile advertising networks, such as Facebook, Google and Yahoo. A decline in revenue contribution from one or more of these customers, such as a decline due to changes in revenue sharing and fee arrangement with these customers, may materially and adversely affect our revenues. For example, we experienced a decline in effective cost per mille (eCPM) from some of our third-party advertising platform partners in the overseas markets in the early part of the second quarter of 2016. If our online marketing customers reduce or discontinue their advertising spending with us, or if we fail to attract new online marketing customers or if the revenue sharing and fee arrangements with these customers become less favorable to us, our business, financial condition and results of operations could be materially and adversely affected.

***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 evolving industries. 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 both in China and globally;
- 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 and attract additional 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 increased traffic and expanded product and service offerings;
- maintain effective control of our costs and expenses;
- respond to changes in the regulatory environment in China and overseas markets and manage legal risks, including those associated with intellectual property rights; and
- execute our strategic investments and acquisitions and post-acquisition integrations effectively.

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

***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 mobile space, we compete with other mobile application developers, including those developers that offer products purported to perform similar functions as Clean Master, CM Security, Battery Doctor, News Republic, Live.me and our other products. In the internet space, we mainly compete with Qihoo 360 Technology Co., Ltd., or Qihoo, in China's internet security and anti-virus market. 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 a limited operating history in international markets. If we fail to meet the challenges presented by our increasingly globalized operations, our business, financial condition and results of operations may be materially and adversely affected.***

Our business has continued to expand internationally since we released our Clean Master overseas version in September 2012 and established Cheetah Mobile America, Inc., one of our U.S. subsidiaries, in November 2012. In December 31, 2014, 2015 and 2016, approximately 68.8%, 78.6% and 81.0%, respectively, of our mobile monthly active users were from overseas markets, including the United States, Europe, India, Indonesia and certain emerging markets (other than China), while the remainder were from China. Revenues from overseas markets accounted for 17.2%, 51.2% and 60.2% of our total revenues in 2014, 2015 and 2016, respectively. We currently expect to continue our global expansion as a key growth strategy, which exposes us to a number of risks, including:

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- challenges in formulating effective local sales and 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. Our business partners primarily include third parties that promote our platform and applications, and mobile advertising networks, such as Facebook, Google, Yahoo, Baidu and Tencent, through which advertisers place their advertisements on our mobile applications. In addition, we work with game developers for our game publishing business;
- 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, especially in developed markets;
- 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 increasingly globalized operations.

*More people are using devices other than personal computers to access the internet. If users do not widely adopt versions of our applications developed for these devices, our business could be adversely affected.*

The number of people who access the internet through devices other than personal computers, including mobile phones, smartphones, handheld computers such as iPad and other tablets, and television set-top devices, is increasing dramatically. The varying display sizes, functionality, and memory associated with alternative 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 accessible on 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 alternative 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 alternative 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 alternative devices, we may fail to capture a significant share of an increasingly important portion of the market for online marketing services, which could adversely affect our business.



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***If our mobile and PC applications fail to address security threats and optimize system performance or otherwise do not work properly, we may lose users, and our business, financial condition and results of operations may be materially and adversely affected.***

Our users rely on our applications to optimize internet system performance of their mobile devices and PC and provide real time protection against security threats. Our 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 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 applications 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 mobile applications. However, new malware and malicious applications are constantly appearing and evolving, and our detection technologies may not detect all forms of security threats or malicious applications encountered by our users. In addition, our applications may not work properly with the Windows, Android or iOS operating systems if we cannot promptly upgrade our applications 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 may cause security breaches and suboptimal system performance of the mobile and PC internet, which 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 and similar events. While we locate our servers in multiple data centers across China, as well as in other Asian countries, the United States, Europe and Brazil, our systems are not 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 or other unanticipated problems at our hosting facilities could result in interruptions in the availability of our products and services. In particular, as the number of our Live.me users increases and they generate more content, 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 profits, subject us to regulatory scrutiny and lead users to seek alternative products.



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Our servers may experience downtime from time to time, which may adversely affect our brands and user perception of the reliability of our systems. Any scheduled or unscheduled interruption in the ability of users to use our servers could result in an immediate, and possibly substantial, loss of revenues.

***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 rely on third-party mobile application distribution channels such as Google Play and iOS App Store to distribute most of our mobile applications to users. In China, where Google Play is not available, 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 platforms' standard terms and policies for application developers, which are subject to the interpretation of, and frequent changes by, these distribution channels. If Google Play, 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.

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

Most of our core mobile 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 our mobile 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 applications continue to mainly support Android devices, our mobile business would be vulnerable to any decline in popularity of the Android operating system.

***We generate a portion of our revenues from internet value-added services, or IVAS, which primarily comprise online game publishing services and sale of virtual items on Live.me. If we fail to source suitable third-party online games on reasonable terms or our users do not continue to contribute appealing content to Live.me, our IVAS revenues may be materially and adversely affected.***

We derive a portion of our revenues from IVAS, which primarily include game publishing services and, increasingly, sale of virtual items on Live.me. The success of our online games depends on our ability to source suitable third-party games on reasonable terms. We have exclusive publishing or joint operating arrangements for games we publish on our platform. We may not be able to identify popular and profitable games and license such games on acceptable terms. We may incur significant expenses in exclusive game publishing arrangements with game developers if their products turn out to be unpopular. Game developers with popular games may discontinue their cooperation with us. In addition, increased competition in China's game publishing market may negatively impact the fee sharing arrangement between game developers and us. Should any of these occur, our business, financial condition and results of operations may be materially and adversely affected.



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The success of Live.me depends on its ability to provide appealing content, which is created by our users. If such creators, including influential users, do not continue to contribute content to Live.me due to a lack of network effects or other reasons, we may lose user audience, including content creators and paying users, which may materially and adversely affect our IVAS revenues from Live.me.

***We may be held liable for information or content displayed on, retrieved from or linked to our applications, which may adversely impact our brand image and materially and adversely affect our business and operating results.***

Our content-driven applications, such as Live.me and News Republic, may be misused by users to engage in inappropriate, fraudulent or illegal activities. We have implemented control procedures and technologies, as well as a specialized team that monitor content uploaded by Live.me users. These procedures aim to detect and block inappropriate, fraudulent or illegal content or activities uploaded to or conducted through Live.me, particularly those that violate our user agreements, applicable laws and regulations. However, such procedures may not be able to block all such content uploads or activities in real time due to the real-time nature of content being streamed on Live.me. In addition, as the number of users and user activities on Live.me grow, it may become more difficult for the team to timely detect and block illegal or inappropriate content or activities. We may be found liable for illegal or inappropriate content uploaded by our users in different jurisdictions. Our brand image may be materially and adversely affected by the misuse of our applications and we may face governmental or regulatory actions. In response to any allegations of illegal or inappropriate activities conducted through our applications or any negative media coverage about us, government authorities may intervene and hold us liable for non-compliance with laws and regulations concerning the dissemination of information on the Internet or violation of relevant regulations on live video streaming services and subject us to administrative penalties or other sanctions, such as requiring us to restrict or discontinue certain features and services provided on our applications. If such events occur, our reputation and business may suffer and our user base and operating results may be materially and adversely affected.

***We may not be able to prevent unauthorized use of 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. 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 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, particularly in countries where laws may not protect our proprietary rights to the same extent as in the United States. 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. 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.



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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.

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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 Cheetah Browser, which incorporates Chromium browser 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.

*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, Mr. Ming Xu, our president, and Mr. Charles Chenggong Fan, our chief technology officer. The loss of Mr. Fu, Mr. Xu, Mr. Fan 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 enforceable 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.





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***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, 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 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 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 neither we nor Mr. Ming Xu have been named as a defendant in the lawsuit, we cannot guarantee that Qihoo will not initiate proceedings against us or Mr. Ming Xu in the future, which could adversely affect our reputation, business

and results of operations.

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***We have made and intend to continue to make 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 and intend to continue to make 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 2014, 2015 and 2016, we have paid for investments and acquisitions in an aggregate amount of RMB522.7 million, RMB756.1 million and RMB644.0 million (US\$92.8 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 goodwill, intangible assets and investments. For example, in 2016, we disposed of a majority interest in a VIE's subsidiary that operated an online lottery business using assets which we acquired in April 2014, primarily due to the suspension of our online lottery business in response to the PRC government's regulatory measures. 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 manage our growth or implement our business strategies, our business and operating results could be harmed.***

We are still in the process of growing our business. In recent years, we have rapidly established our market position in China and globally, and have continued to expand our product offerings to include a wide array of mobile and PC applications. Managing our growth requires significant expenditures and allocation of valuable management time and resources. We intend to continue to make investments to promote our content-driven products and to expand our research and development efforts, including artificial intelligence and deep learning, in order to provide more personalized content for our users. In order to be able to continue to fund our investments in content-driven products, we intend to continue to control costs relating to our existing PC and mobile utility applications. To execute our business plan and growth 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. In addition, we must expand and continue to engage or maintain our relationships with a growing number of users, customers and business partners. Continued growth could also strain our ability to maintain reliable service levels 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.

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***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.

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 online marketing services, which constitute a majority of our revenues, are affected by seasonality in advertising spending in both China and overseas markets. We believe that such seasonality in advertising spending affects our quarterly results, resulting in significant growth in our online marketing services revenues 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 or if there is confusion in the market between our brands and that of Kingsoft Corporation, 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 online marketing 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;
- actions by Kingsoft Corporation, from whom we license the name Kingsoft, that may affect the Kingsoft brand; and
- our ability to differentiate our brands and products from those of Kingsoft Corporation.

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In addition, we changed our corporate name and company logo in the first half of 2014 as part of our corporate re-branding efforts. The change of our corporate name and logo is to better align our corporate name with the products we offer, and we will continue our efforts to strengthen our key brand assets, including Clean Master, Battery Doctor and Doba Anti-virus. However, there is no assurance that we will be able to achieve the same or similar name recognition or status under our new corporate brand as that we have enjoyed. If our customers do not accept our new brand, our sales, performance and business relationships could be adversely affected.

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 game developers, 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, we primarily conduct our online game publishing services through joint operating arrangements, in which we cooperate with game developers to publish their games through our mobile and PC applications. The online game industry is highly regulated in China and many other jurisdictions, and online game operators like our game developers are generally required to obtain licenses and permits, to complete filing procedures for specific mobile games and to comply with various requirements when conducting business. We require our game developers to provide their licenses, permits or filing documents relating to the relevant online games before entering into cooperation arrangements with them, but we cannot assure you that our existing or future game developers will continue to maintain all applicable permits and approvals, and any non-compliance on their part may cause potential liabilities to us and disrupt our operations.

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*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.*

The internet industry, including the mobile internet industry, is highly regulated in China. Our 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, the Ministry of Culture, or MOC, 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, and Online Culture Operating Licenses for the operation of online games. We have obtained a Computer Information System Security Products Sales License for our mobile and PC security applications, which expired on November 28, 2016. We have applied to renew the Computer Information System Security Products Sales License. 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.

The online games currently offered on our platform are primarily developed by and jointly operated with game developers. In addition to the Online Culture Operating License from the MOC, we are also required to obtain an Internet Publishing License from SARFT for the operation and distribution of games through mobile and PC internet networks. We are in the process of applying for an Internet Publishing License from SARFT for the operation and distribution of games on mobile and PC internet. Each online game is also required to be filed with SARFT prior to the commencement of its operations in China. For domestic online games, within 30 days after the commencement of operation, the operator must finish the registration process with the MOC. Furthermore, an online game operator such as our game developers is required to obtain approval from the MOC in order to distribute virtual currencies for online games such as prepaid value cards, prepaid money or game points. While we endeavor to comply with the registration requirements, a few developers of the games we publish, who have contractual obligations to file the games with SARFT, have not made such filings, and a few games that we published were not registered within 30 days of their commencement of operations. 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.

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.



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Any such penalties may disrupt our business operations and materially and adversely affect our business, financial condition and results of operations.

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Our subsidiaries Cheetah Technology Corporation Ltd., a company incorporated under the laws of Hong Kong, or Cheetah Technology, and News Republic S.A.S., a company incorporated in France, currently operate Live.me and News Republic, respectively. Although China is not the main market for Live.me and News Republic, PRC users can download those mobile applications from mobile application distribution channels such as Google Play and iOS App Store.

Live.me is a live video streaming and video sharing platform operated via the internet. Pursuant to relevant regulations on audio/video program transmission through the internet, the operations of Live.me in China may fall into the scope of internet audio/video program services, such that we may be required to obtain an internet audio/video program transmission license issued by the SARFT and to operate Live.me within the scope as provided in such license. There is no assurance that Cheetah Technology would not be regarded as providing audio/video program services in China by virtue of operating Live.me. However, Cheetah Technology, as a company incorporated outside the PRC, is not eligible for an internet audio/video program transmission license. Therefore, Cheetah Technology may be prohibited from allowing PRC users to access Live.me if the relevant PRC authorities find it to be unqualified for providing audio/video program services in China. See Item 4. Information on the Company B. Business Overview Regulations Regulations on Broadcasting Audio/Video Programs through the Internet for further details.

News Republic provides internet news information services on current affairs and politics in China and overseas, including relevant news reporting and commentary on politics, economy, military affairs, diplomacy, public emergencies and other public affairs. As of the date of this annual report, News Republic has not generated revenues from the provision of internet news information services within the the PRC. Pursuant to the Provisions on the Administration of Internet News Information Services, or the Internet News Provisions, which were jointly promulgated by the SCIO and the then Ministry of Information Industry (the predecessor of the MIIT) in September 2005, News Republic S.A.S. may be classified as an internet news information service provider that is established by non-news work units and that republish news information, provide current event electronic bulletin services, and transmit to the public current event news report information . As such, News Republic S.A.S. may be required to apply for an internet news information service license, or an INIS License, in accordance with the Internet News Provisions. However, as News Republic S.A.S. is not a company incorporated in the PRC, it is not eligible for an INIS License. If the relevant PRC authorities find that News Republic S.A.S. is unqualified to provide internet news information services on current affairs and politics in China, News Republic S.A.S. may be prohibited from allowing PRC users to access News Republic, which would restrict the ability of News Republic S.A.S. to expand the coverage of News Republic to the PRC. See Item 4. Information on the Company B. Business Overview Regulations Regulations on Telecommunications Services and Foreign Ownership Restrictions for further details.

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

Concerns about our practices with regard to the collection, use or disclosure of personal information or other privacy-related matters, even if unfounded, could damage our reputation, business and results of operations. We are subject to the data privacy and protection laws and regulations adopted by PRC and foreign governmental agencies. Data privacy laws restrict our storage, use, processing, disclosure, transfer and protection of non-public personal information provided to us by our users. In December 2012 and July 2013, new laws and regulations were issued by the standing committee of the PRC National People's Congress and MIIT to enhance the legal protection of information security and

privacy on the internet. The laws and regulations also require internet operators to take measures to ensure confidentiality of user information. We are also 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. Complying with any additional or new regulatory requirements could force us to incur substantial costs or require us to change our business practices.

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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 applications and subject us to fines and damages. From time to time we may be subject to claims or allegations of infringement of users' privacy or breach of data protection laws. Negative publicity in relation to our applications, 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, which may limit certain methods of targeted advertising and result in a decline in our online marketing revenues.

***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.

***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.***

In addition to PRC laws and regulations, we face additional regulatory risks and costs outside China as our products and services are increasingly offered in overseas markets. Approximately 81.0% of our mobile monthly active users in 2016 were from overseas markets, and our overseas revenues accounted for 60.2% of our total revenues in 2016. 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.

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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.

***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 had a net loss for the year ended December 31, 2016 and we may not be able to return to profitability. In addition, we may not be able to obtain additional capital in a timely manner or on acceptable terms, or at all.***

Although we were able to achieve net income from 2012 to 2015, we had a net loss of RMB56.7 million (US\$8.2 million) in 2016. We may continue to incur net losses in the future as we continue to develop our mobile business, invest in content-driven applications, and expand our markets outside China. Our net loss attributable to Cheetah Mobile shareholders was RMB80.5 million (US\$11.6 million) in 2016, compared to a net income attributable to Cheetah Mobile shareholders of RMB68.3 million in 2014 and RMB176.3 million in 2015. 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, live video streaming and mobile games in China and overseas. 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.



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*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, pursuant to which we are authorized to grant options, restricted shares, restricted share units 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 2014, 2015 and 2016, we recorded RMB173.8 million, RMB315.7 million and RMB306.1 million (US\$44.1 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 are a controlled company within the meaning of the rules of NYSE Listed Company Manual as well as a foreign private issuer. As a result, we qualify for, and intend to rely on, exemptions from certain corporate governance requirements. You will not have the same protections afforded to shareholders of companies that are subject to such requirements.*

As of March 31, 2017, Kingsoft Corporation owned 62.8% of the total voting rights in our company. As a result, we are a controlled company under Section 303A of the NYSE Listed Company Manual. As a controlled company, 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.

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In addition, we currently rely on the home country practice exemption available under NYSE corporate governance rules to have an audit committee consisting of two instead of three independent directors. 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 controlled company exemptions and a home country practice exemptions as described above, our investors may not have the same protection afforded to shareholders of companies that fully comply with NYSE corporate governance requirements. We may also opt to rely on additional controlled company exemptions or 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. issuer.

***We may have conflicts of interest with Kingsoft Corporation and, because of Kingsoft Corporation's controlling voting interest in our company, we may not be able to resolve such conflicts on favorable terms for us.***

As of March 31, 2017, Kingsoft Corporation owned 62.8% of the total voting rights in our company, and therefore it has decisive influence in determining the outcome of any corporate transaction or other matter submitted to the shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. Without the consent of Kingsoft Corporation, we may be prevented from entering into transactions that could be beneficial to us. Conflicts of interest may arise between Kingsoft Corporation and us or our other shareholders in a number of areas relating to our past and ongoing relationships. Potential conflicts of interest that we have identified include the following:

*Our board members or executive officers may have conflicts of interest.* We have a number of common directors and officers with Kingsoft Corporation. Mr. Jun Lei, the chairman of our board of directors, is also the chairman and non-executive director of Kingsoft Corporation. Mr. Sheng Fu, our chief executive officer and director, also serves as a senior vice president at Kingsoft Corporation. Mr. Tao Zou, one of our directors, is also the chief executive officer and director of Kingsoft Corporation. Mr. Yuk Keung Ng, our director and principal financial officer, is also the chief financial officer and director of Kingsoft Corporation. Mr. Wei Liu, one of our directors, is also a senior vice president of Kingsoft Corporation. A number of our directors and executive officers also own shares and/or options to purchase shares in Kingsoft Corporation. Kingsoft Corporation may continue to grant incentive share compensation to our board members and executive officers from time to time. These relationships could create perceived or actual conflicts of interest when these persons are faced with decisions with potentially different implications for Kingsoft Corporation and us, including any future disputes that may arise and any decisions that may have to be made under the inter-company agreements between Kingsoft Corporation and us.



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*Sale of shares in our company.* Kingsoft Corporation may decide to sell all or a portion of our shares that it holds to a third party, including to our competitors, thereby giving that third party substantial influence over our business and our affairs. Such a sale could be contrary to the interests of our employees or our other shareholders.

*Allocation of business opportunities.* Business opportunities may arise that both Kingsoft Corporation and we find attractive, and which would complement or strengthen our respective businesses. Pursuant to the non-compete undertaking between Kingsoft Corporation and us, subject to certain exceptions, we will not compete with Kingsoft Corporation in game development business, and Kingsoft Corporation will not compete with us in businesses relating to information security software, web browsers, the provision of information security service across devices and the provision of online advertising services relating to the information security software business. As to those opportunities not governed by the non-compete undertaking, Kingsoft Corporation may decide to take up the opportunities itself to our detriment.

*Developing business relationships with Kingsoft Corporation's competitors.* So long as Kingsoft Corporation remains as our controlling shareholder, we may be limited in our ability to do business with its competitors, such as other internet-based software developers, distributors and service providers in China. This may limit the effectiveness of our online advertisements and may not be in the best interests of our company and our other shareholders.

*Employee recruiting and retention.* Because both Kingsoft Corporation and we are engaged in internet-related businesses in China, we may compete with Kingsoft Corporation in hiring new employees, in particular employees with expertise in technology.

Although our company is a standalone entity, we expect to operate, for as long as Kingsoft Corporation is our controlling shareholder, as part of Kingsoft Corporation's group. Kingsoft Corporation may from time to time make strategic decisions that it believes are in the best interests of its group as a whole. These decisions may be different from the decisions that we would have made on our own. Kingsoft Corporation's decisions with respect to us or our business may be resolved in ways that favor Kingsoft Corporation and therefore Kingsoft Corporation's own shareholders, which may not coincide with the interests of our other shareholders. We may not be able to resolve any potential conflicts, and even if we do so, the resolution may be less favorable to us than if we were dealing with an unaffiliated shareholder. Even if both parties seek to transact business on terms intended to approximate those that could have been achieved among unaffiliated parties, this may not succeed in practice.

*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. For example, in 2015, the APUS Group, an Android app developer, published certain negative statements about our company and products, for which

we filed a complaint in the same year in a district court in the United States and subsequently settled the case.

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.

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***If we fail to implement and maintain an effective system of internal control, we may be unable to accurately report our results of operations, meet our reporting obligations or prevent fraud.***

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 the company's internal control over financial reporting in its annual report, which contains management's assessment of the effectiveness of our internal control over financial reporting. Our management has concluded that our internal control over financial reporting was effective as of December 31, 2016. See Item 15. Controls and Procedures Management's Annual Report on Internal Control over Financial Reporting. In addition, our independent registered public accounting firm has issued an attestation report, which concluded that our internal control over financial reporting was effective in all material aspects as of December 31, 2016.

However, if we fail to maintain effective internal control over financial reporting in the future, our management and our independent registered public accounting firm, if applicable, may not be able to conclude that we have effective internal control over financial reporting at a reasonable assurance level. Any failure to achieve and maintain effective internal control over financial reporting could result in the loss of investor confidence in the reliability of our consolidated financial statements, which in turn could harm our business and negatively impact the market price of the ADSs. Furthermore, we have incurred and anticipate that we will continue to incur considerable costs, management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

***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.

***Our business, financial condition and results of operations, as well as our ability to obtain financing, may be adversely affected by a downturn in the Chinese or global economy.***

In the past, we have derived substantially all of our revenue from China. As we continue to monetize our international operations, we have started to generate a significant portion of revenue from overseas markets, primarily including the United States, Europe, India, Indonesia and certain emerging markets (other than China). In addition, we may have to obtain financing to support our business operations and any expansion plans. Therefore, our business and prospect is influenced by the Chinese as well as the global economy. The global financial markets have experienced significant disruptions since 2008, and the United States, Europe and other economies have experienced recession. The recovery from the lows of 2008 and 2009 has been uneven and is facing new challenges, including the escalation of the European sovereign debt crisis since 2011

and the slowdown of the Chinese economy since 2012. It is unclear whether the Chinese economy will resume its high growth rate. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world's leading economies, including China's. There have also been concerns over unrest and terrorist activities and attacks in the Middle East, Africa, Europe, the United States and Asia, which have resulted in volatility in oil and other markets, as well as concerns over the economic effect of the tensions in Japan's relationship with China. A prolonged slowdown in the global or Chinese economy may lead to a reduced amount of online marketing and reduced spending on online games, which could materially and adversely affect our business, financial condition and results of operations. Moreover, a slowdown or disruption in the global or Chinese economy may have a material and adverse impact on the financing available to us.

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***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, our business could be adversely affected by the outbreak of 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. Specifically, foreign ownership of an internet information provider, except in the case of e-commerce service providers, may not exceed 50%. 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.

We are a Cayman Islands company and conduct our operations in China primarily through our VIEs. Our VIEs, together with a then subsidiary of our VIE, contributed a significant portion of our consolidated revenues in the years ended December 31, 2014 and 2015, and a small portion of our consolidated revenues in the year ended December 31, 2016. We exercise effective control over our VIEs through a series of contractual arrangements that those entities and/or their shareholders signed with two of our wholly-owned PRC subsidiaries, namely, Beijing Kingsoft Internet Security Software Co., Ltd., or Beijing Security,

and Conew Network. Our contractual arrangements with our VIEs and their shareholders enable us to exercise effective control over our 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 Our VIEs.

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On September 28, 2009, the General Administration of Press and Publication, or the GAPP, which later integrated with the State Administration for Radio, Film and Television to become SARFT effective from March 22, 2013, the National Copyright Administration and the Office of National Work 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 restates that foreign investors are not permitted to invest in online game-operating businesses in China via wholly-owned, equity joint venture or cooperative joint venture investments and expressly prohibits foreign investors from gaining control over or participating in domestic mobile game operators through indirect ways such as establishing other joint venture companies or entering into contractual or technical arrangements such as the VIE structural arrangements we adopted. As no detailed interpretation of Circular 13 has been issued to date, it is not clear how Circular 13 will be implemented. We are not aware of any companies that have adopted a corporate structure that is the same as or similar to ours having been penalized or having had their arrangements terminated under Circular 13 since the effective date of the circular. Furthermore, as some other primary government regulators, such as the MOFCOM, the MOC and the MIIT, did not join in issuing Circular 13, the scope of the implementation and enforcement of Circular 13 remains uncertain. In the event that we, our PRC subsidiaries and VIEs are found to be in violation of the prohibition under Circular 13, the SARFT, in conjunction with the relevant regulatory authorities in charge, may impose applicable penalties, which may include suspension or revocation of relevant licenses and registrations.

Based on the advice of our PRC legal counsel, Global Law Office, the contractual arrangements among our PRC subsidiaries, our 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.





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Any of these actions could cause significant disruption to our business operations and severely damage our reputation, which would in turn materially and adversely affect our business, financial condition and results of operations. If the imposition of any of the above penalties were to cause us to lose the rights to direct the activities of our VIEs or our right to receive their economic benefits, we would no longer be able to consolidate such entities.

***We rely on contractual arrangements with our 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 our 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. Our VIEs are owned directly by Messrs. Sheng Fu, Ming Xu and Wei Liu, who are also our core management and/or director, as well as Ms. Weiqin Qiu, an affiliate of our company. For additional details on these ownership interests, see Item 4. Information on the Company C. Organizational Structure Contractual Arrangements with Our VIEs. However, these contractual arrangements may not be as effective in providing control as direct ownership. For example, our 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 our 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 enactment timetable, interpretation and implementation of draft PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.***

The MOFCOM published a discussion draft of the proposed Foreign Investment Law in January 2015 aiming to, upon its enactment, replace the existing laws regulating foreign investment in China. The MOFCOM has solicited comments on this draft and substantial uncertainties exist with respect to its enactment timetable, interpretation and implementation. The draft Foreign Investment Law, if enacted as proposed, may materially impact the viability of our current corporate structure, corporate governance, business operations and financial results.

Among other things, the draft Foreign Investment Law expands the definition of foreign investment and introduces the principle of actual control in determining whether a company is considered a foreign-invested enterprise, or an FIE. The draft Foreign Investment Law specifically provides that entities established in China but controlled by foreign investors will be treated as FIEs, whereas an entity set up in a foreign jurisdiction would nonetheless be, upon market entry clearance by the MOFCOM, treated as a PRC domestic investor provided that the entity is controlled by PRC entities and/or citizens. In this connection, control is broadly defined in the draft law to cover the following summarized categories: (i) holding 50% or more of the voting rights of the subject entity; (ii) holding less than 50% of the voting rights of the subject entity but having the power to secure at least 50% of the seats on the board or other equivalent decision making bodies, or having the voting power to exert material influence on the board, the

shareholders' meeting or other equivalent decision making bodies; or (iii) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity's operations, financial matters or other key aspects of business operations. Once an entity is determined to be an FIE and its investment amount exceeds certain thresholds or its business operation falls within a negative list, which is to be separately issued by the State Council in the future, market entry clearance by the MOFCOM or its local branches would be required. Otherwise, all foreign investors may make investments on the same terms as Chinese investors without being subject to additional approval from the government authorities as mandated by the existing foreign investment legal regime.

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The variable interest entity structure, or VIE structure, has been adopted by many PRC-based companies, including us, to obtain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions in China. See [Item 4. Information on the Company C. Organizational Structure Contractual Arrangements with Our VIEs](#). 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. Under the draft Foreign Investment Law, VIEs that are controlled via contractual arrangement would also be deemed as FIEs, if they are ultimately controlled by foreign investors. Therefore, for any companies with a VIE structure in an industry category that is on the negative list, the VIE structure may be deemed legitimate only if the ultimate controlling person(s) is/are of PRC nationality (either PRC companies or PRC citizens). Conversely, if the actual controlling person(s) is/are of foreign nationalities, then the VIEs will be treated as FIEs and any operation in the industry category on the negative list without market entry clearance by the MOFCOM may be considered as illegal.

It remains uncertain whether the ownership by multiple Chinese persons in a foreign company would be aggregated or separately counted in determining control under the draft Foreign Investment Law. It is likely that we would not be considered as ultimately controlled by Chinese parties, as our controlling shareholder, Kingsoft Corporation, a Cayman Islands company, holds approximately 62.8% of our total voting power, and no single Chinese resident person may be deemed to control Kingsoft Corporation. The draft Foreign Investment Law has not taken a position on what actions will be taken with respect to the existing companies with a VIE structure, whether or not these companies are controlled by Chinese parties, although a few possible options were proposed at the comment solicitation stage. Moreover, it is uncertain whether the internet industry, in which our VIEs operate, will be subject to the foreign investment restrictions or prohibitions set forth in the negative list to be issued. If the enacted version of the Foreign Investment Law and the final negative list mandate further actions, if any, such as MOFCOM market entry clearance or certain restructuring of our corporate structure and operations, to be completed by companies with existing VIE structure like us, we may face substantial uncertainties as to whether these actions can be timely completed, or at all, and our business and financial condition may be materially and adversely affected.

The draft Foreign Investment Law, if enacted as proposed, may also materially impact our corporate governance practice and increase our compliance costs. For instance, the draft Foreign Investment Law imposes stringent ad hoc and periodic information reporting requirements on foreign investors and the applicable FIEs. Aside from investment implementation report and investment amendment report that are required at each investment and alteration of investment specifics, an annual report is mandatory, and large foreign investors meeting certain criteria are required to report on a quarterly basis. 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.

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

As a result of our corporate structure and the contractual arrangements among our PRC subsidiaries, our 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 our 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) 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 (c) the fees paid under arrangements made for listing or financing purposes. We may be subject to adverse tax consequences if the PRC tax authorities were to determine that the contracts between us and our 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 our 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 materially and adversely affected if our VIEs' tax liabilities increase or if they become subject to late payment fees or other penalties.

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

The shareholders of our VIEs include Messrs. Sheng Fu, Ming Xu and Wei Liu, who are also our core management and/or director. Conflicts of interest may arise between the roles of Messrs. Sheng Fu, Ming Xu and Wei Liu as shareholders, directors or officers of our company and as shareholders of our 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 our VIEs have executed shareholder voting proxy agreements to irrevocably appoint our applicable PRC subsidiary or a person designated by such PRC subsidiary 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 our 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.

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*Our controlling shareholder and 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, 2017, Kingsoft Corporation, our controlling shareholder, and Messrs. Sheng Fu and Ming Xu, directly or through their holding vehicles, together beneficially own an aggregate of 57.1% of our total outstanding Class A and Class B shares, and 72.7% 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.

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

Some of our 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, Online Culture Operating 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, 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.

*Changes in China's economic, political or social conditions or government policies could have a material adverse effect on our business and operations.*

A significant portion of our assets are located in China and a significant portion of our users, suppliers, customers and business partners are from China. Accordingly, our business, financial condition, results of operations and prospects may be influenced to a significant degree by political, economic and social conditions in China generally, and by continued economic growth in China as a whole.

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The Chinese economy differs from the economies of most developed countries in many respects, including the level of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Despite the economic reforms in the past decades, the Chinese government continues to play a significant role in regulating industrial development through industrial policies. The Chinese government also exercises significant control over the Chinese economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

While the Chinese economy has experienced significant growth in recent decades, growth has been uneven, both geographically and among various sectors of the economy. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall Chinese economy but may also have a negative effect on us. The Chinese government has implemented certain measures, including interest rate increases, to control the pace of economic growth. These measures may cause decreased economic activity in China and, since 2012, Chinese economic growth has slowed. Any prolonged slowdown in the Chinese economy may reduce the demand for our applications in China and adversely affect our business, financial condition and results of operations.

*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 relatively new and 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:

- 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. Further, new laws, regulations or policies may be promulgated or announced that will 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.



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In 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 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.

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 and 9724.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. 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.

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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.

***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, 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.

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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 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. 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. According to SAT Circular 698 and SAT Bulletin 7, 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%. In

addition, transferees and transferors in such indirect transfers are subject to tax withholding and reporting obligations, respectively. SAT Bulletin 7 does not replace SAT Circular 698 in its entirety. Instead, it abolishes certain provisions and provides 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. There is uncertainty as to the application of SAT Circular 698 and SAT Bulletin 7. SAT Circular 698 and SAT Bulletin 7 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 Circular 698 and SAT Bulletin 7, and we may have to incur expenses to comply with SAT Circular 698 and SAT Bulletin 7, 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.

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***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. 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. Moreover, the Anti-Monopoly Law promulgated by the Standing Committee of the National People's Congress on August 30, 2007 and effective as of August 1, 2008 requires that transactions which are deemed concentrations and involve parties with specified turnover thresholds (i.e., during the previous fiscal year, (i) the total global turnover of all operators participating in the transaction exceeds RMB10 billion and at least two of these operators each had a turnover of more than RMB400 million within China, or (ii) the total turnover within China of all the operators participating in the concentration exceeded RMB2 billion, and at least two of these operators each had a turnover of more than RMB400 million within China) must be cleared by the MOFCOM before they can be completed. 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. 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.



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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 way of 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.

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To our knowledge, Messrs. Jun Lei, Sheng Fu and Ming Xu have completed foreign exchange registration in connection with our financings and share transfer that were completed before the end of 2013, and Messrs. Fu and Xu have completed foreign exchange registration in connection with our initial public offering. 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.



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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. If we decide to finance our wholly-owned PRC subsidiaries by means of capital contributions, these capital contributions must be approved by the MOFCOM or its local counterpart. 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 our VIEs, which are PRC domestic companies. Further, we are not likely to finance the activities of our 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 inter-company 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 will become 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 will abolish 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. 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 similar activities are not within their approved business scope.



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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. 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.

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

The value of the Renminbi against the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic conditions and China's foreign exchange policies. In July 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar, and the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, the exchange rate between the Renminbi and the U.S. dollar had been stable and traded within a narrow band. Since June 2010, the RMB has fluctuated against the U.S. dollar, at times significantly and unpredictably, and in recent years the RMB has depreciated significantly against the U.S. dollar. Since October 1, 2016, the RMB has joined the International Monetary Fund (IMF)'s basket of currencies that make up the Special Drawing Right (SDR), along with the U.S. dollar, the Euro, the Japanese yen and the British pound. In the fourth quarter of 2016, the RMB has depreciated significantly in the backdrop of a surging U.S. dollar and persistent capital outflows of China. With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system and there is no guarantee that the RMB 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 the RMB and the U.S. dollar in the future.

Most of our revenues and costs are denominated in foreign currencies, primarily U.S. dollars, and the rest is denominated in Renminbi. Any significant revaluation of Renminbi may materially and adversely affect our revenues, earnings and financial position, and the value of, and any dividends payable on, the ADSs in U.S. dollars. To the extent that we need to convert U.S. dollars into Renminbi for capital expenditures and working capital and other business purposes, 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, a significant depreciation of the Renminbi against the U.S. dollar may significantly reduce the U.S. dollar equivalent of our earnings, which in turn could adversely affect the price of our ADSs.

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. As of the date of this annual report, 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 Renminbi 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.

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***Proceedings instituted recently by the SEC against five PRC-based accounting firms, including our independent registered public accounting firm, could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act.***

In December 2012, the SEC brought administrative proceedings against five accounting firms in China, including our independent registered public accounting firm, alleging that they had refused to produce audit work papers and other documents related to certain other China-based companies under investigation by the SEC. On January 22, 2014, an initial administrative law decision was issued, censuring these accounting firms and suspending four of these firms from practicing before the SEC for a period of six months. The decision is neither final nor legally effective unless and until reviewed and approved by the SEC. On February 12, 2014, four of these PRC-based accounting firms appealed to the SEC against this decision. In February 2015, each of the four PRC-based accounting firms agreed to a censure and to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC. The settlement requires the firms to follow detailed procedures to seek to provide the SEC with access to Chinese firms' audit documents via the CSRC. If the firms do not follow these procedures, the SEC could impose penalties such as suspensions, or it could restart the administrative proceedings.

In the event that the SEC restarts the administrative proceedings, depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act, including possible delisting. Moreover, any negative news about the proceedings against these audit firms may cause investor uncertainty regarding China-based, United States-listed companies and the market price of our ADSs may be adversely affected.

If our independent registered public accounting firm were denied, even temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our consolidated financial statements, our consolidated financial statements could be determined not to be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to our delisting from the NYSE or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

***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, 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. 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.



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We expect that our labor costs, including wages and employee benefits, will continue to increase. Unless we are able to pass on these increased labor costs to our users by increasing prices for our products or services, our profitability and results of operations may be materially and adversely affected. Also, 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.

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.

***Our auditor, like other independent registered public accounting firms operating in China, is not permitted to be subject to inspection by the Public Company Accounting Oversight Board and, as such, investors may be deprived of the benefits of such inspection.***

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as an auditor of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or PCAOB, is required by the laws of the United States to undergo regular inspections by PCAOB to assess its compliance with the laws of the United States and professional standards. Because our auditor is located in China, a jurisdiction where PCAOB is currently unable to conduct inspections without the approval of the PRC authorities, our auditor, like other independent registered public accounting firms operating in China, is currently not inspected by PCAOB. In May 2013, PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the CSRC and the Ministry of Finance, which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations undertaken by PCAOB, the CSRC or the Ministry of Finance in the United States and the PRC, respectively. PCAOB continues to be in discussions with the CSRC and the Ministry of Finance to permit joint inspections in the PRC of audit firms that are registered with PCAOB and audit Chinese companies that trade on U.S. exchanges.





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Inspections of other firms that PCAOB has conducted outside of China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The inability of PCAOB to conduct inspections of independent registered public accounting firms operating in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

**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 new services and expansions by us or our competitors;
- changes in financial estimates by securities analysts;
- fluctuations in our user or other operating metrics;
- fluctuations in the stock price of our parent company, Kingsoft Corporation, 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.

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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.

***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,

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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.

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***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 limited by shares 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 Law (2016 Revision) of the Cayman Islands and the common law of the Cayman Islands. The rights of shareholders to take action against the 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 management, members of our board of directors or 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 a Cayman Islands company 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.



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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 vote your Class A ordinary shares.***

As a holder of the ADSs, you will only be able to exercise the voting rights with respect to the underlying Class A ordinary shares in accordance with the provisions of the deposit agreement. Under the deposit agreement, you must vote by giving voting instructions to the depositary. Upon receipt of your voting instructions, the depositary will endeavor to vote the underlying Class A ordinary shares in accordance with those instructions. You will not be able to directly exercise your right to vote with respect to the underlying shares unless you withdraw the shares. Under the currently effective fourth amended and restated memorandum and articles of association, the minimum notice period required for convening a general meeting is 14 calendar days. When a general meeting is convened, you may not receive sufficient advance notice to withdraw the shares underlying your ADSs to allow you to vote with respect to any specific matter. 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 your shares. 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 vote and you may have no legal remedy if the shares underlying your ADSs are not voted as you requested.

***The depositary for the ADSs will give us a discretionary proxy to vote our Class A ordinary shares underlying your ADSs if you do not vote at shareholders meetings, except in limited circumstances, which could adversely affect your interests.***

Under the deposit agreement for the ADSs, if you do not vote, the depositary will give us a discretionary proxy to vote our 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.

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The effect of this discretionary proxy is that if you do not vote at shareholders' meetings, you cannot prevent our 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. 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.

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***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 redesignated as Class B ordinary shares upon completion of the offering. Kingsoft Corporation, our controlling shareholder, and our founders Mr. Sheng Fu and Mr. Ming Xu, directly or through their holding vehicles, beneficially own an aggregate of 57.1% of our total outstanding shares, representing 72.7% of our total voting power as of March 31, 2017, 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 depositary. However, the depositary 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 depositary 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 depositary needs to maintain an exact number of ADSs on its books for a specified period. The depositary may also close its books in emergencies, and on weekends and public holidays. The depositary may refuse to deliver, transfer or register transfers of ADSs generally when our share register or the books of the depositary are closed, or at any time if we or the depositary 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.

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*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.

In the past, shareholders of a public company often brought securities class action suits against the company following periods of instability in the market price of that company's securities. If we were involved in a class action suit, it 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 suit. Any such class action suit, 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.

*There can be no assurance that we will not be passive foreign investment company, or PFIC, for United States federal income tax purposes for any taxable year, which could subject United States investors in the ADSs or our 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 average quarterly value of our assets (as determined on the basis of fair market value) during such year produce or are held for the production of passive income (the asset test). Although the law in this regard is unclear, we treat our VIEs and each of their subsidiaries 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. Assuming that we are the owner of our VIEs and each of their subsidiaries for United States federal income tax purposes, and based upon our income and assets and market price of our ADSs, we do not believe we were a PFIC for the taxable year ended December 31, 2016 and do not anticipate becoming a PFIC in the foreseeable future.

While we do not expect to become a PFIC, because the value of our assets for purposes of the asset test may be determined by reference to the market price of the ADSs, fluctuations in the market price of the ADSs may cause us to become a PFIC for the current or subsequent taxable years. The determination of whether we will be or become a PFIC will also depend, in part, on the composition of our income and assets. Under circumstances where we determine not to deploy significant amounts of cash for active purposes or if we were treated as not owning our VIEs for United States federal income tax purposes, our risk of being a PFIC may substantially increase. Because there are uncertainties in the application of the relevant rules and PFIC status is a factual determination made annually after the close of each taxable year, there can be no assurance that we will not be a PFIC for the current taxable year or any future taxable year.



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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 exercise effective control over our 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 Our VIEs.

Beijing Mobile incorporated a subsidiary, Suzhou Jiangduoduo Technology Co., Ltd., or Suzhou Jiangduoduo, in China in January 2014, through which we started to conduct online lottery sales in April 2014. In March 2015, we suspended our online lottery sales in response to the PRC government's regulatory measures. In May 2016, we sold a majority interest in, and ceased to consolidate, Suzhou Jiangduoduo.

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 CCMC.

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Since September 2016, we have incorporated Live.me Inc., a Cayman Islands company, and several subsidiaries including Hong Kong Live.Me Corporation Limited, to operate our live streaming business Live.me. In December 2016, Live.me Inc. entered into an agreement to issue certain number of shares to one of its management members. As of the date of this annual report, the transaction has been closed and we directly hold approximately 89.55% equity interest in Live.me Inc.

We have grown organically and through acquisitions, partnerships and investments in recent years. For example, we acquired Hongkong Zoom Interactive Network Marketing Technology Limited, or Hongkong Zoom, a mobile advertising company, in July 2014, and MobPartner S.A.S., or MobPartner, a mobile advertising company based in San Francisco, London, Paris and Beijing, in April 2015. In May 2015, we started to consolidate Moxiu Technology, a provider of mobile launchers, upon acquisition of an aggregate 52.1% equity interest. In June 2016, we acquired News Republic S.A.S., a global mobile news service operator which operates the news application News Republic. To further expand our business and keep up with new technological developments, we have made various minority equity investments in areas such as online marketing, social and entertainment, and internet security services. For example, in January 2014, we invested in Yeahmobi, an intelligent mobile advertising platform that was later listed on China's National Equities Exchange and Quotations, an emerging over-the-counter market in China, in February 2016 (stock code: 430270). We held 4.9% equity interest in Yeahmobi as of December 31, 2016. In April 2015, we made an early round of investment to musical.ly, which has become a popular social entertainment app in the United States. We held 17.4% equity interest in musical.ly on a fully diluted and as-converted basis as of December 31, 2016. In 2014, 2015 and 2016, we have paid for investments and acquisitions in an aggregate amount of RMB522.7 million, RMB756.1 million and RMB644.0 million (US\$92.8 million), respectively.

Our principal executive offices are located at Building No. 8, Hui Tong Times Square, Yaojiayuan South Road, Beijing 100123, 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, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Our agent for service of process in the United States is Law Debenture Corporate Services Inc., of 801 Second Avenue, Suite 403, New York, NY 10017.

**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. The effectiveness of the agreement is subject to Kingsoft Corporation's shareholder approval and signing of a definitive agreement between Mr. Fu and our company in relation to a potential transfer of Mr. Fu's interest in certain robotics business to our company (subject to approval of our audit committee and board of directors).

The voting proxy agreement also provides for additional rights and obligations of Kingsoft Corporation and Mr. Fu, including, among other things, (i) prohibitions on Mr. Fu from participation or investment in any businesses competing with the principal businesses of our company and Kingsoft Corporation, (ii) Mr. Fu's obligation to use best efforts to retain our core management team, (iii) Kingsoft Corporation's right to revoke the voting proxy in the event that Mr. Fu breaches the aforementioned undertakings, and (iv) agreement to increase the size and change the composition of our current nine-member board of directors, such that there will be 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 six independent directors shall be nominated by Mr. Fu and agreed upon by Kingsoft Corporation.



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The voting proxy agreement may be terminated upon (i) revocation by Kingsoft Corporation based on a breach of the aforementioned undertakings by Mr. Fu, (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 operate a platform that offers mobile and PC applications for our users and global content promotional channels for our customers, both of which are powered by our proprietary cloud-based data analytics engines. Our mission is to provide leading applications for mobile users worldwide and connect users with personalized content on the mobile platform.

We offer utility applications and content-driven applications on our platform. Our diversified suite of utility applications, which have amassed a large user base over the years, optimizes mobile and PC internet system performance and provides real time protection against known and unknown security threats. Leveraging the success of our utility applications, we recently started to offer our content-driven mobile applications, such as News Republic and Live.me. The number of monthly active users of our mobile applications increased from 395.4 million in December 2014 to 635.5 million in December 2015, which slightly decreased to 622.9 million in December 2016. Our applications had been installed on 1,089.1 million, 2,340.8 million and 3,810.0 million mobile devices as of December 31, 2014, 2015 and 2016, respectively.

For our online marketing customers, our platform provides them multiple user traffic entry points and global content promotional channels capable of delivering targeted content to hundreds of millions of people. Our online marketing customers include direct advertisers and mobile advertising networks through which advertisers place their advertisements.

Our proprietary cloud-based data analytics engines form the core of our platform. For users of our utility applications, the data analytics engines perform real time analysis of mobile applications, program files and websites on their devices for behavior that may impair system performance or impose security risks. For our customers, the data analytics engines help create user interest graphs according to a number of dimensions such as online shopping, gaming and frequently used applications, thus facilitating targeted content delivery. Artificial intelligence technology is also a key element of our content strategy, helping us present more personalized content and information to users of our content-driven applications, which help to increase user engagement.

Although substantially all of our applications are free to our users, our large user base presents monetization opportunities for us and our customers. We generate revenues from our online marketing services primarily by providing mobile advertising services to advertisers worldwide, and also by selling advertisements and referring user traffic on our mobile and PC platforms. We generated 72.1%, 87.0% and 86.6% of our revenues from online marketing services in 2014, 2015 and 2016, respectively. We also generate revenues by providing internet value-added services, or IVAS, primarily from online game publishing and initial monetization of Live.me in overseas markets.

By platform, our revenues generated from our mobile business, or mobile revenues, increased by 418.7% from RMB477.0 million in 2014 to RMB2,474.4 million in 2015, and further increased by 42.7% to RMB3,530.4 million (US\$508.5 million) in 2016. Mobile revenues accounted for 25.7%, 65.6% and 77.3% of our total revenues in 2014, 2015 and 2016,

respectively. Since we began our overseas monetization efforts in the second quarter of 2014, revenues from overseas markets, primarily the United States, Europe, India, Indonesia and certain emerging markets (other than China), have increased significantly. For the years ended December 31, 2014, 2015 and 2016, overseas revenues accounted for 17.2%, 51.2% and 60.2% of our total revenues, respectively. For the years ended December 31, 2015 and 2016, the majority of our overseas revenues were generated from our partnering third-party mobile advertising platforms, such as Facebook, Google and Yahoo, which primarily operate in the United States.

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The table below sets forth some basic information of our core mobile and PC applications for users.

Name	Operating System	Date of Launch or Acquisition	Google Play Rating on December 31, 2016	Number of Languages Available as of December 31, 2016
<b>Utility Applications</b>				
Clean Master	Android	September 2012(L)	4.7	34
CM Security	Android	January 2014(L)	4.7	30
Battery Doctor	Android	September 2011(L)	4.5	31
	iOS	July 2011(L)		
Cheetah Browser / CM Browser*	Windows	June 2012(L)	4.5	17
	Android	June 2013(L)		
	iOS	June 2013(L)		
CM Launcher	Android	December 2014(L)	4.6	35
Photo Grid	Android	May 2013(A)	4.6	33
	iOS	May 2013(A)		
CM Locker	Android	December 2014(L)	4.5	38
Duba Anti-virus	Windows	November 2000(L)	N/A	1
<b>Content-driven Applications</b>				
Live.me	Android	November 2015(L)	4.4	6
	iOS	March 2016(L)		
News Republic	Android	June 2016(A)	4.2	30
	iOS	June 2016(A)		

L: date of launch; A: date of acquisition.

\* CM Browser was officially launched in June 2014.

**Utility Applications****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.

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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.

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As our cloud-based data analytics engines continue to evolve, Clean Master becomes more precise in identifying and cleaning junk files.

***CM Security***

CM Security, which we 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.

***Battery Doctor***

Battery Doctor is a power optimization tool for mobile devices we launched in July 2011. Battery Doctor optimizes battery usage by utilizing our cloud-based application behavior library that contains power consumption characteristics of a number of mobile applications. Our data analytics engine can also identify power consumption characteristics of unknown applications, which allows Battery Doctor to effectively manage the power settings for these applications.

***Cheetah Browser and CM Browser***

Cheetah Browser is our high speed, safe web browser available for both PCs and mobile devices. We launched the PC edition in June 2012 and the mobile edition in June 2013. Cheetah Browser PC edition is a dual-core web browser, integrating the functionality of both the Chromium open-source rendering engine and the Internet Explorer rendering engine. The integrated Internet Explorer rendering engine provides maximum compatibility with pages across the internet, while the Chromium browser kernel operates at higher speeds. Cheetah Browser's intelligent core switching engine analyzes each web page visited and selects the fastest and most compatible rendering engine for that page.

CM Browser is a light and fast mobile browser that we officially launched in June 2014, targeting overseas markets. CM Browser can protect users from malicious threats without compromising browsing speed.

***CM Launcher***

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CM Launcher was launched in December 2014 on the Android platform, and is a secure launcher that offers acceleration, secure protection, stylish wallpapers. It also automatically organizes mobile applications based on personal behavior. It is used to increase the startup speed of phones and boost their performance. Despite its light weight, CM Launcher enables applications to load quicker. Its anti-virus engine protects users' personal info and app data and block viruses and malware. CM Launcher automatically classifies users' applications into intelligent folders based on their habits, and recommends applications that are popular with the people in their neighborhood. In addition, it customizes users' unique wallpaper to fit their personal style.

### *Photo Grid*

Photo Grid is an easy-to-use photo collage application for mobile devices that we acquired in May 2013. Photo Grid allows users to quickly create professional looking collages of photos through an intuitive interface. Photos can be selected from users' phones or from Facebook, Instagram, Flickr, Dropbox, or Google+ and then edited and arranged according to a variety of pre-defined or self-designed layouts. Users can then apply photo enhancement tools such as filters, backgrounds, stickers and text labels, making the creation of beautiful collages a simple and enjoyable experience. Users can conveniently save and share their creations through social networks such as Twitter, Facebook, Instagram or emails.

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*CM Locker*

CM Locker was launched in December 2014 on the Android platform. It is a lightweight lock screen with prompt notifications and maximum security. CM Locker enables users to access essential phone functions easily and quickly.

*Duba Anti-virus*

Duba Anti-virus is an internet security application offered free for both PC and mobile devices. It 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 provides multi-layer comprehensive protection 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.



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*Content-driven Applications*

*Live.me*

Developed internally and launched in late 2015, Live.me is a popular live video streaming application serving overseas users especially in the developed countries. Currently most of the users on Live.me are young adults under 25 years old. We are working to build Live.me into a positive social community by making it easier and more fun for users to share their lifestyles and activities with other users via live video streaming. In the second quarter of 2016, we introduced a virtual gift feature to Live.me which enables our users to show support and appreciation to their favorite broadcasting hosts. Users can purchase virtual items using virtual currencies we sell on our platform.

*News Republic*

Acquired by us in June 2016, News Republic is a global mobile news service operator with more than 2,000 high-profile media partners worldwide. After the acquisition, we launched an upgraded version that uses artificial intelligence technologies to deliver personalized news content to users, which has further enhanced user experience and user engagement. We plan to continue to refine the product and attract more active users especially in developed markets.

We have been taking initiatives to introduce the large amount of content on News Republic to more users. For example, we have incorporated our personalized news delivery function into our utility applications. We have also launched a Cheetah Open Feed platform, which allows app developers and original equipment manufacturers (OEMs) to place news delivery services into their apps, helping them attract and engage users.

**Products and Services for Our Customers**

*Mobile advertising publisher*

Our portfolio of utility and content-driven applications attracted 622.9 million monthly actively users as of December 31, 2016, which enabled us to become one of the leading mobile advertising publishers. We aggregated ads from Facebook, Google, Yahoo, Baidu, Tencent and more than 20 global mobile advertising networks on our mobile advertising operations. Our ad serving technology helps to determine the best available ad to show to each user based on the combination of the user's unique attributes and the real-time comparison of bids from eligible ads.

*Mobile advertising platform*

Cheetah ads platform is our proprietary mobile advertising platform through which customers can purchase advertisements across multiple locations in our mobile applications, and to a lesser extent, on third-party mobile applications. Ads of our customers are integrated into our mobile products in a manner designed to enhance advertising performance and optimize user experiences. We have direct sales forces in China and overseas markets to reach advertising customers for Cheetah ads platform.

*Duba.com personal start page*

Our *duba.com* personal start page provides a convenient starting point for the online experience of our users. *Duba.com* 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.

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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.

***Game publishing***

Through our PC game centers and mobile applications, we publish web game and mobile game categories and a wide array of genres such as MMORPGs, first person shooters, action, adventure, sports, puzzle, children's and casual games. Substantially all of these games are free to play, and we generate revenues primarily from displaying customer's advertisements in the mobile games and from game players' purchase and recharge of virtual currencies used in online games through our user account management system.

We have two types of game publishing arrangements. Under a joint operating arrangement, we jointly operate games with game developers and publishers without paying license fees or incurring significant promotional expenses. We share user payments with game developers and publishers. Under an exclusive publishing arrangement, we pay royalty fees and upfront license fees to developers, share a portion of user payments with certain publishers, and promote and operate the games at our own costs. The popularity of the games has a larger impact on revenues from exclusive publishing arrangement as we bear higher risks and potentially receive higher rewards under this arrangement.

Utilizing the distribution capability of our suite of applications, we can quickly promote games to a large number of our users through multiple channels such as our *duba.com* start page, Cheetah Browser, Clean Master and Battery Doctor.

**Our Cloud-Based Data Analytics Engines**

Our cloud-based data analytics engines are critical for the development and enhancement of our mobile and PC applications serving both our users and customers. Data analytics engines powering our applications for users.

For our users, our data analytics engines enable our utility applications to access our most up-to-date security threat and application behavior libraries in the cloud to optimize system performance and to protect against both known and unknown security threats.

- Our security threat library contains blacklisted and whitelisted sample program files and blacklisted and whitelisted sample website addresses, which grows with time.
- We have developed a mobile application behavior library encompassing a number of mobile applications. A

wide range of application behavior such as junk file creation, power usage and invasion of privacy is collected in the library.

- We can perform an automatic or on-demand scan to identify known security threats or behavior of known applications on users' devices in a fraction of a second.
- We can automatically identify abnormal behavior of unknown applications or security threats with a minimal false identification rate, through performing a heuristic, or experience-based, analysis with our data analytics engines.

Our data analytics also help us present more personalized content and information to users of our content-driven applications, which help to increase user engagement.

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*Data analytics engines powering our products and services for customers*

Using cloud-based big data analytics, we have created our proprietary Face Mark system to graph our users' interests according to a number of dimensions such as frequently used applications and phone models used. We have also developed Cross-over delivery technology that can identify audience groups across multi-screens, regardless of what devices or operating systems these audience groups may use, as long as they have installed any of our applications. With the Face Mark system and Cross-over delivery technology, we can more precisely help our customers promote their own brands, products and services to target audiences and achieve a higher return on investments.

*Evolution of our data analytics engines*

Our security threats and application behavior libraries continuously expand with new samples exchanged with other security services providers and collected by search spiders. In addition, every device with our applications installed acts as a sensor for our cloud-based data analytics engines. The behavior of every new third-party application installed on these devices is analyzed to establish a risk profile and enrich our security threats library.

Our Face Mark and Cross-over delivery technologies become more valuable with the expansion of our user base as they help populate our user interest graph to create larger audience groups for targeted content delivery. This creates a powerful network effect. The more users install and use our applications, the more information our analytics engines are able to obtain to benefit both our users and customers.

In addition, we have made significant investments in artificial intelligence and machine learning technologies to implement our content-driven strategy. We believe that these are the core technologies for connecting our users with highly personalized content. For example, after we had upgraded News Republic to an artificial intelligence-enabled, personalized news content delivery model in the third quarter of 2016, both its user base and user engagement have grown rapidly. We have also developed in-house image recognition technologies that allow us to more efficiently review tens of thousands of live video streaming content generated by our users every day on Live.me.

**Our Customers**

Our customers primarily comprise customers for our online marketing services. For our mobile platform, our customers comprise direct advertisers including mobile application developers, mobile game developers and e-commerce companies, and our partnering mobile advertising networks through which advertisers place advertisements on our mobile applications, such as Facebook, Google, Yahoo, Baidu and Tencent. For our PC platform, our customers primarily comprise e-commerce companies and search engines, such as Baidu, Alibaba, Sogou and Tencent, who pay us for referring user traffic to them from our platform. In 2014, 2015 and 2016, our five largest customers in aggregate contributed approximately 52.7%, 57.7% and 47.9% of our revenues, respectively, and our largest customer, Facebook, contributed 3.9%, 28.7% and 19.9% of our revenues, respectively. 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 Facebook, Weibo and Weixin. Over the past years, our creative team has produced a number of product and branding videos for video sharing sites such as Youku and YouTube.

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We closely track user growth in key countries across the United States, Europe, Latin America, and Southeast Asia. We currently acquire users through continued online promotion and offline pre-installation. 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 and customers globally. For example, we hosted several events entitled *Connect* in Beijing, Taipei and San Francisco to present our mobile content strategy to the global media. In addition, for the past five years, we have offered complimentary Cheetah Orange Bus Service, helping people make their way back from Beijing to their hometowns for the Chinese New Year holiday.

Our Live.me platform has attracted a number of American online celebrities to conduct live broadcasting and they have accumulated hundreds of thousands of fans.

## **Competition**

We face intense competition in all lines of our business. In the mobile internet space, we generally compete with other mobile application developers, including developers that offer products claiming to perform similar functions as our utility applications, such as Clean Master, CM Security, Battery Doctor, CM Launcher and Cheetah Browser, and our content-driven applications, such as Live.me and News Republic. In the internet space, we mainly compete with Qihoo in China's internet security and anti-virus market. 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, 2017, we had 927 patents in China and four patents outside China relating to our software and other proprietary technology. Of such 931 patents, 664 patents were either independently or jointly held by Zhuhai Juntian, Beijing Security, Conew Network, Beijing Antutu Technology Co., Ltd., or Beijing Antutu, and Guangzhou Network, our wholly-owned PRC subsidiaries, 231 patents were either independently or jointly held by Beijing Mobile and Beijing Network, our VIEs, and 36 patents were jointly owned by our wholly-owned PRC subsidiaries and VIEs. The 931 patents will expire between April 2024 and September 2033. In addition, as of March 31, 2017, we had a total of 2,019 patent applications in China and 191 patents applications outside China. In relation to the proprietary technologies that are essential to the operations of our platform and important to our business, Zhuhai Juntian, Beijing Security, Conew Network, Beijing Antutu and Guangzhou Network, our wholly-owned PRC subsidiaries, had independently filed 1,972 patent applications, and Beijing Mobile, Beijing Network, our VIEs, had

independently or jointly filed 176 patent applications and had jointly filed an additional 62 patent applications together with Zhuhai Juntian, Beijing Security, Conew Network, Beijing Antutu or Guangzhou Network. Once approved, depending on the type of patents, the patents that are in the process of application by our VIEs will expire 10 or 20 years after the date of application.



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**Copyrights.** As of March 31, 2017, we had registered 250 copyrights, including 231 software copyrights and 19 artwork copyrights. In relation to our core proprietary technologies, Beijing Mobile and Beijing Network, our VIEs, independently or jointly owned 31 software copyrights, and jointly owned an additional 54 software copyrights together with Cheetah Technology, Zhuhai Juntian, Beijing Security, Conew Network or Guangzhou Network. All the software copyrights owned by our VIEs (excluding Beijing Conew) have been published between January 2003 and December 2016. Software copyrights are protected until the end of the 50th calendar year starting from the date of first publication.

**Trademarks.** As of March 31, 2017, we had registered 873 trademarks in China. In addition, we had filed 672 trademark applications. We had 777 registered trademarks and had filed a total of 950 trademark applications outside China.

**Domain names.** As of March 31, 2017, we had registered 217 domain names, including *www.cmcm.com*, *www.duba.com*, *www.ijinshan.com*, *liebao.cn* and *9724.com*.

As our 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 our VIEs if they go bankrupt or become subject to a dissolution or liquidation proceeding.

In addition, pursuant to the intellectual property transfer and license framework agreement that we entered into with Kingsoft Corporation on April 1, 2014, Kingsoft Corporation transferred or licensed to us certain intellectual property, including software copyrights, registered and pending trademarks and approved and pending patents, including *Kingsoft* and , which are important to the marketing of our applications. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Transactions and Agreements with Kingsoft Corporation and its Subsidiaries Intellectual Property Licensing Arrangements. We also license related internet security products from third parties.

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.

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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, 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. According to the Catalog of Telecommunications Business (2003 Amendment), implemented on April 1, 2003 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 amended on September 10, 2008, 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. In June 2015, the MIIT relaxed control over foreign ownership in certain telecommunication-related sectors, but in a very limited manner.

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 submit status reports to the MIIT before November 1, 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.

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To comply with such foreign ownership restrictions, we operate our businesses in China through Beijing Mobile and Beijing Network, our VIEs. Our VIEs are owned by PRC citizens. Each of these entities is controlled by Beijing Security or Conew Network, our wholly-owned subsidiaries, through a series of contractual arrangements. See Item 4. Information on the Company C. Organizational Structure Contractual Arrangements with Our 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 Mobile and Beijing Network, our VIEs, hold valid ICP Licenses, covering the provision of internet information services, issued by the Beijing 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.

*Internet News Information Services*

Under currently effective rules and regulations in the PRC, to provide internet news information services on current affairs and politics 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, or the Internet News Provisions, which were jointly promulgated by the SCIO and the then Ministry of Information Industry (the predecessor of the MIIT) in September 2005, 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. Any violation of the Internet News Provisions may result in penalties, including discontinuation of operations, warnings, orders that we modify existing operations, and imposition of fines. In addition, in January 2016, the Cyberspace Administration of

China, or the CAC, published draft amendments to the Internet News Provisions for public comments. Among other things, these draft amendments are intended to strengthen the licensing requirements for internet news information service providers.

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*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.

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. 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 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.

In order to comply with these rules and regulations, we are in the process of applying for an Internet Publishing License from SARFT for the operation and distribution of games on mobile and PC internet.

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 and on April 1, 2011 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 and other relevant government authorities jointly issued the Notice on Internet Cafes. The Notice on Internet Cafes authorizes the People's Bank of China 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.



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We, through Beijing Mobile and Beijing Network, have obtained the Internet Culture Operation Licenses from the Beijing branch of the MOC, which collectively cover the business scope of operating gaming products through the internet (including the issuance of virtual currency).

***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. 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 online operation of such online games or the occurrence date of any material alteration of such online games.

All operators of online games, or Online Game Business Operators, are 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 and Beijing Network, have obtained Internet Culture Operation Licenses from the Beijing branch of the MOC, which collectively cover the business scope of operating gaming products through the internet, including the issuance of virtual currency.

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.



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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.

***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, which became effective in March 2015, users of internet information services are required to have their identity information authenticated in order to register user accounts. 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.



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***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 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.

We believe that we have obtained the applicable permits for offering Duba Anti-virus for download, and we are in the process of renewing those permits after their expiration. However, 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 State Internet Information Office, or the SIIIO, 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.

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.

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*Regulations on Advertising Business*

State Administration for Industry and Commerce, or the SAIC, is the primary governmental authority regulating advertising activities in China. Regulations that apply to advertising business and foreign ownership in advertisement business primarily include:

- Foreign Investment Industrial Guidance Catalog, issued by the former National Development and Reform Commission and other departments, the latest version of which went effective on April 10, 2015;
- 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 September 1, 2015;
- Administrative Regulations for Advertising, promulgated by the State Council on October 26, 1987 and effective since December 1, 1987;
- Implementation Rules for the Administrative Regulations for Advertising, promulgated by the State Council on January 9, 1988 and amended on December 3, 1998, December 1, 2000 and November 30, 2004, respectively; 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 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 license, provided that such enterprise is not a radio station, television station, newspaper or magazine publisher or any other entity otherwise specified in the relevant laws or administrative regulations. 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. 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.

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 provide for 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.

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

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);
- 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 April 4, 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 August 25, 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 relate to the provision of a special channel for internet users to upload programs or information for transmission to the public in real time or on-demand. 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. 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.

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*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 SARFT on February 20, 2002 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 NCA 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 and 2008, 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 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 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, 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, 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, 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 is mandated as the software registration agency under the regulations.



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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. The campaign started from June 20 and lasted for four months.

*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 November 5, 2004, the MIIT promulgated the Measures for Administration of Domain Names for the Chinese Internet, or the Domain Name Measures. The Domain Name Measures regulate the registration of domain names, such as the first tier domain name .cn. In February 2006, the CNNIC issued the Measures on Domain Name Dispute Resolution 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 and 2013, with its implementation rules adopted in 2002, 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.

***Internet Infringement***

On December 26, 2009, the Standing Committee of National People's Congress promulgated the Tort Law of the People's Republic of China, or the Tort Law, which became effective on July 1, 2010. Under the Tort Law, 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. 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 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

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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.

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*Regulation 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 Security 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 providers 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, 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 Measures for Administration of Security Protection of Internet and Computer Information Network, and the measures took effect on December 30, 1997. The measures require internet service providers to provide a monthly 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. In 1997, the Ministry of Public Security issued the Administration Measures on the Security Protection of Computer Information Network with Internationally Connections, which prohibits 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.



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In February 2015, the CAC promulgated the Provisions on the Administration of Usernames of Internet Users' Accounts, which 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.

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*

On July 16, 2013, the MIIT promulgated the Regulations of Protection of Personal Information of Telecommunication Users and Internet Users, which came into effect on September 1, 2013. The regulations do not prohibit internet content providers from collecting and analyzing their users' personal information if appropriate authorizations are obtained and if in a way that is legal, reasonable and necessary. We require our users to accept a user agreement whereby they agree to provide certain personal information to us. PRC laws and regulations prohibit internet content providers from disclosing any information transmitted by users through their networks to any third parties without the users' authorization unless otherwise permitted by law. If an internet content provider violates these regulations, the MIIT or its local bureaus may impose penalties and the internet content provider may be liable for damages caused to its users.

*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, which will become effective on June 1, 2017. The Network Security Law will govern 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.

*Regulation of Foreign Currency Exchange 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.

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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 No. 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 will become 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 will abolish 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.



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**Dividend Distribution.** The Foreign Invested Enterprise Law, promulgated in 1986 and amended in 2000 and 2016 respectively, and the Implementation Rules of the Foreign Invested Enterprise Law, 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.

**Circular 37.** In July 2014, the SAFE promulgated the Circular on Relevant Issues Relating to Domestic Residents' 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.

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.

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To our knowledge, Mr. Jun Lei, Mr. Sheng Fu and Mr. Ming Xu have completed foreign exchange registration in connection with our financings and share transfer that were completed before the end of 2013, and Mr. Fu and Mr. Xu 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 People's Bank of China 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.



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***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. On December 6, 2007, the State Council promulgated the implementation rules to the EIT Law, which also became effective on January 1, 2008. 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.

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 (Trial), 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.

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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 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. According to SAT Circular 698 and SAT Bulletin 7, 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%. In addition, transferees and transferors in such indirect transfers are subject to tax withholding and reporting obligations, respectively. SAT Bulletin 7 does not replace SAT Circular 698 in its entirety. Instead, it abolishes certain provisions and provides 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. 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) 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 (c) the fees paid under arrangements made for listing or financing purposes. We may be subject to adverse tax consequences if the PRC tax authorities were to determine that the contracts between us and our 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 our VIEs may result in adverse tax consequences to us.

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*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 online marketing services, IVAS and subscription of internet security services were subject to a 5% PRC business tax. All of our PRC entities were subject to the Pilot Program as of December 31, 2016, or specifically, VAT of 6% in lieu of business tax for online marketing services, IVAS and subscription of internet security services that are deemed by the relevant tax authorities to be within the pilot industries

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 17% VAT pursuant to Chinese tax law. 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 payment over a tax rate of 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 business tax or value-added tax after the Pilot Program.



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*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;
- 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;
- 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; and
- Social Insurance Law promulgated by the National People's Congress on October 28, 2010, effective since July 1, 2011.

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.

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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, 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. The 2006 M&A Rules 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 2006 M&A Rules remains unclear. Based on the understanding on the current PRC laws, rules and regulations and the 2006 M&A Rules of our PRC legal counsel, Global Law Office, prior approval from the CSRC is not required under the 2006 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 2006 M&A Rules, and no provision in the 2006 M&A Rules classifies the contractual arrangements between our company, our PRC subsidiaries and any of our VIEs, either by each agreement itself or taken as a whole, as a type of acquisition transaction falling under the 2006 M&A Rules. However, as there has been no official interpretation or clarification of the 2006 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.

**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 our VIEs including 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. Ming Xu and 50% by Mr. Wei Liu) holds the requisite ICP Licenses. We have been and are expected to continue to be dependent on our 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 our VIEs and

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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 our VIEs and their shareholders enable us to:

- exercise effective control over our VIEs;
- receive substantially all of the economic benefits of our 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 our VIEs, when and to the extent permitted under PRC law, regulations or legal proceedings.

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The following diagram summarizes our corporate structure and identifies our significant subsidiaries and VIEs as of the date of this annual report.

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Notes:

(1) 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. The effectiveness of the agreement is subject to Kingsoft Corporation's shareholder approval and signing of a definitive agreement between Mr. Fu and our company in relation to a potential transfer of Mr. Fu's interest in certain robotics business to our company (subject to approval of our audit committee and board of directors). For further details, see Item 4. Information on the Company A. History and Development of the Company. See also Item 7. Major Shareholders and Related Party Transactions A. Major Shareholders for the other major beneficial owners of our company.

(2) We exercise effective control over Beijing Network through contractual arrangements with Beijing Network and Mr. Ming Xu and Mr. Wei Liu, who owns 50% and 50% equity interests in Beijing Network, respectively.

(3) We exercise effective control over 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.

(4) We exercise effective control over Beijing Conew through contractual arrangements with Beijing Conew and Mr. Sheng Fu and Mr. Ming Xu, who owns 62.73% and 37.27% equity interests in Beijing Conew, respectively.

Pursuant to the latest version of Catalogue for the Guidance of Foreign Investment Industries, Zhuhai Juntian is currently engaged in the business of (i) development of system software, which is an encouraged foreign investment industry, and (ii) sale of system software, which is a permitted foreign investment industry.

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 electronic products, computer animation design, investment consultancy and advertisement design, production, agency and publication, all of which are permitted foreign investment industries under the latest version of Catalogue for the Guidance of Foreign Investment Industries.

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 the latest version of Catalogue for the Guidance of Foreign Investment Industries.

**Contractual Arrangements with Our VIEs**

The following is a summary of the currently effective contracts among 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 VIE, namely, 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.

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*Shareholder voting proxy agreement.* Under the shareholder voting proxy agreement by and among Beijing Security, Beijing Mobile and its shareholders, each of Beijing Mobile's shareholders irrevocably nominates, appoints and constitutes any person designated by Beijing Security 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 has a term of ten years unless terminated at an earlier date by a written agreement among the signing parties. Unless Beijing Security notifies the other parties to this agreement not to renew this agreement, the term of this agreement will automatically extend on a yearly basis.

*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, business operation agreement, loan agreement, exclusive equity option agreement, and the shareholder voting proxy agreement, and (ii) the repayment of all liabilities that may be incurred under all of the aforementioned agreements. Beijing Security has the absolute right to appoint any attorney-in-fact to exercise its rights and powers under this agreement. 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 agreed to waive their dividend rights in relation to all of the equity interests pledged until such pledge has been lawfully discharged. 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 our 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 will make interest-free loans in an aggregate amount of RMB7.2 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 equity option agreement.* Under the exclusive equity option agreement by and among Beijing Security, Beijing Mobile and its shareholders, Beijing Security 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 at any time at an exercise price that is equal to the minimum price permitted under the PRC laws. Any amount in excess of the corresponding loan amount shall be refunded by the shareholders of Beijing Mobile to Beijing Security, or Beijing Security may deduct the excess amount from the consideration to be paid. The agreement will remain effective until all the equity interests in Beijing Mobile has been lawfully transferred to Beijing Security or a designated third party pursuant to the terms of this agreement.

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*Financial support undertaking letter.* Beijing Security has executed a financial support undertaking letter addressed to Beijing Mobile, pursuant to which Beijing Security irrevocably undertakes to provide unlimited 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 cash, entrusted loans and borrowings. Beijing Security will not request repayment of any outstanding loans or borrowings from Beijing Mobile if Beijing Mobile or its shareholders do not have sufficient funds or are unable to repay such loans or borrowings. The letter is effective from the date of full execution of the other agreements in connection with the VIE structure until the earlier of (i) the date on which all of the equity interests of Beijing Mobile have been acquired by Beijing Security or its designated representative(s), and (ii) the date on which Beijing Security in its sole and absolute discretion unilaterally terminates this letter.

In addition to the above contracts, the spouses of certain shareholders of our 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 equity option agreement, the equity pledge agreement and the loan agreement. These spouses undertake not to take any action to interfere with the disposition of such equity interests, including, without limitation, claiming that such equity interests constitute communal marital property.

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 our VIEs under U.S. GAAP and have consolidated the results of operation of the VIEs and the then subsidiaries of our VIEs in our consolidated financial statements in accordance with U.S. GAAP. The VIEs and the then subsidiaries of our VIEs together contributed 82.7%, 48.2% and 11.3% of our revenues for the years ended December 31, 2014, 2015 and 2016, 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 either Beijing Security or Conew Network, each of our 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 all 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.

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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 enactment timetable, interpretation and implementation of draft 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 March 31, 2017, our principal executive offices were located on leased premises comprising approximately 40,500 square meters in Beijing, China. This facility accommodates our management headquarters, principal development, engineering, legal, finance and administrative activities. We also have offices and research and development centers in Zhuhai, Shanghai, Guangzhou, Zhengzhou and Chongqing of China, and offices in the United States, France, Japan, Mexico, Russia, Hong Kong, Singapore, Brazil, Taiwan, India and Indonesia.

Our servers are hosted in leased internet data centers in different areas of China as well as in other Asian countries, the United States, Europe and Brazil. These data centers are primarily owned and maintained by third-party data center operators. We believe that our existing facilities are sufficient for our current needs and we expect to obtain additional facilities, principally through leasing, to accommodate our future expansion plans.

**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.

As we and Kingsoft Japan were under common control by Kingsoft Corporation both before and after our acquisition of control of Kingsoft Japan on January 29, 2016, the consolidated financial data presented below have been prepared as if we had owned the assets and liabilities of and operated Kingsoft Japan throughout the periods presented.

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**A. Operating Results**

**Overview**

We operate a platform that offers mobile and PC applications for our users and global content promotional channels for our customers, both of which are powered by our proprietary cloud-based data analytics engines. We offer utility applications and content-driven applications on our platform for our users. Our diversified suite of utility applications, which have amassed a large user base over the years, optimizes mobile and PC internet system performance and provides real time protection against known and unknown security threats. Leveraging the success of our utility applications, we started to offer content-driven mobile applications, namely Live.me and News Republic, in late 2015 and 2016, respectively.

Although substantially all of our applications are free to our users, our large user base presents monetization opportunities for us and our customers. We generate revenues from our online marketing services primarily 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 generated 72.1%, 87.0% and 86.6% of our revenues from online marketing services in 2014, 2015 and 2016, respectively. We also generate revenues by providing internet value-added services, currently mainly from online games.

Our revenues increased from RMB1,858.2 million in 2014 to RMB3,773.9 million in 2015, representing a 103.1% growth, and further to RMB4,564.7 million (US\$657.4 million) in 2016, representing a 21.0% growth. Most of our revenues are denominated in foreign currencies, primarily U.S. dollars, and the rest is denominated in Renminbi. As we use Renminbi as reporting currency, a significant depreciation of the Renminbi against the U.S. dollar may have a positive effect on our revenues, and a significant appreciation of the Renminbi against the U.S. dollar may have a negative effect on our revenues. Our net loss attributable to Cheetah Mobile shareholders was RMB80.5 million (US\$11.6 million) in 2016, compared to a net income attributable to Cheetah Mobile shareholders of RMB68.3 million in 2014 and RMB176.3 million in 2015.

We believe the mobile internet presents massive opportunities and we have made significant investments in mobile internet to capitalize on these opportunities. We had 622.9 million monthly active users in December 2016. Our mobile strategy has been focusing on the development of applications for the Android platform. As of December 31, 2016, we had nine core mobile applications for Android, compared to five for iOS. Accordingly, the popularity of the Android ecosystem and the use of Android devices have, and will continue to have, material impacts on our overall results of operations. Driven by the increased popularity of our mobile marketing services worldwide, revenues generated from our mobile applications have increased significantly over the past three years, accounting for 25.7%, 65.6% and 77.3% of our total revenues in 2014, 2015 and 2016, respectively.

Our business has rapidly expanded internationally since we released our Clean Master overseas version in September 2012. As of December 31, 2016, approximately 81.0% of our mobile monthly active users were from overseas markets, primarily the United States, Europe, India, Indonesia and certain emerging markets, compared to 78.6% and 68.8% as of December 31, 2015 and 2014, respectively. Since we began to monetize our overseas operations in the second quarter of 2014, overseas revenues have increased significantly, accounting for 17.2%, 51.2% and 60.2% of our total revenues for the years ended December 31, 2014, 2015 and 2016, respectively.



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To implement our mobile content strategy in 2016, we made significant investments in two mobile content-driven products, Live.me and News Republic. Both apps reached top app store spots in their respective category, particularly in the U.S. market. Live.me also made significant contributions to our total revenue growth in 2016.

As we continue to deepen our global penetration and increase the level of monetization in overseas markets, especially with respect to our mobile content-driven products, we expect that our overseas revenues will continue to increase and remain a major growth driver for both our mobile and total revenues. For the years ended December 31, 2015 and 2016, the majority of our overseas revenues were generated from our partnering third-party mobile advertising platforms, such as Facebook, Google and Yahoo, that primarily operate in the United States.

We have invested heavily in research and development and selling and marketing to grow our mobile business. Operating expenses as a percentage of our revenues were 71.4%, 68.9% and 66.5% in 2014, 2015 and 2016, respectively. In 2017, we expect to continue to invest in our mobile platform, primarily mobile content. We expect to further increase our marketing spending to grow the user base and enhance user engagement for our content-driven applications. In addition, we expect to further expand our content-driven mobile business team to develop and enhance our content-driven mobile applications, improve our data analytics capabilities and expand our mobile advertising business in the global market. Moreover, we plan to continue to invest in artificial intelligence and machine learning in order to better provide our users with personalized content. Although we expect our operating expenses will continue to increase in absolute amount in 2017, we remain focused on executing on our content strategy to establish a sustainable and profitable business model for the long term.

**Selected Statement of Operations Items****Revenues**

We generate revenues from online marketing services, IVAS, and internet security services 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.

	2014 (As adjusted)		Year Ended December 31, 2015 (As adjusted)		2016		% of Revenues
	RMB	% of Revenues	RMB	% of Revenues	RMB	US\$	
Online marketing services	1,339,250	72.1	3,283,423	87.0	3,950,886	569,045	86.6
IVAS	400,671	21.6	395,312	10.5	500,991	72,158	11.0
Internet security services and others	118,261	6.3	95,142	2.5	112,773	16,243	2.4
<b>Revenues</b>	<b>1,858,182</b>	<b>100.0</b>	<b>3,773,877</b>	<b>100.0</b>	<b>4,564,650</b>	<b>657,446</b>	<b>100.0</b>

*Online Marketing Services*



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Revenues from our online marketing services accounted for 72.1%, 87.0% and 86.6% of our revenues in 2014, 2015 and 2016, respectively. We generate online marketing revenues primarily by providing mobile advertising services to advertisers worldwide, as well as referring user traffic and selling advertisements on our mobile and PC platforms. We charge fees for our online marketing 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 believe that the most significant factors affecting revenues from online marketing include:

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- *User base and user engagement.* We believe a large, loyal and engaged user base would help us retain existing customers and attract more customers and business partners seeking online marketing services 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 mobile user base is crucial for the long-term growth of our online marketing services. We plan to further improve our products and introduce more products to increase our mobile users' engagement and amount of time spent on our products.
- *Revenue sharing and fee arrangements with our significant customers.* A small number of customers have contributed a majority of our online marketing service revenues. Changes in the revenue sharing or fee arrangements with these significant customers may materially affect our online marketing services revenues. For example, changes from pay per click to pay per sale arrangements may result in a smaller percentage of revenue-generating traffic. Likewise, changes in the fee rates we receive per click or per sale may affect our online marketing services revenues. Although changes in the revenue sharing and fee arrangements with individual customers may affect our revenues positively or negatively, our array of choices helps to increase our overall customer base and our ability to tailor fee arrangements to the needs of our customers.
- *Ability to increase the number of advertisers engaging our online marketing services and business partners.* Advertisers purchase advertising services directly from us or through our partnering mobile advertising platforms. Our ability to increase the number of advertisers engaging our online marketing services depends on whether we can provide integrated marketing services and help the advertisers more precisely reach their targeted audience, the effectiveness of our direct sales efforts, our ability to successfully acquire additional customer base through acquisition of complementary businesses, and our ability to increase our range of cooperation with our partnering mobile advertising networks, such as Facebook, Google, Yahoo, Baidu and Tencent.
- *Optimal utilization of advertising inventory.* Certain categories of customers are willing to offer higher rates for our online marketing services due to the high return on investment they can achieve on our platform. Our ability to source high quality customers within the appropriate categories that our users are interested in and our ability to optimize the allocation of our advertising inventory to these customers can help improve our online marketing services revenues.
- *Ability to provide targeted advertising.* We believe that data analytics is a key factor affecting our online marketing 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 marketing revenues.
- *International expansion.* As we continue to pursue a strategy to expand outside China, our online marketing revenues are increasingly affected by our ability to grow our user base and increase user engagement and monetization

internationally. The challenges in increasing our online marketing revenue internationally include, among others, local competition, differences in advertiser demand, differences in the online marketing practices and conventions, and differences in user and advertiser reception and perception of our applications internationally.

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IVAS

Revenues from IVAS accounted for 21.6%, 10.5% and 11.0% of our revenues in 2014, 2015 and 2016, respectively. Revenues from IVAS in these periods were primarily generated from sale of virtual items in the games we publish, which is subject to revenue-sharing arrangements with third-party game developers. In 2016, we also started to generate IVAS revenues from sale of virtual items in users' live video shows on Live.me, which is subject to revenue-sharing arrangements with the hosting users.

We believe that the most significant factors affecting our IVAS revenues include:

- *Popularity of games on our platform.* Our revenues from game publishing depend on our ability to select and publish popular and engaging games. The popularity of the games we publish directly affects the number of users we attract and the revenues generated from such games.
- *Game publishing arrangements.* We have two types of game publishing arrangements. Under a joint operating arrangement, we jointly operate games with game developers and publishers without paying license fees or incurring significant promotional expenses. We share user payments with game developers and publishers. Under an exclusive publishing arrangement, we pay royalty fees and upfront license fees to developers, share a portion of user payments with certain publishers, and promote and operate the games at our own costs. The popularity of the games has a larger impact in revenues for exclusive publishing arrangement as we bear higher risks and potentially receive higher rewards under this arrangement.
- *Number of paying users.* Games published on our platform and Live.me, our live video streaming application, are free to download and play, and we generate revenues from users' purchase of in-game or in-app virtual items. Our IVAS revenues are affected by the number of users purchasing such virtual items.
- *User base and user engagement.* Our IVAS revenues are affected by our ability to grow our user base and increase user engagement, as these affect the number of paying users for IVAS.

*Internet Security Services and Others*

Revenues from internet security services and others accounted for 6.3%, 2.5% and 2.4% of our revenues in 2014, 2015 and 2016, respectively. Internet security services and others revenues mainly include subscription services such as game acceleration and instant data recovery for our paying members, as well as development and sale of security software and office application software. We expect revenues from internet security services to continue to decline as we continue to remodel our business into a mobile-oriented platform.

*Cost of Revenues*

Cost of revenues primarily consist of traffic acquisition costs associated with our Cheetah ad platform, bandwidth costs and internet data center ( IDC ) costs, personnel costs, content and channel costs associated with our content-driven products, including Live.me, News Republic and mobile games, depreciation of equipment, amortization of intangible assets, cost of products sold, VAT, business tax, and related surcharges.

Traffic acquisition costs represent the amounts paid or payable to third-party advertising publishers who distribute our customers' paid links through their advertisement products. We expect our traffic acquisition costs to increase as we continue to expand our third-party advertising publishing business on the Cheetah ad platform.

Bandwidth and IDC costs consist of fees that we pay to telecommunication carriers and other service providers for hosting our servers at their internet data centers, as well as bandwidth fees that are directly related to our business operations and technical support. Bandwidth and IDC costs are affected by the amounts of our user traffic worldwide and data analytics. We expect our bandwidth and IDC costs to increase as we expect our user traffic to continue to grow, in particular as we continue to expand the operations of our content-driven applications, which generally demand higher bandwidth, and as we continue our efforts in improving data analytics.

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Personnel costs include salaries and benefits, including share-based compensation, for our employees involved in the operation of our online marketing business, game publishing business and maintenance of servers. We expect personnel costs to increase as we hire additional operational employees in line with the expansion of our business.

Content and channel costs consist primarily of fees borne by us under third-party game publishing arrangements, revenue sharing with content providers, such as live video hosts and media partners, commission fees paid to distribution platforms and payment channels, and amortization of license fees paid for exclusively licensed games. As we plan to increasingly focus on content-driven mobile business, we expect that content-related costs will continue to increase.

Amortization of intangible assets primarily represents amortization of intangible assets through acquisitions or business combinations. As we plan to continue to conduct business combinations and acquisitions, we expect that amortization of acquired intangible assets will continue to increase.

***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 intangible assets, and (v) other operating income. The following table sets forth the components of our operating income and expenses for the periods indicated, both in absolute amounts and as percentages of our revenues.

	2014		Year Ended December 31,			2016	
	(As adjusted)		(As adjusted)				
	RMB	% of Revenues	RMB	% of Revenues	RMB	US\$	% of Revenues
	(in thousands, except percentages)						
<b>Operating income and expenses:</b>							
Research and development	(443,214)	(23.9)	(695,185)	(18.4)	(905,854)	(130,470)	(19.8)
Selling and marketing	(601,433)	(32.4)	(1,505,951)	(39.9)	(1,650,581)	(237,733)	(36.2)
General and administrative	(274,991)	(14.8)	(447,984)	(11.9)	(561,834)	(80,921)	(12.3)
Impairment of goodwill and intangible assets	(8,304)	(0.4)	(49,882)	(1.3)	(2,889)	(416)	(0.1)
Other operating income	1,087	0.1	98,376	2.6	87,877	12,657	1.9
<b>Total operating income and expenses</b>	<b>(1,326,855)</b>	<b>(71.4)</b>	<b>(2,600,626)</b>	<b>(68.9)</b>	<b>(3,033,281)</b>	<b>(436,883)</b>	<b>(66.5)</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. We expect our research and development expenses to increase as we continue to

expand our research and development team to develop and optimize content-driven applications and further enhance our data analytics capabilities and artificial intelligence technology.

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*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. We expect our selling and marketing expenses to increase as we plan to invest further to grow the user base for our content-driven applications.

*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 and Intangible Assets.* Impairment of goodwill and intangible assets consists primarily of impairment of goodwill associated with business acquisition and intangible assets relating to our licensed games.

*Other Operating Income.* 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.

*Other Income.* Other income consists primarily of gain on disposal of certain investments, as well as gain or loss on disposal of property and equipment and 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.* 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. Additionally, upon payments of dividends by our company to its shareholders, no Cayman Islands withholding tax will be imposed.



*United States.* Our subsidiaries incorporated in the United States were subject to federal income tax rate of 35% for the years ended December 31, 2014, 2015 and 2016.

*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, 2014, 2015 and 2016.

*Singapore.* Our subsidiary incorporated in Singapore is subject to corporate income tax rate of 17%. In 2015, our subsidiary in Singapore obtained the Development and Expansion Incentive from the Singapore Economic Development Board, and is subject to 5% corporate income tax rate on qualifying income from 2016 to 2025.

*Japan.* Our subsidiary incorporated in Japan with paid-in capital in excess of JPY100 million was subject to national corporate income tax rate of 25.5% through March 31, 2015, and the income tax rate has been reduced to 23.9% and 23.4% since April 1, 2015 and April 1, 2016, respectively. Our other 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 23.4% on any income earned in excess of JPY8 million from April 1, 2016. Local income taxes, which include local inhabitant tax and enterprise tax, are also imposed on corporate income. The resulting effective corporate income tax rates of our Japanese subsidiaries range from approximately 30% to 36%.

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*France.* Our subsidiary incorporated in France was subject to corporate income tax rate of 33.33% for the years ended December 31, 2015 and 2016.

*United Kingdom.* Our subsidiary incorporated in the United Kingdom was subject to corporate income tax rate of 20%.

*Taiwan.* Our subsidiary incorporated in Taiwan was subject to corporate income tax rate of 17%.

*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%. Two of our PRC subsidiaries, namely Conew Network and Chongqing Calendar Technology Co., Ltd., are qualified as new software enterprises. In addition, some of our PRC subsidiaries and VIEs, including Zhuhai Juntian, Beijing Security, Beijing Mobile, Beijing Network and Moxiu Technology have obtained high and new technology enterprise certificates. Conew Network was eligible for a preferential tax rate of 0%, 12.5% and 12.5% for the years ended December 31, 2014, 2015 and 2016, respectively. Chongqing Calendar Technology Co., Ltd. was eligible for a preferential tax rate of 0% for each of the years ended December 31, 2015 and 2016. Zhuhai Juntian was eligible for a preferential tax rate of 15% for each of the years ended December 31, 2014, 2015 and 2016. Beijing Security was eligible for a preferential tax rate of 12.5%, 15% and 15% for the years ended December 31, 2014, 2015 and 2016, respectively. Beijing Mobile was eligible for a preferential tax rate of 0%, 15% and 15% for the years ended December 31, 2014, 2015 and 2016, respectively. Our remaining PRC subsidiaries, a VIEs and the then subsidiaries of our VIE were subject to enterprise income tax at a rate of 25% for the years ended December 31, 2014, 2015 and 2016.

*Withholding tax.* Under the EIT Law and its implementation rules, dividends, interests, rent 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 arrangements 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. 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.

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*PRC business tax and 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 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 online marketing services, IVAS and subscription of internet security services were subject to a 5% PRC business tax. All of our PRC entities were subject to the Pilot Program as of December 31, 2014, 2015 and 2016, or specifically, VAT of 6% in lieu of business tax for online marketing services, IVAS and subscription of internet security services that are deemed by the relevant tax authorities to be within the pilot industries. In addition, cultural business construction fee is imposed at the rate of 3% on revenues derived from our online marketing services.

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 17% VAT pursuant to Chinese tax law. 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 payment 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.

*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, 2014, 2015 and 2016.

		Year Ended December 31,			
		2014	2015	2016	
		(As adjusted)	(As adjusted)	RMB	US\$
		RMB	RMB	(in thousands)	
Cayman Islands	(Loss) Income before income tax	(30,183)	52,834	20,376	2,935
	Income tax expenses computed at the PRC statutory tax rate of 25%	(7,546)	13,209	5,094	734
	Income tax expenses computed at Cayman Islands statutory tax rate of 0%				
	Effect of differing tax rates in different jurisdictions	7,546	(13,209)	(5,094)	(734)



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		Year Ended December 31,			
		2014	2015		
		(As adjusted)	(As adjusted)	2016	
		RMB	RMB	RMB	US\$
		(in thousands)			
USA	Income (Loss) before income tax	918	(8,393)	(36,126)	(5,203)
	Income tax expenses computed at the PRC statutory tax rate of 25%	230	(2,098)	(9,032)	(1,301)
	Income tax expenses computed at the U.S. statutory tax rate of 35%	322	(2,937)	(12,644)	(1,821)
	Effect of differing tax rates in different jurisdictions	92	(839)	(3,612)	(520)
Hong Kong	(Loss) Income before income tax	(98,381)	75,040	(99,277)	(14,298)
	Income tax expenses computed at the PRC statutory tax rate of 25%	(24,595)	18,760	(24,819)	(3,575)
	Income tax expenses computed at the Hong Kong statutory tax rate of 16.5%	(16,233)	12,382	(16,381)	(2,359)
	Effect of differing tax rates in different jurisdictions	8,362	(6,378)	8,438	1,216
Singapore	Income before income tax			190,202	27,394
	Income tax expenses computed at the PRC statutory tax rate of 25%			47,551	6,849
	Income tax expenses computed at the Singapore statutory tax rate of 17%			32,334	4,657
	Effect of differing tax rates in different jurisdictions			(15,217)	(2,192)
PRC	Income (Loss) before income tax	218,060	154,095	(54,764)	(7,888)
	Income tax expenses computed at the PRC statutory tax rate of 25%	54,515	38,524	(13,691)	(1,972)
	Income tax expenses computed at the PRC statutory tax rate of 25%	54,515	38,524	(13,691)	(1,972)
	Effect of differing tax rates in different jurisdictions				
France	Loss before income tax		(38,114)	(69,180)	(9,964)
	Income tax expenses computed at the PRC statutory tax rate of 25%		(9,529)	(17,295)	(2,491)
	Income tax expenses computed at the French statutory tax rate of 33.33%		(12,703)	(23,058)	(3,321)
	Effect of differing tax rates in different jurisdictions		(3,174)	(5,763)	(830)
Taiwan	Loss before income tax			(16,767)	(2,415)
	Income tax expenses computed at the PRC statutory tax rate of 25%			(4,192)	(604)
	Income tax expenses computed at the Taiwan statutory tax rate of 17%			(2,850)	(411)
	Effect of differing tax rates in different jurisdictions			1,342	193
Others	Income (Loss) before income tax	8,786	2,915	(3,360)	(484)
	Income tax expenses computed at the PRC statutory tax rate of 25%	2,197	729	(840)	(121)

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Income tax expenses computed at the statutory tax rates of such other jurisdictions	3,388	2,791	78	11
Effect of differing tax rates in different jurisdictions	1,191	2,062	918	132

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	2014 (As adjusted) RMB	Year Ended December 31, 2015		2016	US\$
		(As adjusted) RMB	(in thousands) RMB		
Income (Loss) before income tax	99,200	238,377	(68,896)		(9,923)
Income tax expenses computed at the PRC statutory tax rate of 25%	24,800	59,594	(17,224)		(2,481)
<b>Total</b> Income tax expenses computed at the statutory tax rate of different jurisdictions	41,991	38,056	(36,212)		(5,216)
Effect of differing tax rates in different jurisdictions	17,191	(21,538)	(18,988)		(2,735)

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, 2014, 2015 and 2016.

	2014 (As adjusted) RMB	Year Ended December 31, 2015		2016	US\$
		(As adjusted) RMB	(In thousands) RMB		
Cayman Islands					
USA					
Hong Kong					
Singapore(1)			(22,802)		(3,284)
PRC(2)	(54,944)	(35,434)	1,800		259
France					
Taiwan					
Others			33		5
<b>Total</b>	(54,944)	(35,434)	(20,969)		(3,020)

Notes:

(1) Our Singapore subsidiary is entitled to tax holiday by obtaining a Development and Expansion Incentive and as a result is subject to a 5% corporate income tax rate on qualifying income from 2016 to 2025. For details, see Item 5. Operating and Financial Review and Prospects A. Operating Results Taxation Taxation in Different Jurisdictions Singapore.

(2) Certain of our PRC entities are entitled to tax holiday as new software development enterprise or to the preferential income tax rate of 15% as 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 periods indicated. The period-to-period comparisons of results of operations should not be relied upon as indicative of our future performance.

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	Year Ended December 31,			
	2014 (As adjusted) RMB	2015 (As adjusted) RMB	2016 RMB	US\$
(In thousands except for shares, per share and per ADS data)				
<b>Consolidated Statements of Comprehensive Income</b>				
<b>(Loss) Data:</b>				
<b>Revenues</b>	1,858,182	3,773,877	4,564,650	657,446
Online marketing services	1,339,250	3,283,423	3,950,886	569,045
Internet value-added services	400,671	395,312	500,991	72,158
Internet security services and others	118,261	95,142	112,773	16,243
Cost of revenues (1)	(438,661)	(956,353)	(1,543,817)	(222,356)
<b>Gross profit</b>	1,419,521	2,817,524	3,020,833	435,090
Operating income and expenses				
Research and development(1)	(443,214)	(695,185)	(905,854)	(130,470)
Selling and marketing (1)	(601,433)	(1,505,951)	(1,650,581)	(237,733)
General and administrative(1)	(274,991)	(447,984)	(561,834)	(80,921)
Impairment of goodwill and intangible assets	(8,304)	(49,882)	(2,889)	(416)
Other operating income	1,087	98,376	87,877	12,657
Total operating expenses, net	(1,326,855)	(2,600,626)	(3,033,281)	(436,883)
<b>Operating profit (loss)</b>	92,666	216,898	(12,448)	(1,793)
Other income (expenses)				
Interest income, net	28,221	14,550	7,783	1,121
Changes in fair value of redemption right and put options granted	4,375	22	(94)	(14)
Settlement and changes in fair value of contingent consideration	(13,749)	7,011	(3,377)	(486)
Foreign exchange gain (loss), net	25	(213)	3,747	540
Impairment of investments	(9,136)	(34,728)	(141,069)	(20,318)
Losses from equity method investments	(6,064)	(12,144)	(11,363)	(1,637)
Other income, net	2,862	46,981	87,925	12,664
Income/(Loss) before income taxes	99,200	238,377	(68,896)	(9,923)
Income tax (expenses)/benefits	(27,895)	(63,740)	12,189	1,756
<b>Net income (loss)</b>	71,305	174,637	(56,707)	(8,167)
Less: net income (loss) attributable to noncontrolling interests	2,988	(1,710)	23,818	3,431
Net income (loss) attributable to Cheetah Mobile Inc.	68,317	176,347	(80,525)	(11,598)

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

	Year Ended December 31,			
	2014 (As adjusted) RMB	2015 (As adjusted) RMB	2016 RMB	US\$
(In thousands)				
Cost of revenues	1,393	1,523	1,490	215
Research and development	51,322	142,777	148,211	21,347
Selling and marketing	7,621	18,206	13,830	1,992
General and administrative	113,435	153,234	142,618	20,541
<b>Total</b>	173,771	315,740	306,149	44,095



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*Year Ended December 31, 2016 Compared to Year Ended December 31, 2015*

**Revenues.** Our revenues increased by 21.0% from RMB3,773.9 million in 2015 to RMB4,564.7 million (US\$657.4 million) in 2016. This increase was primarily due to increases in revenues from online marketing services and IVAS services. Our mobile revenues increased from RMB2,474.4 million in 2015 to RMB3,530.4 million (US\$508.5 million) in 2016, primarily due to increased popularity of our mobile marketing services worldwide and the initial monetization of Live.me in overseas markets.

*Online marketing services.* Revenues from online marketing services increased by 20.3% from RMB3,283.4 million in 2015 to RMB3,950.9 million (US\$569.0 million) in 2016. The increase was primarily due to the growth of our global mobile user base, increased demand from advertisers for our mobile advertising services worldwide and monetization of light casual games through in-game advertising. Our mobile advertising revenues increased by 39.5% from RMB2,272.5 million in 2015 to RMB3,169.0 million (US\$456.4 million) in 2016. Mobile advertising revenues represented 80.2% of online marketing revenues in 2016, compared to 69.2% in 2015.

*IVAS.* Revenues from IVAS was RMB501.0 million (US\$72.2 million) in 2016, a 26.7% increase from RMB395.3 million in 2015. The increase was primarily due to the initial monetization of Live.me in overseas markets.

*Internet security services and others.* Revenues from internet security services and others increased by 18.5% from RMB95.1 million in 2015 to RMB112.8 million (US\$16.2 million) in 2016. This increase was primarily driven by higher internet software licensing revenues.

**Cost of revenues.** Our cost of revenues increased by 61.4% from RMB956.4 million in 2015 to RMB1,543.8 million (US\$222.4 million) in 2016. The increase in our cost of revenues was mainly due to increased investments in content for our content-driven applications, increased traffic acquisition costs associated with our Cheetah ad platform, higher bandwidth and IDC costs associated with increased user traffic worldwide, and data analytics.

**Gross profit.** As a result of the foregoing, our gross profit increased by 7.2% from RMB2,817.5 million in 2015 to RMB3,020.8 million (US\$435.1 million) in 2016.

**Gross margin.** Our gross margin decreased from 74.7% for the year ended December 31, 2015 to 66.2% for the year ended December 31, 2016, primarily due to increased investments in content for the our content-driven applications, which has a lower gross margin compared to our other businesses.

*Operating expenses.* Our operating expenses increased by 16.6% from RMB2,600.6 million in 2015 to RMB3,033.3 million (US\$436.9 million) in 2016, due to increases in research and development expenses, selling and marketing expenses and general and administrative expenses.

*Research and development expenses.* Our research and development expenses increased by 30.3% from RMB695.2 million in 2015 to RMB905.9 million (US\$130.5 million) in 2016. This increase was primarily due to an increase in the number of research and development personnel from 1,436 as of December 31, 2015 to 1,654 as of December 31, 2016 mainly to further develop our mobile applications, particularly the development of new content-driven mobile applications and services, strengthen our big data analytics capabilities and enhance our mobile advertising technology.

*Selling and marketing expenses.* Our selling and marketing expenses increased by 9.6% from RMB1,506.0 million in 2015 to RMB1,650.6 million (US\$237.7 million) in 2016. The increase was primarily due to increased spending on product promotional activities for our content-driven applications, which was partially offset by reduced spending on product promotional activities for our utility applications.

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*General and administrative expenses.* Our general and administrative expenses increased by 25.4% from RMB448.0 million in 2015 to RMB561.8 million (US\$80.9 million) in 2016. This increase was primarily due to an increase in bad debt expense, an increase in professional service fees and an increase in the number of general and administrative personnel from 222 as of December 31, 2015 to 389 as of December 31, 2016.

*Impairment of goodwill and intangible assets.* We recognized an impairment loss of goodwill and intangible assets of RMB2.9 million (US\$0.4 million) in 2016, which was primarily due to impairment of licensed games. We recognized an impairment loss of goodwill and intangible assets of RMB49.9 million in 2015, which was primarily associated with the suspension of our online lottery business in 2015 in response to regulatory changes in China, and the impairment of licensed games.

*Other operating income.* 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. Other operating income was RMB87.9 million (US\$12.7 million) in 2016, as compared with RMB98.4 million in 2015.

*Operating loss.* As a result of the foregoing, we had an operating loss of RMB12.4 million (US\$1.8 million) in 2016, compared to an operating income of RMB216.9 million in 2015.

*Operating (loss) margin.* We had an operating loss margin of 0.3% in 2016, compared to an operating margin of 5.7% in 2015.

*Income tax benefit (expense).* Our income tax benefit was RMB12.2 million (US\$1.8 million) in 2016, as compared with an income tax expense of RMB63.7 million in 2015. The income tax benefit primarily results from our increased tax loss carry forward in 2016.

*Net loss attributable to Cheetah Mobile shareholders.* Primarily as a result of the foregoing, our net loss attributable to Cheetah Mobile shareholders was RMB80.5 million (US\$11.6 million) in 2016, compared to a net income attributable to Cheetah Mobile shareholders of RMB176.3 million in 2015.

*Year Ended December 31, 2015 Compared to Year Ended December 31, 2014*

*Revenues.* Our revenues increased by 103.1% from RMB1,858.2 million in 2014 to RMB3,773.9 million in 2015. This increase was primarily due to increases in revenues from online marketing services, partially offset by a decrease in revenues from IVAS and internet security services and others. Our mobile revenues increased from RMB477.0 million in 2014 to RMB2,474.4 million in 2015, primarily due to our expanded mobile user base and an increased demand for our mobile advertising services in overseas markets and China.

*Online marketing services.* Revenues from online marketing services increased by 145.2% from RMB1,339.3 million in 2014 to RMB3,283.4 million in 2015. The increase was primarily due to the growth of our global mobile user base, and increased demand from advertisers for our mobile advertising services worldwide. Our mobile advertising revenues increased by 624.3% from RMB313.8 million in 2014 to RMB2,272.5 million in 2015. Mobile advertising revenues represented 69.2% of online marketing revenues in 2015, compared to 23.4% in 2014.

*IVAS.* Revenues from IVAS was RMB395.3 million in 2015, a 1.3% decrease from RMB400.7 million in 2014. The decrease was primarily due to the suspension of our online lottery operation in response to regulatory changes in China, and moderating trends in web games business in China due to shift of user traffic from PC to mobile internet.

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*Internet security services and others.* Revenues from internet security services and others decreased by 19.6% from RMB118.3 million in 2014 to RMB95.1 million in 2015. This decrease was primarily due to a decrease in revenues from the sale of the office application software in Japan.

*Cost of revenues.* Our cost of revenues increased by 118.0% from RMB438.7 million in 2014 to RMB956.4 million in 2015. The increase in our cost of revenues was mainly due to an increase in traffic acquisition costs associated with our third-party advertising publishing business on the Cheetah ad platform, an increase in the cost of sales of air purifiers, an increase in bandwidth and IDC costs associated with increased user traffic worldwide and data analytics, and an increase in amortization costs associated with acquired intangible assets.

*Gross profit.* As a result of the foregoing, our gross profit increased by 98.5% from RMB1,419.5 million in 2014 to RMB2,817.5 million in 2015.

*Gross margin.* Our gross margin decreased from 76.4% for the year ended December 31, 2014 to 74.7% for the year ended December 31, 2015, primarily due to traffic acquisition cost associated with our third-party advertising publishing business on the Cheetah ad platform, which has a lower gross margin compared to our other businesses.

*Operating expenses.* Our operating expenses increased by 96.0% from RMB1,326.9 million in 2014 to RMB2,600.6 million in 2015, primarily due to increases in selling and marketing expenses, research and development expenses and general and administrative expenses.

*Research and development expenses.* Our research and development expenses increased by 56.9% from RMB443.2 million in 2014 to RMB695.2 million in 2015. This increase was primarily due to an increase in the number of research and development personnel from 1,285 as of December 31, 2014 to 1,436 as of December 31, 2015 mainly to further develop our mobile applications, strengthen our data analytics capabilities and enhance our mobile advertising technology. The increase was also due to an increase in share-based compensation expenses included in our research and development expenses from RMB51.3 million in 2014 to RMB142.8 million in 2015.

*Selling and marketing expenses.* Our selling and marketing expenses increased by 150.4% from RMB601.4 million in 2014 to RMB1,506.0 million in 2015. The increase was primarily due to an increased spending on marketing and promotional activities to expand our global mobile user base. The increase was also due to an increase in the number of sales and marketing personnel from 265 as of December 31, 2014 to 493 as of December 31, 2015 mainly to further enhance our mobile monetization capabilities and global sales efforts.



*General and administrative expenses.* Our general and administrative expenses increased by 62.9% from RMB275.0 million in 2014 to RMB448.0 million in 2015. This increase was primarily due to an increase in share-based compensation expenses from RMB113.4 million in 2014 to RMB153.2 million in 2015, an increase in the number of general and administrative personnel from 175 as of December 31, 2014 to 222 as of December 31, 2015, and an increase in professional service fees.

*Impairment of goodwill and intangible assets.* We recognized an impairment loss of goodwill and intangible assets of RMB49.9 million for 2015, which was primarily associated with the suspension of our online lottery business in 2015 in response to regulatory changes in China, and the impairment of licensed games. We recognized an impairment loss of goodwill and intangible assets of RMB8.3 million for 2014, which was primarily due to impairment of licensed games.

*Operating profit.* As a result of the foregoing, our operating profit increased 134.1% from RMB92.7 million in 2014 to RMB216.9 million in 2015.

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**Operating margin.** Our operating margin increased from 5.0% in 2014 to 5.7% in 2015.

**Income tax expense.** Our income tax expense increased from RMB27.9 million in 2014 to RMB63.7 million in 2015, primarily due to changes in preferential tax rates applicable to some of our PRC subsidiaries and increase of profit before income tax.

**Net income attributable to Cheetah Mobile shareholders.** Primarily as a result of the foregoing, our net income attributable to Cheetah Mobile shareholders increased from RMB68.3 million in 2014 to RMB176.3 million in 2015.

**Inflation**

Since our inception, inflation in China has not materially impacted our results of operations. According to the National Bureau of Statistics of China, the consumer price index in China increased by 1.5%, 1.6% and 2.0% in 2014, 2015 and 2016, respectively. Although we have not in the past been materially affected by inflation since our inception, we can provide no assurance that we will not be affected in the future by higher rates of inflation in China or elsewhere in the world.

**Critical Accounting Policies**

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.

**Revenue recognition**

We generate revenues primarily through online marketing services, internet value-added services, and internet security services and others. We recognize revenues when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and

collectability is reasonably assured.

*Online marketing services*

Online marketing services contributed 72.1%, 87.0% and 86.6% of our revenues in 2014, 2015 and 2016, respectively. The online marketing services are provided through our 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. 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 the period the advertising is displayed. 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. For contracts that are charged on the cost per impression basis, we charge an agreed-upon fee to our customers based on the number of impressions in the contracted period in which impressions are delivered. Impressions are considered delivered when an advertisement is displayed to users. Online marketing services revenue charged on the cost for performance basis and the cost per impression basis is generally recognized upon delivery of services or receipt of monthly statements from our customers either in the current month or in the following month in which the service is provided.

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For online marketing services arrangement involving third-party advertising publishers' websites or mobile publications, we recognize gross revenue for the amount of fees received or receivable from customers as we are the primary obligor. Payments made to the third-party advertising publishers are included in cost of revenues as traffic acquisition costs.

In addition, we provide advertising agency services by arranging advertisers to purchase various advertisement products from certain online network, primarily Facebook and Google. 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 in the advertising agency arrangement as we are neither the primary obligor to provide advertisement product nor to assume inventory risk. Revenue from advertising agency services is recognized on a net basis when the advertisement products are delivered by the online network.

*IVAS*

We enter into agreements with online and mobile game developers to provide online and mobile distribution and payment collection services, in order for game players to purchase and recharge virtual currencies used in the online and mobile games. Most games are developed and hosted by game developers and accessed by game players through links on our online, mobile platform or third-party mobile platforms. The payment collection services are mainly provided through third-party professional payment and settlement institutions. We generally charge commission as a percentage of the gross proceeds or collection amount from the settlement institutions, and pay the remaining proceeds to the game developers. We act as an agent to the game developers in these arrangements and therefore recognize revenue net of remittances to the developer as they are considered the primary obligor. We estimate revenues based on our internal system, which is confirmed with the respective settlement institutions, and recognized such revenues periodically when accepted by the game developer.

For certain mobile games that we believe we act as the principal in the arrangements, we are considered the primary obligor and take fulfillment responsibilities of game operations, including determining distribution and promotion, providing customer services, setting up game and services specifications, and pricing of in-game virtual currencies and virtual items. We record such mobile game revenues on a gross basis. Commission fees paid to the third-party mobile platform and royalty fees paid to third-party game developers are recorded as cost of revenues. We have determined that an implied obligation exists to the paying players over their estimated average playing life, and accordingly, recognize the revenues ratably over the estimated average paying player life, i.e. from the time when the players' accounts are first recharged with in-game virtual currency to when the players' becoming inactive when all other revenue recognition criteria are met. The average paying player life is estimated based on the historical data of paying players' behavior. While we believe the estimate to be reasonable based on available game player information, we may revise such estimates in the future as more game data become available and playing patterns of the paying players of the game change. Any adjustments arising from changes in the estimates of the average paying player life are applied prospectively on the basis that such changes are caused by new information indicating a change in game player behavior patterns.

Purchases of in-game currency are not refundable after they have been sold.

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We offer virtual items for purchase and use by our users on Live.me, the live video streaming mobile application that we maintain and operate. All Live.me live video shows are available free of charge and users can purchase virtual items in live video shows broadcast on Live.me with virtual currencies to show support for their favorite hosts. We recognize revenues from Live.me on a gross basis as we are the primary obligor for the fulfillment of providing mobile live broadcasts on the Live.me platform, and record payments to the performers and third-party payment platforms as cost of revenues. Proceeds received from users for the sales of virtual currencies are recorded as deferred revenue, representing prepayments received from users in the form of the virtual currencies not yet converted into virtual items, and are recognized as revenues based on the weighted average unit price of virtual currencies and the quantities of virtual currencies redeemed for virtual items which are consumed simultaneously. The weighted average unit price of virtual currencies is calculated on a monthly basis as the deferred revenue at the beginning of the month plus proceeds received during the month divided by the corresponding quantity of virtual currencies.

*Internet security services and others*

We market and distribute our off-the-shelf anti-virus security solutions to enterprise and individual users.

Upon the customers' initial purchase of the enterprise solutions, the arrangements include multiple elements, generally comprising of software and post-contract customer services, or PCS. When vendor-specific objective evidence, or VSOE, of the fair value of the PCS exists, we allocate and defer revenues for the PCS based on its fair value, and recognize the difference between the total arrangement fee and the amount deferred as software license revenues. When VSOE of the fair value of the PCS does not exist, the entire arrangement fee is recognized ratably over the PCS period. The arrangement fee of the PCS purchased on a stand-alone basis is recognized into revenues ratably over the PCS period. Software updates that will be provided free of charge via downloads from our online platform at any time are evaluated on a case-by-case basis to determine whether they meet the definition of an upgrade and create a multiple-element arrangement.

We also provide the individual users the option to purchase additional value added services, which are non-essential to the functionality of the software, either concurrent with the download of software, or separately as a renewal. The value added services are provided over the period of time as determined and purchased by the respective users. The fees for value-added services are recognized into revenues ratably over the term of such services.

Other revenue primarily include the sale of office application software. Customers purchasing an office application software will receive unspecified updates over the licensing period, including term-based license and perpetual license. These unspecified updates are determined to not meet the definition of an upgrade and was not sold on a stand-alone basis. Arrangements that include term-based licenses for current products with the right to use unspecified future versions of the software during the coverage period are accounted for as subscriptions, with revenue recognized ratably over the coverage period. Arrangements that include perpetual license, revenue is generally recognized as products are shipped or made available.

Other revenue also include the sale of air purifier products. We recognize revenue for the sale of such products after a sales agreement is signed, the price is fixed or determinable, products are delivered to customers, and collection of the resulting receivables is assured. Product is considered delivered to the customers once it has been shipped, and risk of loss and rewards of ownership have been transferred.



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*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 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 our VIEs to operate our business if PRC laws do not allow us to directly operate such business in China. Beijing Security and Conew Network, our wholly-owned subsidiaries, as the case may be, have 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 our wholly-owned subsidiaries 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 wholly-owned subsidiaries. Furthermore, pursuant to the exclusive equity option agreements, which include a substantive kick-out right, our wholly-owned subsidiaries have 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, our wholly-owned subsidiaries 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*

Goodwill represents the excess of the purchase price over the amounts assigned to the fair value of the assets acquired and the liabilities assumed of an acquired business. Management estimates the fair value based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from the estimates. During the measurement period, which can be up to one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed, with the corresponding amount offset to goodwill. Upon conclusion of the measurement period, any subsequent adjustments are recorded to the consolidated statements of operations. In accordance with ASC 350, *Goodwill and Other Intangible Assets*, recorded goodwill amounts are not amortized, but rather are tested for impairment annually or more frequently if there are indicators of impairment present.

We adopted Accounting Standards Update 2011-08, or ASU 2011-08, *Testing Goodwill for Impairment*, to test goodwill for impairment by performing a qualitative assessment before calculating the fair value of a reporting unit in step one of the goodwill impairment test. We aggregate two or more components of an operating segment as a single reporting unit if the components have similar economic characteristics. If we determine, on the basis of qualitative factors, that the fair value of a reporting unit is more likely than not to be less than the carrying amount, a two-step impairment test is required. Otherwise, further testing is not needed. We have an unconditional option to bypass the qualitative assessment in any period and proceed directly to performing the first step of the goodwill impairment test. We may resume performing the qualitative assessment in any subsequent period. Under the two-step impairment test, the first step of the impairment test involves comparing the fair value of the reporting unit with its carrying amount, including goodwill. Fair value is primarily determined by computing the future undiscounted cash flows expected to be generated by the reporting unit. If the reporting unit's carrying value exceeds its fair value, goodwill may be impaired. If this occurs, we perform the second step of the goodwill impairment test to determine the amount of impairment loss.





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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's goodwill. If the implied goodwill's fair value is less than its carrying value, the difference is recognized as an impairment loss.

If we reorganize our reporting structure in a manner that changes the composition of one or more of our reporting units, goodwill is reassigned based on the relative fair value of each of the affected reporting units in 2016. After acquisition of the online lottery business, we had two reporting units, consisting of the online lottery business and the remaining business. Upon disposal of the online lottery business on May 31, 2016, we have one reporting unit and use the discounted cash flow method to derive enterprise value as a basis of our impairment test.

## ***Business Combinations***

Except for the acquisition of Kingsoft Japan, which was accounting for as business combination under common control, we account for our business combinations using the purchase method of accounting in accordance with ASC topic 805, or 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 we 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, we 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 to the consolidated statements of operations.

The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed 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. We determine 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.

## ***Impairment of Investments***

Our investments mainly consist of cost method investments and equity method investments in privately held companies, time deposits and available-for-sale securities.

We periodically review our cost method investments and equity method investments for impairment. If we conclude that any of such investments is impaired, we will assess whether such impairment is other-than-temporary. Factors we consider in making such determination include the performance and financial position of the investee as well as other evidence of market value. Such evaluation includes, but is not limited to, reviewing the investee's cash position, recent financing, projected and historical financial performance, cash flow forecasts and financing needs. An impairment loss is recognized in earnings equal to the excess of the investment's cost over its fair value at the balance sheet date of the reporting period for which the assessment is made. The fair value would then become the new cost basis of investment. When we intend to sell an impaired debt security or it is more-likely-than-not that we will be required to sell prior to recovery of our 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 we will not be required to sell prior to recovery of its amortized cost basis, we must determine whether or not it will recover our amortized cost basis. If we conclude that we 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.

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As available-for-sale securities is reported at fair value, an impairment loss on the available-for-sale securities would be recognized in the consolidated statements of comprehensive income when the decline in value is determined to be other-than-temporary.

The fair value determination, particularly for investments in privately-held companies, requires significant judgment in determining appropriate estimates and assumptions. Changes in these estimates and assumptions could affect the calculation of the fair value of the investments and the determination of whether any identified impairment is other-than-temporary. If impairment is considered other-than-temporary, we will write down the asset to its fair value and take the corresponding charge to the consolidated financial statements.

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

We evaluate our long-lived assets or asset group, including intangible assets with finite lives, 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 flow 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.

***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 that 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 government subsidies with non-operating feature and with no further conditions to be met, the amounts are recorded in other income when received. For government subsidies with operating feature and with no further conditions or specific use requirements to be met, the amounts are recorded in other operating income when received. For government subsidies related to research and development projects, the amounts are recorded in deferred revenue when received and will be offset against research and development expenses over the project period when no further conditions are to be met.

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***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 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.

***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 consolidated financial statements based on their grant date fair values and the related cost is recognized over the period the employee is required to provide service in exchange for the award, which generally is the vesting period. All grants of share-based awards to employees classified as liability awards are recognized in the consolidated financial statements based on their grant date fair values and re-measured to fair value at the end of each reporting period. The liability recorded considers the fair value of the award and the number of awards that have vested to date. Re-measurement of the fair value of the liability awards is recorded as share-based compensation expenses. We have no liability awards for the years ended December 31, 2014, 2015 and 2016, and have issued restricted shares with redemption features to two employees that are considered tandem awards, having both equity and liability components, for the year ended December 31, 2013.

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. Forfeiture rates are estimated based on historical experience and future expectations of employee turnover rates and are periodically reviewed. If required vesting conditions are not met resulting in the forfeiture of the share-based awards, previously recognized compensation expense related to those awards are reversed. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in the subsequent period if actual forfeitures differ from initial estimates. To the extent we revise these estimates in the future, the share-based payments could be materially impacted in the period of revision, as well as in following periods. Share-based compensation expense is recorded net of estimated forfeitures such that expense is recorded only for those share-based awards that are expected to vest. We have determined the fair value of share-based awards with the assistance of an independent third-party valuation firm.

We have accounted for equity instruments issued to non-employees in accordance with the provisions of ASC 718-10 and ASC 505-50, *Equity: Equity-based Payments to Non-Employees*. We record compensation expenses equal to the fair value of the shares at the measurement date, which is determined to be the earlier of the performance commitment date or the service completion date.

***Fair Value of Our Ordinary Shares***

Prior to the completion of our initial public offering, as a private company with no quoted market in our ordinary shares, we estimated the fair value of our ordinary shares at the relevant grant dates for employee restricted shares and at each reporting date for non-employee options in order to determine the fair value of our share-based awards and the associated share-based compensation expenses. The determination of the fair

value of our ordinary shares requires complex and subjective judgments.

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In determining the estimated fair value of restricted shares granted to executive officers and certain employees, we considered the guidance prescribed by the *AICPA Audit and Accounting Practice Aid, Valuation of Privately-Held-Company Equity Securities Issued as Compensation*, or the Practice Aid, which sets forth the preferred types of valuation that should be used. We have followed the Level B recommendation, and established the fair value of our ordinary shares at the dates of grant using a retrospective valuation with the assistance of an independent appraiser.

In determining the fair value of our ordinary shares prior to the completion of our initial public offering in May 2014, we followed a two-step process. In the first step, the equity value of our company prior to 2013 was determined by taking into consideration the income approach, or the discounted cash flow method. Due to lack of consistencies in the guideline companies' valuation ratios, we did not apply any weight for the market approach to arrive at the equity value of our company. Instead, the market approach is only used to corroborate the valuation results based on the income approach.

The discounted cash flow, or DCF, method, which incorporates the projected cash flow of our management's best estimation as of each measurement date. The projected cash flow estimation includes, among others, analysis of projected revenue growth, gross margins and terminal value. The assumptions used in deriving the fair value of ordinary shares were consistent with our business plan.

The key assumptions used in developing the cash flow forecasts included: (i) compounded annualized growth rates of revenue over the forecasted period; (ii) gross margin forecast to improve with increasing economies of scale; and (iii) a terminal growth rate after the projection period.

The DCF method of the income approach involves applying appropriate weighted average cost of capital, or WACC, to discount the future cash flows forecast to present value. WACC comprises a required rate of return on equity plus the current tax-effected rate of return on debt, weighted by the relative percentages of equity and debt in the capital structure of comparable public companies whose business operations are similar to that of ours. The required rates of return on equity were based on an estimation of the market required rate of return for investing in business similar to ours, which were derived by using the capital asset pricing model, or CAPM. Under CAPM, the discount rate was determined with consideration of the risk-free rate, industry-average correlated relative volatility coefficient beta, equity risk premium, size of our company, the scale of our business and our ability in achieving forecasted projections.

The risks associated with achieving the forecasts were assessed in selecting the appropriate WACC. In estimating the fair value of our ordinary shares by the DCF method, our management did not think there would be disproportionate returns of cash flows to different shareholders. Therefore, neither control premium nor a lack of control discount was considered in our valuations.

The guideline company method of the market approach provides an indication of value with reference to the market value of publicly traded guideline companies and various measures of their operating results, then applying such multiples to the business being valued. For the market approach, we and the independent appraiser considered the market profile and performance of the five publicly traded companies in the Chinese internet and mobile services sector, and used such information to derive market multiples. We and the independent appraiser then calculated the three multiples for the guideline companies: enterprise value ( EV ) to 2014 earnings before interest, tax, depreciation and amortization, ( EBITDA ) multiple, EV to 2014 earnings before interest and tax ( EBIT ) and price to 2014 earning ( P/E ) multiple. The median of the guideline companies' multiples were then multiplied by our estimated EBITDA, EBIT and earning in 2014 to arrive at the fair value of our company.

We also applied a discount for lack of marketability, or DLOM, to reflect the fact that there was no ready market for shares in a closely-held company like us. When determining the DLOM, the Black-Scholes option pricing model was used. Under this option-pricing method, the cost of the put option, which can hedge the price change before the privately held shares can be sold, was considered as a basis to determine the discount for lack of marketability.

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The above assumptions used in determining the fair values were consistent with our business plan and major milestones we achieved. We also applied general assumptions, such as absence of major changes in existing conditions or current taxation law in countries in which we carry on our business, availability of financing, and no significant change of industry trends and market conditions from economic forecasts.

In the second step, since our capital structure comprised convertible preferred shares and ordinary shares at each grant date, we allocated our equity value among each class of equity securities using the option-pricing method. The option-pricing method treats ordinary shares and preferred shares as call options on our company's equity value and liquidation preference of the preferred shares.

Since our initial public offering in May 2014, the determination of the fair value of the ordinary shares is based on the market price of our ADSs, each representing ten Class A ordinary shares, traded on the NYSE.

In determining the fair value of restricted shares with an option feature granted in and after 2014, we use the binomial tree model for an option pricing applied. As the grantees were required to pay purchase price for their restricted shares, the restricted shares are treated as an option for the purpose of determining the fair value of such restricted shares. The key assumptions used to determine the fair value of the restricted shares with the option feature at the relevant grant dates include the fair value of our ordinary shares and the factors set forth in the table below. Changes in these assumptions could significantly affect the fair value of the restricted shares and hence the amount of share-based compensation expense we recognize in our consolidated financial statements.

The following table presents the key assumptions (other than the fair value of our ordinary shares, which is discussed above) used to estimate the fair values of the restricted shares with the option feature granted in the years indicated:

	<b>2015</b>	<b>2016</b>
Risk-free interest rates(1)	2.68%~2.97%	1.99%~2.98%
Expected volatility range(2)	53.1%~63.3%	44.6%~53.0%
Expected dividend yield(3)	0%	0%
Expected exercise multiple(4)	2.2	2.2

(1) The risk-free interest rate for periods within the contractual life of the restricted shares with the option feature is based on the U.S. Treasury yield curve in effect at the time of grant for a term consistent with the expected term of the awards.

(2) Expected volatility is estimated based on the historical volatility ordinary shares of several comparable companies in the same industry.

(3) The dividend yield was estimated based on our expected dividend policy over the expected term of the restricted shares with the option feature.



(4) The expected exercise multiple was based on research study regarding exercise pattern and historical statistic data, including Carpenter, J. 1998. The Exercise and Valuation of Executive Stock Options. Journal of Financial Economics, vol. 48, no. 2 (May): 127-158 and Huddart and Lang in Huddart, S., and M. Lang. 1996. Employee Stock Option Exercises: An Empirical Analysis.

If factors change and we employ different assumptions for estimating share-based compensation expenses in future periods or if we decide to use a different valuation model, our share-based compensation expenses in future periods may differ significantly from what we have recorded in prior periods and could materially affect our operating profit, net income and net income per share.

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**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.

**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, 2016, we had RMB1,772.5 million (US\$255.3 million) in cash and cash equivalents and short-term investments.

Between 2010 and 2015, we entered into several loan agreements with certain financial institutions, pursuant to which we borrowed unsecured Euro-denominated loans in the aggregate amount of 2.3 million (equivalent to RMB17.1 million) with a term ranging from 4.08 to 7.59 years. The loans bear interest at the rates ranging from 0% to 5.2% plus 3-month EURIBOR during the respective terms of loans. We have repaid 0.4 million (equivalent to RMB2.7 million) of the principal amount as of December 31, 2016.

In May 2015 and July 2016, we entered into two revolving loan facility agreements with certain financial institutions, pursuant to which we are entitled to borrow US\$-denominated loans in the aggregate amount of US\$60 million (equivalent to RMB416.2 million). As of December 31, 2016, we have drawn down US\$50 million (equivalent to RMB346.9 million) with a revolving term of one month under one of the loan facilities and the loan was secured by a pledge of bank deposit US\$10 million (equivalent to RMB69.4 million). The interest rate on outstanding utilized amount under the two loan facilities is calculated based on 1.65% per annum over 1-month LIBOR for both the year ended December 31, 2015 and 2016. These loan facilities are mainly used to fund our general working capital.

In June 2016, we entered into a loan facility agreement with a financial institution, pursuant to which we are entitled to borrow an unsecured US\$-denominated loan of US\$50 million (equivalent to RMB346.9 million) or its equivalent in Euro with an interest rate of 2.25% per annum over LIBOR for US\$ drawings and 2% per annum over EURIBOR for Euro drawings. The principal amount will mature serially in 3 years from the date of each drawdown. This facility is intended for our working capital and payment of research and development expenses. As of December 31, 2016, we had drawn down US\$15 million plus 5 million (equivalent to RMB140.6 million), and we had repaid US\$0.5 million (equivalent to RMB3.5 million) of the principal amount.

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.

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The table below sets forth a breakdown of our cash by currency and location as of December 31, 2014, 2015 and 2016:

	2014 (As adjusted)	As of December 31, 2015 (As adjusted) (In thousands of RMB)	2016
<b>Cash located outside of the PRC</b>			
- in US dollar	714,507	1,135,149	741,988
- in RMB	8,970	5,175	18,986
- in HK dollar	12,914	56,955	185,617
- in Japanese yen	22,008	18,726	39,255
- in Euro	61	4,830	45,162
- in GB pound	46	620	938
- in Singapore dollar		138	20,866
- in Indian rupee			3,283
- in Brazil real			2,552
- in Taiwan dollar			1,821
- in Malaysian ringgit			780
- in Russian ruble			122
<b>Cash located in the PRC</b>			
- held by subsidiaries, in RMB	287,531	464,424	303,750
- held by subsidiaries, in US dollars		9,055	5,395
- held by VIEs in RMB	67,434	130,195	39,422
- held by VIEs in US dollars	2,267	17,966	1,063
<b>Total cash and cash equivalents</b>	<b>1,115,738</b>	<b>1,843,233</b>	<b>1,411,000</b>

The table below sets forth a breakdown of our short-term investments by location as of December 31, 2014, 2015 and 2016:

	2014 (As adjusted)	As of December 31, 2015 (As adjusted) (In thousands of RMB)	2016
<b>Short-term investments located outside of the PRC</b>			
- Time deposits located outside the PRC	428,330	18,831	22,570
- Available-for-sale equity securities located outside the PRC	6,913		
- Available-for-sale debt securities located outside the PRC	78,378		
<b>Short-term investments located in the PRC</b>			
- Time deposits located in the PRC		10,403	338,929
<b>Total short-term investments</b>	<b>513,621</b>	<b>29,234</b>	<b>361,499</b>

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The following table sets forth a summary of our cash flows for the years indicated:

	Year Ended December 31,			
	2014 (As adjusted) RMB	2015 (As adjusted) RMB	RMB	2016 US\$
	(In thousands)			
Net cash provided by operating activities	359,222	948,487	397,551	57,259
Net cash used for investing activities	(1,109,623)	(341,439)	(982,803)	(141,551)
Net cash provided by financing activities	1,313,567	81,627	103,475	14,903
Effect of exchange rate changes on cash	(1,879)	38,820	49,544	7,134
Cash and cash equivalents at the beginning of year	554,451	1,115,738	1,843,233	265,481
Net increase (decrease) in cash and cash equivalents	561,287	727,495	(432,233)	(62,255)
Cash and cash equivalents at the end of year	1,115,738	1,843,233	1,411,000	203,226

***Operating Activities***

Net cash provided by operating activities for the year ended December 31, 2016 was RMB397.6 million (US\$57.3 million). This amount was primarily attributable to net loss of RMB56.7 million (US\$8.2 million), (i) adjusted for certain non-cash expenses, primarily share-based compensation expenses of RMB306.1 million (US\$44.1 million), impairment of long-term investments of RMB141.1 million (US\$20.3 million), amortization of intangible assets of RMB116.9 million (US\$16.8 million), provision for doubtful accounts of RMB55.2 million (US\$7.9 million) and deferred income tax benefits of RMB53.4 million (US\$7.7 million); (ii) adjusted for changes in operating assets and liabilities that positively affected operating cash flow, primarily an increase in accounts payable of RMB50.2 million (US\$7.2 million); and (iii) 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 RMB176.2 million (US\$25.4 million). The amortization of intangible assets was mainly related to customer and supplier relationship, platform technology and license fee that were acquired through business acquisition and prepaid license fees for games. The increase in prepayments and other current assets was primarily due to (i) increased other receivables from advertisers; (ii) increased prepayment of revenue-sharing to third-party game developer; and (iii) increase in receivables from third-party payment platform due to virtual currency purchased by Live.me users through third-party payment platforms.

Net cash provided by operating activities for the year ended December 31, 2015 was RMB948.5 million. This amount was primarily attributable to net income of RMB174.6 million, (i) adjusted for certain non-cash expenses, primarily share-based compensation expenses of RMB315.7 million, amortization of intangible assets of RMB120.8 million, impairment of goodwill and intangible assets of RMB49.9 million and impairment of investments of RMB34.7 million; (ii) adjusted for changes in operating assets and liabilities that positively affected operating cash flow, primarily an increase in accrued expenses and other current liabilities of RMB639.0 million and an increase due to related parties of RMB52.4 million; and (iii) partially offset by changes in operating assets and liabilities that negatively affected operating cash flow, primarily due to an increase in accounts receivable of RMB308.6 million and

an increase in prepayments and other current assets of RMB158.9 million. The amortization of intangible assets was mainly related to technology, license fee, customer relationship and user base that were acquired through business acquisition and prepaid license fees for games. The increase in accrued expenses and other current liabilities was mainly attributable to (i) the increase in accrued advertising, marketing and promotional expenses, which primarily resulted from unpaid expenses incurred in promoting our mobile applications, and (ii) the increase in wages and benefits payable relating to our increased headcount and increased salary levels. The increase in accounts receivable was in line with the rapid growth of our business.

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Net cash provided by operating activities for the year ended December 31, 2014 was RMB359.2 million. This amount was primarily attributable to net income of RMB71.3 million, (i) adjusted for certain non-cash expenses, primarily share-based compensation expenses of RMB173.8 million, amortization of intangible assets of RMB57.3 million, depreciation of property and equipment of RMB22.4 million and settlement and changes in fair value of contingent consideration of RMB13.7 million; (ii) adjusted for changes in operating assets and liabilities that positively affected operating cash flow, primarily an increase in accrued expenses and other current liabilities of RMB224.1 million; and (iii) partially offset by changes in operating assets and liabilities that negatively affected operating cash flow, primarily an increase in accounts receivable of RMB157.6 million and an increase in prepayments and other current assets of RMB86.6 million. The amortization of intangible assets was mainly related to technology, customer relationship and user base that were acquired through business acquisition and prepaid license fees for games. The increase in accrued expenses and other current liabilities was mainly attributable to (i) the increase in accrued advertising, marketing and promotional expenses, which primarily resulted from unpaid expenses incurred in promoting our mobile applications, and (ii) the increase in wages and benefits payable relating to our increased headcount and increased salary levels. The increase in accounts receivable was in line with the rapid growth of our business.

*Investing Activities*

Net cash used in investing activities was RMB982.8 million (US\$141.6 million) for the year ended December 31, 2016, primarily attributable to purchase of held-to-maturity investments of RMB916.0 million (US\$131.9 million), acquisition of business (net of cash acquired) of RMB326.2 million (US\$47.0 million), purchase of cost method investments of RMB304.7 million (US\$43.9 million), partially offset by sales and maturity of held-to-maturity investments of RMB590.6 million (US\$85.1 million).

Net cash used in investing activities was RMB341.4 million for the year ended December 31, 2015, primarily attributable to purchase of time deposits of RMB481.2 million, purchase of cost method investments of RMB399.5 million, acquisition of business (net of cash acquired) of RMB249.4 million, purchase of equity method investments of RMB107.1 million, purchase of property and equipment of RMB61.9 million, purchase of intangible assets of RMB34.6 million, partially offset by sales and maturity of time deposits of RMB901.4 million and proceeds from maturity of available-for-sale securities of RMB61.1 million.

Net cash used in investing activities was RMB1,109.6 million for the year ended December 31, 2014, primarily attributable to time deposits of RMB1,388.2 million, acquisition of business (net of cash acquired) of RMB196.6 million, purchase of cost method investments of RMB157.3 million, purchase of equity method investments of RMB58.1 million, purchase of intangible assets of RMB145.1 million and purchase of available-for-sale securities of RMB110.8 million, partially offset by maturity of time deposits of RMB959.8 million.





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***Financing Activities***

Net cash generated from financing activities was RMB103.5 million (US\$14.9 million) in 2016, compared to net cash of RMB81.6 million generated from financing activities in 2015. This increase was primarily due to proceeds from bank loans of RMB332.1 million (US\$47.8 million), partially offset by payment for share repurchase of RMB179.0 million (US\$25.8 million).

Net cash generated from financing activities was RMB81.6 million in 2015, primarily due to proceeds from bank loans of RMB127.3 million, partially offset by settlement of contingent consideration of RMB27.7 million in connection with the acquisition of Suzhou Jiangduoduo, Hongkong Zoom, Photo Grid and MobPartner.

Net cash generated from financing activities was RMB1,313.6 million in 2014, primarily due to proceeds of RMB1,409.2 million from our initial public offering and the concurrent private placement completed in May 2014 partially offset by purchase of shares from noncontrolling shareholders of RMB60.9 million.

**Holding Company Structure**

Cheetah Mobile Inc. is a holding company. We conduct most of our operations through our subsidiaries incorporated in and outside China and our VIEs in 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 our PRC VIEs to our PRC subsidiaries 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.

Loans by us to our PRC subsidiaries to finance their activities cannot exceed statutory limits, which is the difference between the registered capital of such PRC subsidiary and the amount of total investment as approved by the PRC government. 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.

**Capital Expenditures**

We incurred capital expenditures of RMB181.7 million, RMB96.5 million and RMB117.7 million (US\$17.0 million) in 2014, 2015 and 2016, respectively. Our capital expenditures were primarily attributable to purchase of computers and servers related to research and development activities, purchase of intangible assets, including intellectual property, game copyrights and tools applications, and improvement works made to our office in Beijing and other equipment. As our business expands, we may purchase more intangible assets, new servers and other equipment in the future.

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**C. Research and Development**

We seek to be at the forefront of our industry by meeting and anticipating user needs through the development of innovative products and services. Our R&D and innovation are driven by our user centric culture. From our line engineers to our chief executive officer, everyone involved in our interactive product development process focuses on developing and enhancing products and services to anticipate, meet and exceed our users' expectations. Through various channels such as pre-release trial events among our fans in various countries, feedback from closed beta testing and user comments and ratings on application distribution platforms, our global users provide us with information about our products and services and the evolution of the mobile industry. We innovate and enhance our products and services based on our users' feedbacks and ideas.

As of December 31, 2016, our engineering team consisted of 1,654 employees, approximately 83% of whom held bachelor's or more advanced degrees. In addition, we have a dedicated customer service team capable of operating in multiple languages that interacts with users and receives users' input and advice regarding further product development.

**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, 2016 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. Off-Balance Sheet Arrangements**

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.

**F. Contractual Obligations**

The following table sets forth our contractual obligations by specified categories as of December 31, 2016.

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	Total	Less Than 1 Year	Payment Due by Period		More Than 5 Years
			1-3 Years (In RMB thousands)	3-5 Years	
Operating lease obligations(1)	261,383	77,931	135,670	47,782	
Long-term debt obligation(2)	151,491	32,694	114,502	4,295	
Total	412,874	110,625	250,172	52,077	

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(1) Mainly include operating lease for our office building and rental payments for employees accommodations, bandwidth and internet data centers.

(2) Please see Bank Loans under Note 10 to our audited consolidated financial statements. The total interest to be paid for these loans is approximately RMB7.5 million (US\$1.1 million).

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See Forward-Looking Statements on page 2 of this annual report.

**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.

<b>Directors and Executive Officers</b>	<b>Age</b>	<b>Position/Title</b>
Jun Lei	47	Chairman of Board of Directors
Sheng Fu	39	Chief Executive Officer and Director
Tao Zou	41	Director
Yuk Keung Ng	52	Director and Principal Financial Officer
David Ying Zhang	43	Independent Director
Ke Ding	44	Director
Jeffrey Zhaohui Li	41	Director
Wei Liu	40	Director
Richard Weidong Ji	49	Independent Director
Ming Xu	38	President
Vincent Zhenyu Jiang	43	Chief Financial Officer
Charles Chenggong Fan	45	Chief Technology Officer
Jie Xiao	42	Senior Vice President
Yong Chen	38	Senior Vice President

Note:

On April 10, 2017, Mr. Vincent Zhenyu Jiang was appointed as our chief financial officer to succeed our former chief financial officer, Mr. Ka Wai Andy Yeung, who resigned in March 2017 to pursue other opportunities. Mr. Yuk Keung Ng, a director of our company and the chief financial officer and executive director of our parent company Kingsoft Corporation, has been acting as our principal financial officer since Mr. Yeung's departure and will continue to assume such a role during the transition period for Mr. Jiang.

*Jun Lei* has been our director since October 2010 and the chairman of our board since September 2011. Mr. Lei was appointed to be a director of our company by Kingsoft Corporation, a company listed on the Hong Kong Stock Exchange (Stock Code: 3888). Mr. Lei is a co-founder and is currently the chairman and the chief executive officer of Kingsoft Corporation. From October 1998 to December 2007, Mr. Lei served as the chief executive officer of

Kingsoft Corporation. In 2010, Mr. Lei co-founded and has since then served as the chairman of Xiaomi Corporation, a smartphone and mobile internet company in China. From April 2000 to March 2005, Mr. Lei co-founded and served as the chairman of Joyo.com, which was later acquired by Amazon.com, Inc. in 2004 and became Amazon China. In addition, Mr. Lei is an active private equity investor and currently serves as a director or advisor in several privately held companies that he founded or invested in. Mr. Lei received his bachelor's degree in computer science from Wuhan University in China in 1991.

*Sheng Fu* has been our chief executive officer and director since December 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 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.

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*Tao Zou* has been our director since December 2016. Mr. Zou, who has worked at Kingsoft Corporation for approximately twenty years, is currently an executive director and the chief executive officer of Kingsoft Corporation. Mr. Zou is also the chief executive officer and director of Seasun Holdings Limited, a subsidiary of Kingsoft Corporation. Mr. Zou also serves as a director of Xunlei Limited (NASDAQ: XNET) and a director of 21Vianet Group, Inc. (NASDAQ: VNET). He graduated from Tianjin Nankai University in 1997.

*Yuk Keung Ng* has been our director since July 2012 and our principal financial officer since April 2017. Mr. Ng was appointed to be our director by Kingsoft Corporation, at which Mr. Ng serves as an executive director and the chief financial officer. Mr. Ng has more than twenty years of experience in financial management, corporate finance and merger and acquisition. Before joining Kingsoft Corporation, from 2006 to 2012, Mr. Ng was the chief financial officer of two companies listed on the Hong Kong Stock Exchange, including China NT Pharma Group Company Limited (Stock Code: 1011) and China Huiyuan Juice Group Ltd. (Stock Code: 1886). Prior to that, Mr. Ng had worked for over 12 years with PricewaterhouseCoopers from 1988 to 2001. Mr. Ng is currently an independent director of various companies listed on the Hong Kong Stock Exchange, including Sany Heavy Equipment International Holdings Company Limited (Stock Code: 631), Winsway Coking Coal Holdings Limited (Stock Code: 1733) and Zhongsheng Group Holdings Limited (Stock Code: 881). Mr. Ng is a professional accountant and a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and a member of the Institute of Chartered Accountants in England and Wales. Mr. Ng obtained a master's degree in global business management and e-commerce in 2002 and graduated from the University of Hong Kong with a bachelor's degree in social sciences in 1988.

*David Ying Zhang* has been our director since October 2010. Mr. Zhang was appointed to be our director by Matrix Partners China. Our board of directors has determined that Mr. Zhang meets the independence standards under Rule 10A-3 under the Exchange Act and applicable NYSE corporate governance rules. Mr. Zhang is a founding managing partner of Matrix Partners China, where he oversees all of its private equity investment firm's operations. Mr. Zhang is currently also a director of Momo Inc. (NASDAQ: MOMO). Prior to joining us, since 2002, Mr. Zhang established and expanded WI Harper Group's Beijing operations and co-managed its China portfolios. Prior to joining WI Harper Group, Mr. Zhang worked at Salomon Smith Barney, where he was responsible for analyzing, structuring and marketing companies in the internet, software and semiconductor sectors. Before then, Mr. Zhang worked at ABN AMRO Capital as a senior venture associate. Mr. Zhang received a master of science degree in biotechnology and business from Northwestern University in 1999 and a bachelor of science degree in clinical science with minor in chemistry from California State University in 1997.

*Ke Ding* has been our director since June 2013. Mr. Ding was appointed to be our director by TCH Copper Limited, an affiliate of Tencent Holdings Limited, a Hong Kong-listed company (Stock Code: 0700), or Tencent, and one of our major shareholders. Since March 2011, Mr. Ding has been the vice president in charge of mobile internet business at Tencent. Prior to that, Mr. Ding had been the general manager in charge of Tencent's 3G products center since May 2009. Mr. Ding received a master's degree in theoretical and applied automated control from Lanzhou University of Technology, China, in 1997, and a bachelor's degree of science from Xidian University, China, in 1994.

*Mr. Jeffrey Zhaohui Li* has been our director since November 2015. Mr. Li currently serves as the managing partner of investment and general manager of mergers & acquisitions (M&A) at Tencent, focusing on Tencent's global investment and M&A activities in interactive entertainment and gaming, social networking service, O2O (online-to-offline), and internet finance, among other areas. He leads Tencent's investment strategy in worldwide gaming industry. Mr. Li is also responsible for Tencent's early stage and growth stage investment strategy in China and multiple countries. In recent years, he launched and led Tencent's ongoing investment efforts to penetrate key O2O sectors, including social commerce, automotive, education and healthcare, among others. He was responsible for Tencent's investments in Huayi Brothers Media Corp., Zhihu.com, Netmarble Games, Howbuy.com and many others around the world. Before joining Tencent, Mr. Li was the investment principal at Bertelsmann Asia Investment, where he led the investment in BitAuto (NYSE: BITA) and Phoenix New Media (NYSE: FENG). Before that, he worked for Google and Nokia in various product and business roles, where he gained substantial experience in the internet and mobile arenas. Mr. Li holds a bachelor's degree from Peking University and an M.B.A. degree from Duke University's Fuqua School of Business.



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*Wei Liu* has been our director since May 2013. Mr. Liu was appointed to be our director by Kingsoft Corporation, at which Mr. Liu serves as a vice president. Mr. Liu joined Kingsoft Corporation in 2000 as a manager, and was promoted to be the director of human resources in 2007, an assistant president in April 2012 and then the current position of vice president. Mr. Liu graduated from China University of Mining and Technology in 1999 with a bachelor's degree in economics.

*Richard Weidong Ji* has been our director since May 7, 2014. Our board of directors has determined that Mr. Ji meets the independence standards under Rule 10A-3 under the Exchange Act and applicable NYSE corporate governance rules. Mr. Ji is the founding partner of All-Star Investment Limited, which aims to invest in internet technology leaders and consumer brands that help enhance the lives of Chinese consumers. Mr. Ji is also an independent director and a member of the audit committee of the board of the NASDAQ-listed YY Inc. Mr. Ji served as managing director and head of Asia-Pacific internet/media investment research at Morgan Stanley Asia Limited from 2005 to 2012, during which period he had won recognitions from publications and research groups such as Institutional Investor, Greenwich Associates, Asiamoney and Financial Times. Mr. Ji holds a doctor of science degree in biological science from Harvard University, an MBA from the Wharton School of Business at the University of Pennsylvania and a bachelor of science from Fudan University in China.

*Ming Xu* has been our president since November 2014. Mr. Xu had served as our chief technology officer from October 2010 to February 2016. Mr. Xu has more than ten years of experience in the research and development of anti-virus and internet security. Prior to joining us, between September 2008 and October 2010, Mr. Xu served as the chief technology officer of Conew.com Corporation. Between 2005 and August 2008, Mr. Xu worked at Qihoo, where he was the technical director of 360 department, a division then in charge of developing 360 products. Between 2003 and 2005, Mr. Xu worked in various Internet companies, including Yahoo! Inc. and Beijing 3721 Technology Co., Ltd. as a software engineer. Mr. Xu received a master's degree and a bachelor's degree in engineering from Harbin Institute of Technology, China, in 2002 and 1999, respectively.

*Vincent Zhenyu Jiang* has been our chief financial officer since April 2017. Mr. Jiang joined us from a start-up tech company which he founded in 2015. From 2014 to 2015, Mr. Jiang served as the chief financial officer of 9F Inc., an internet finance company in China. From 2008 to 2014, he was an attorney at Skadden, Arps, Slate, Meagher & Flom LLP. Mr. Jiang has been a CFA charterholder since 2013. He received his juris doctor degree from Cornell Law School in 2008, his master's degree in mechanical engineering from the Pennsylvania State University in 1999, and his master's and bachelor's degrees in automotive engineering from Tsinghua University in 1998 and 1995, respectively.

*Charles Chenggong Fan* has been our chief technology officer since February 2016. Prior to joining us, Mr. Fan served as the senior vice president of VMware Inc., or VMware, a leading cloud computing company, where he led its storage and big data businesses. Mr. Fan was also the founder of the China research and development centers of VMware and EMC Corporation. Mr. Fan started his career as an entrepreneur, co-founding file virtualization startup Rainfinity, which was acquired by EMC Corporation in 2005. He has rich experience in distributed systems, cloud infrastructure and big data. He received his Ph.D. in 2001, a master of science degree in Electrical Engineering from the California

Institute of Technology in 1996 and a bachelor's degree in electrical engineering from Cooper Union in 1995.

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*Jie Xiao* has been 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, and commercial products. From 2008 to 2010, she was a senior manager at the enterprise marketing department of Baidu, Inc. (NASDAQ: BIDU), focusing on public relations. Prior to that, she worked as a public relations director at Qihoo and a communications manager for Yahoo! China. She received a bachelor's degree in accounting from Renmin University in 1999.

*Yong Chen* has been our senior vice president since November 2014, after having served as our vice president since October 2010. Mr. Chen is in charge of the development of Duba Anti-virus, our core anti-virus product, and some other products. Between 2001 and 2010, Mr. Chen held various positions at Kingsoft Corporation's subsidiaries responsible for research and development, including the development of Duba Anti-virus. Mr. Chen has won several awards for innovation and is the inventor of five issued patents. He received a bachelor of engineering degree from Jingdezhen Ceramic Institute, China, in 2001.

**B. Compensation**

**Compensation of Directors and Officers**

For the fiscal year ended December 31, 2016, we paid an aggregate of approximately RMB13.4 million (US\$1.9 million) in cash to our executive officers, including our executive director, and an aggregate of approximately RMB972,000 (US\$140,000) in cash to our non-executive 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, 2016, we contributed an aggregate of approximately RMB890,000 (US\$128,000) for pension, retirement benefits or other similar benefits for our executive officers, including our executive director.

**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.

***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, 2017, 94,832,193 restricted shares (excluding those that have been forfeited) had been granted under the 2011 Plan.

The following paragraphs summarize the key terms of the as amended 2011 Plan.

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**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.

*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, 2017, 54,802,331 restricted shares with a purchase price (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.

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**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.

*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, 2017, 52,037,178 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.



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**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, 2017, 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
Sheng Fu	1,952,667	N/A	March 21, 2014	May 25, 2021
	19,307,951	0.34	March 21, 2014	January 1, 2024
David Ying Zhang	*	N/A	May 8, 2015	May 25, 2021
Richard Weidong Ji	*	N/A	May 8, 2015	May 25, 2021
Ming Xu	*	N/A	March 21, 2014	May 25, 2021
	*	0.34	March 21, 2014	January 1, 2024
Charles Chenggong Fan	*	0.34	April 1, 2016	April 24, 2024
Yong Chen	*	N/A	June 1, 2011	May 25, 2021
	*	0.34	January 31, 2016	April 24, 2024
Jie Xiao	*	N/A	January 1, 2012	May 25, 2021
	*	0.34	January 31, 2016	April 24, 2024
Other individuals as a group	48,927,753	N/A		
<b>Total</b>	<b>93,856,021</b>			

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\* 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.

**Other Share Incentive Awards**

In addition to awards granted pursuant to our share incentive plans, as of March 31, 2017, we granted an aggregate of 4,267,340 restricted shares (excluding those that have been forfeited) to certain individuals for their employment with us in connection with certain investments and acquisitions made by us. Such awards are subject to such employees continued employment with us for specified terms.

#### **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.

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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 nine 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 Richard Weidong Ji and David Ying Zhang, and is chaired by Richard Weidong Ji. Our board of directors has determined that Richard Weidong Ji and David Ying Zhang both meet the independence requirements of NYSE and the independence standards under Rule 10A-3 under the Exchange Act. We have determined that Richard Weidong Ji 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.

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*Compensation Committee*

Our compensation committee consists of Jun Lei, Richard Weidong Ji and David Ying Zhang, and is chaired by Jun Lei. Our board of directors has determined that David Ying Zhang and Richard Weidong Ji both satisfy 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 Jun Lei, Sheng Fu and David Ying Zhang, and is chaired by David Ying Zhang. Our board of directors has determined that David Ying Zhang satisfies 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.

Table of Contents**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.

**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 1,892, 2,250 and 2,831 employees as of December 31, 2014, 2015 and 2016, respectively. The following table sets forth the number of our employees, categorized by function, as of December 31, 2016:

<b>Function</b>	<b>Number of Employees</b>
Operations	311
Research and development	1,654
Sales and marketing	477
General and administrative	389
Total	2,831

**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, 2017 by:

- each of our current directors and executive officers; and
- each person known to us to own beneficially more than 5% of our shares.



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Percentage of beneficial ownership is based on 1,430,736,715 total outstanding ordinary shares as of March 31, 2017, representing the sum of 415,608,263 Class A ordinary shares and 1,015,128,452 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 Beneficially Owned %(1)	Voting Power %(2)
	Class A Ordinary Shares	Class B Ordinary Shares		
<b>Directors and Executive Officers**:</b>				
Jun Lei(3)	17,660,294		1.2	0.2
Sheng Fu(4)	39,454,000	58,279,452	6.8	5.9
Tao Zou(5)				
Yuk Keung Ng	*		*	*
David Ying Zhang(6)	4,656,049	22,168,675	1.9	2.1
Ke Ding(7)				
Jeffrey Zhaohui Li				
Wei Liu				
Richard Weidong Ji(8)	*		*	*
Ming Xu(9)	13,477,000	40,357,764	3.7	3.9
Vincent Zhenyu Jiang				
Charles Chenggong Fan	*		*	*
Jie Xiao(10)	9,100,000	4,999,910	1.0	0.6
Yong Chen	*	*	*	*
All directors and executive officers as a group	88,852,502	135,405,801	15.5	13.7
<b>Principal Shareholders:</b>				
Kingsoft Corporation Limited(11)	11,800,547	662,806,049	47.2	62.8
Tencent Holdings Limited(12)	15,031,120	220,481,928	16.5	21.0
Sheng Global Limited(13)	39,454,000	46,362,126	6.0	4.8

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. 8, Hui Tong Times Square, Yaojiayuan South Road, Beijing 100123, 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) 1,430,736,715 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, 2017.

(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) 14,285,714 Class A ordinary shares held by Xiaomi Ventures Limited and beneficially owned by Mr. Lei, and (ii) 3,374,580 Class A ordinary shares represented by ADSs held by Go Corporate Limited and beneficially owned by Mr. Lei.

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(4) Represents (i) 32,500,000 Class A ordinary shares represented by restricted ADSs and 39,062,126 Class B ordinary shares held by Sheng Global Limited, a British Virgin Islands company wholly owned by Mr. Fu, (ii) 6,954,000 Class A ordinary shares and 7,300,000 Class B ordinary shares, or 66.7% of the 10,431,000 Class A ordinary shares (represented by restricted ADSs) and 10,950,000 Class B ordinary shares, respectively, held by FaX Vision Corporation, a BVI company 66.7%-owned by Sheng Global Limited, (iii) 976,344 Class B ordinary shares that have vested to Mr. Fu under our 2011 Plan, and (iii) 10,940,982 Class B ordinary shares that Mr. Fu may purchase upon vesting of restricted shares granted to him under our share incentive plans within 60 days after March 31, 2017. On February 12, 2017, Mr. Fu entered into a voting proxy agreement with Kingsoft Corporation, 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. The effectiveness of the agreement is subject to Kingsoft Corporation's shareholder approval and signing of a definitive agreement between Mr. Fu and our company in relation to a potential transfer of Mr. Fu's interest in certain robotics business to our company (subject to approval of our audit committee and board of directors). For further details, see Item 4. Information on the Company A. History and Development of the Company .

(5) The business address of Mr. Zou is c/o Kingsoft Corporation Limited, Kingsoft Tower, No.33, Xiaoying West Road, Haidian District, Beijing 100085, People's Republic of China.

(6) Represents (i) an aggregate of 4,552,090 Class A ordinary shares and 22,168,675 Class B ordinary shares held by Matrix Partner China I, L.P. and Matrix Partner China I-A, L.P., or collectively, the Matrix Partners Funds, as reported on the amendment to Schedule 13G jointly filed by the Matrix Partners Funds and other persons on February 5, 2016, (ii) 69,306 Class A ordinary shares that have vested to Mr. Zhang under our share incentive plans, and (iii) 34,653 Class A ordinary shares that Mr. Zhang may receive or purchase upon vesting of restricted shares under our share incentive plans within 60 days after March 31, 2017. Mr. Zhang is the managing partner of Matrix Partner Funds and may therefore be deemed to be a beneficial owner of the shares owned by Matrix Partner Funds. The business address of Mr. Zhang is Suite 2601, Taikang Financial Tower, Yard No. 38, 3rd East Ring Road North, Chaoyang District, Beijing, People's Republic of China.

(7) The business address of Mr. Ding is c/o Tencent Holdings Limited, Tencent Building, Kejizhongyi Avenue, Hi-tech Park, Nanshan District, Shenzhen, 518057, People's Republic of China.

(8) The business address of Mr. Ji is Suite 2103 21/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong.

(9) Represents (i) 10,000,000 Class A ordinary shares represented by restricted ADSs and 30,781,062 Class B ordinary shares held by XaDvision Global Limited, a British Virgin Islands company wholly owned by Mr. Xu, (ii) 3,477,000 Class A ordinary shares and 3,650,000 Class B ordinary shares, or 33.3% of the 10,431,000 Class A

ordinary shares (represented by restricted ADSs) and 10,950,000 Class B ordinary shares, respectively, held by FaX Vision Corporation, a BVI company 33.3%-owned by XaDvision Global Limited, (iii) 488,176 Class B ordinary shares that have vested to Mr. Xu under our 2011 Plan, and (iv) 5,438,526 Class B ordinary shares that Mr. Xu may purchase upon vesting of restricted shares granted to him under our share incentive plans within 60 days after March 31, 2017.

(10) Represents (i) 8,500,000 Class A ordinary shares and 2,500,000 Class B ordinary shares held by a holding company controlled by Ms. Xiao, (ii) 2,499,910 Class B ordinary shares that have vested to Ms. Xiao under our 2011 Plan, and (iii) 600,000 Class A ordinary shares that Ms. Xiao may purchase upon vesting of restricted shares under our share incentive plans within 60 days after March 31, 2017.

(11) 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). 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. The effectiveness of the agreement is subject to Kingsoft Corporation's shareholder approval and signing of a definitive agreement between Mr. Fu and our company in relation to a potential transfer of Mr. Fu's interest in certain robotics business to our company (subject to approval of our audit committee and board of directors). For further details, see Item 4. Information on the Company A. History and Development of the Company. Kingsoft Corporation's business address is Kingsoft Tower, No. 33, Xiaoying West Road, Haidian District, Beijing 100085, People's Republic of China.

(12) 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.

(13) Represents (i) 32,500,000 Class A ordinary shares represented by restricted ADSs and 39,062,126 Class B ordinary shares held by Sheng Global Limited and (ii) 6,954,000 Class A ordinary shares and 7,300,000 Class B ordinary shares, or 66.7% of the 10,431,000 Class A ordinary shares (represented by restricted ADSs) and 10,950,000 Class B ordinary shares, respectively, held by FaX Vision Corporation, a BVI company 66.7%-owned 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, 2017, to our knowledge, on the same basis of calculation as above, 381,796,090 Class A ordinary shares represented by ADSs, or approximately 26.7% 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.



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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 proposed 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 that may, 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 our 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 Our VIEs.

**Transactions and Agreements with Kingsoft Corporation and its Subsidiaries**

Kingsoft Corporation is our controlling shareholder, with beneficial ownership and voting power of 47.2% and 62.8%, respectively, of our outstanding Class A and Class B ordinary shares on an as-converted basis as of March 31, 2017. Kingsoft Corporation has the power acting alone to approve any action requiring a vote of the majority of our ordinary shares.

Our company has certain common directors and officers with Kingsoft Corporation. As of the date of this annual report, Mr. Jun Lei, the chairman of our board of directors, also serves as the chairman and non-executive director of Kingsoft Corporation. Mr. Tao Zou, one of our directors, is also the chief executive officer and director of Kingsoft Corporation. Mr. Yuk Keung Ng, one of our directors and our principal financial officer, is also the chief financial officer and director of Kingsoft Corporation. Mr. Wei Liu, one of our directors, is also a vice president of Kingsoft Corporation. Mr. Sheng Fu, our chief executive officer and director, also serves as a senior vice president at 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. Under the Hong Kong Listing Rules, we are a connected person of Kingsoft Corporation. Accordingly, transactions between us, our subsidiaries and our VIEs, on the one hand, and Kingsoft Corporation or any of its subsidiaries (excluding us and our subsidiaries and VIEs), on the other hand, are 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 is subject to the approval of the independent shareholders of Kingsoft Corporation.

***Non-compete Undertaking***

In connection with our initial public offering, we entered into a non-compete undertaking with Kingsoft Corporation in May 2014 on the following terms:

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- We will not develop games and will only operate games that have been developed by third-party developers, except that we may acquire a majority interest in a third-party game developer if Kingsoft Corporation chooses not to acquire such interest following our referral of the opportunity to it. We may operate games developed by Kingsoft Corporation and its remaining subsidiaries subject to the relevant requirements under Chapter 14A of the Hong Kong Listing Rules, which governs connected transactions.
- Kingsoft Corporation and its remaining subsidiaries will use their best efforts to limit their revenue from the operation of third party-developed games through dedicated websites and platforms to less than 5% of their total revenue derived from the operation of self-developed and third party-developed games. If this threshold is exceeded in any financial year, Kingsoft Corporation is required to refer to us certain new opportunities relating to the operation of third party-developed games in the next financial year.
- We will refer all new opportunities relating to the development of games to Kingsoft Corporation and its remaining subsidiaries, except that we may continue to acquire minority interests (i.e., less than 50% interest) in third-party game developers. If, following the acquisition of a minority interest in a game developer, we are able to acquire additional interests in such developer such that we will have an aggregate interest exceeding 50%, we will first offer the right to acquire such additional interests to Kingsoft Corporation. If Kingsoft Corporation chooses not to take up such right, we may do so.
- All decisions by Kingsoft Corporation with respect to whether to take up the right of first offer will be made by the directors of Kingsoft Corporation that do not hold positions at our company.
- Kingsoft Corporation and its remaining subsidiaries will refer all new opportunities relating to information security software, web browsers, the provision of information security service across devices and the provision of online advertising services relating to the information security software business to us. If we choose not to take up such opportunities, Kingsoft Corporation and its remaining subsidiaries may do so.

***Cooperation Framework Agreement***

Historically, we have entered into various transactions from time to time with Kingsoft Corporation and its subsidiaries. In order to regulate such ongoing transactions, 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 will mutually provide 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 advertisements;
- *Licensing services.* We and Kingsoft Corporation will grant licenses to each other to use, among others, certain technologies, trademarks and software products;
- *Leasing transactions.* Kingsoft Corporation will provide property leasing and asset leasing to our company; and
- *Miscellaneous services.* Kingsoft Corporation will provide miscellaneous services to our company, including but not limited to administration assistance services and technology support services.

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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.

For the years ended December 31, 2014, 2015 and 2016, we recognized aggregate fees of RMB7.8 million, RMB7.6 million and RMB26.6 million (US\$3.8 million), respectively, to Kingsoft Corporation and its subsidiaries for leasing and miscellaneous services they provided to us, in addition to the licensing fees recognized pursuant to separate licensing agreements. See Intellectual Property Licensing Arrangements. For the years ended December 31, 2014, 2015 and 2016, we recognized aggregate revenues of RMB1.7 million, nil and RMB109,000 (US\$16,000), respectively, from Kingsoft Corporation and its subsidiaries for promotion services and online marketing services that we provided to Kingsoft Corporation and its subsidiaries.

***Intellectual Property Licensing Arrangements***

On January 1, 2009, 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. Pursuant to this agreement, which was later amended in October 2013, we incurred an aggregate license fee of RMB14.6 million, RMB9.1 million and RMB12.2 million (US\$1.8 million) for the years ended December 31, 2014, 2015 and 2016, respectively.

We entered into an intellectual property transfer and license framework agreement with Kingsoft Corporation on April 1, 2014, pursuant to which Kingsoft Corporation agreed to transfer and license to us certain intellectual property it owns that is related to our business, for a total consideration of RMB13.6 million (US\$2.0 million), tax inclusive. The intellectual property transferred includes software copyrights, registered and pending trademarks and approved and pending patents. In addition, we agreed to grant Kingsoft Corporation the right to use the patents and trademarks it transferred to us to promote Kingsoft Corporation and our company, for an aggregate consideration of RMB0.4 million (US\$0.1 million), tax inclusive. Kingsoft Corporation also agreed to license to us certain patents and trademarks it did not transfer to us that are related to our business. However, these licenses do not allow us to promote lines of business in competition with Kingsoft Corporation. These licenses will terminate upon expiration or rejection of application of the relevant patents and trademarks, and will terminate automatically when Kingsoft Corporation ceases to be our major shareholder, as such term is defined in the Hong Kong Listing Rules. For the years ended December 31, 2014, 2015 and 2016, we incurred an aggregate license fee of RMB2.1 million, nil and nil, respectively, pursuant to the intellectual property transfer and license framework agreement.

***Corporation Promotion Agreements***

We entered into corporation promotion agreements with Zhuhai Kingsoft Office Software, a subsidiary of Kingsoft Corporation, in 2014, 2015 and 2016. 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, 2014, 2015 and 2016, we incurred an aggregate promotion fee of RMB24.5 million, RMB28.2 million and RMB22.6 million (US\$3.3 million), respectively, pursuant to such promotion agreements.



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***Purchase of Equity Interest in Kingsoft Japan***

On March 18, 2014, we entered into an equity transfer agreement with Kingsoft Corporation to purchase 20% equity interest of Kingsoft Japan, a then subsidiary of Kingsoft Corporation, for an aggregate purchase price in cash of JPY614 million (equivalent to RMB37 million). In October 2014 and January 2016, we acquired an additional 26.1% equity interest in aggregate of Kingsoft Japan from other third-party shareholders of Kingsoft Japan. On January 29, 2016, we entered into supplemental agreements with Kingsoft Corporation, whereby Kingsoft Corporation agreed to appoint us as voting proxy for its 5% equity interest in Kingsoft Japan at any shareholders' meeting of Kingsoft Japan. The acquisition was accounted for as a transaction under common control and the results of Kingsoft Japan have since then been consolidated in our consolidated financial statements retrospectively throughout the periods presented at historical carrying value.

In the future, for so long as Kingsoft Corporation remains our controlling shareholder, we intend to enter into new agreements, or make amendments to existing agreements, between us and Kingsoft Corporation that involve significant expenditures or commitments with reference to the terms of similar agreements between unrelated third parties. We will also submit such agreements and amendments for review by the audit committee of our board of directors, which will assess such agreements and amendments for potential conflicts of interest in accordance with NYSE rules and seek to ensure that terms of such agreements and amendments are no less favorable than would be comparable agreements between us and an unaffiliated third party. In assessing a related party transaction, the audit committee will be required to consider such factors as (i) the benefits to us of the transaction; (ii) whether such transaction is on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances; (iii) the materiality of the transaction to us; and (iv) the extent of the related party's interest in the transaction.

**Transactions with Other Affiliates**

***Transactions with Tencent Shenzhen***

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. The annual caps of all the transactions under this agreement, as amended on July 31, 2014, June 30, 2015 and November 5, 2015, was RMB100 million (US\$14.4 million) and RMB340 million (US\$49.0 million) for the years ended December 31, 2014 and 2015, respectively. On January 30, 2015, we entered into a supplemental agreement with Tencent Shenzhen, pursuant to which Tencent Shenzhen agrees to provide promotion services to us, subject to an annual cap of RMB100 million (US\$14.4 million) for the year ended 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 for the years ended December 31, 2016 and 2017, subject to annual caps of RMB495 million (US\$71.3 million) and RMB587 million (US\$84.5 million), respectively, for our services provided to the Tencent Group, and RMB30 million (US\$4.3 million) and RMB45 million (US\$6.5 million), respectively, for services provided by the

Tencent Group to us. On November 19, 2016, we entered into a supplemental agreement with Tencent Shenzhen, pursuant to which the annual caps for services that we will provide to the Tencent Group were revised to RMB47.5 million (US\$6.8 million) and RMB62.5 million (US\$9.0 million) for the years ended December 31, 2016 and 2017, respectively.

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Pursuant to the strategic cooperation agreements, as amended, for the years ended December 31, 2014, 2015 and 2016, we recognized total revenues of RMB78.4 million, RMB293.5 million and RMB153.6 million (US\$22.1 million), respectively, from the Tencent Group, and recognized aggregate fees of nil, RMB41.6 million and RMB39.1 million (US\$5.6 million), respectively, to the Tencent Group.

***Transactions with Xiaomi***

We have entered into various agreements with the subsidiaries and affiliates of Xiaomi Corporation, or Xiaomi, which is a Cayman Islands company controlled by Mr. Jun Lei, the chairman of our board of directors. Pursuant to the agreements, we and Xiaomi provide marketing and software installation services to each other. For the years ended December 31, 2014, 2015 and 2016, we recognized total revenues of RMB4.1 million, RMB117,000 and RMB28,000 (US\$4,000), respectively, from Xiaomi, and we recognized aggregate fees of RMB2.9 million, RMB47.8 million and RMB59.4 million (US\$8.6 million), respectively, to Xiaomi.

For additional details regarding the above and other related party transactions, see note 16 to our consolidated financial statements included in this annual report.

**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.

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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. On May 27, 2015, we filed a complaint in the district court of Northern District of California against APUS Group, an Android app developer, for defamation, trade libel, copyright infringement, federal and state false advertising, trademark dilution, unfair competition, intentional interference with prospective economic advantage, and intentional interference with contract, in connection with APUS Group's publication of certain negative statements about our company and products. We sought an injunction, monetary damages for the harm to our business, reputation, and consumer goodwill, account of profits, punitive damages, and attorneys' fees and costs. The case was subsequently settled and we do not believe that it had any significant effects on our financial position or profitability.

We are currently not a party to, and are not aware of any threat of, any legal, arbitration or administrative proceedings that, in the opinion of our management, are likely to have a material and adverse effect on our business, financial condition or results of operations. For a description of certain legal proceedings and arbitration that we are currently involved in, see Note 18. **Commitments and Contingencies** Litigation to our consolidated financial statements for the years ended December 31, 2014, 2015 and 2016 included in this annual report.

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.



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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 chief technology officer, 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.

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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 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 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 the company 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**

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Our ADSs have been listed on The New York Stock Exchange, or the NYSE, since May 8, 2014. Our ADSs currently trade on the NYSE under the symbol CMCM. One ADS represents ten Class A ordinary shares of our company.

The following table provides the high and low trading prices for our ADSs on the NYSE for the time periods indicated.

	High	Trading Price	Low
<b>Annual Highs and Lows</b>			
2014 (since May 8, 2014)	30.77		12.50
2015	36.63		13.33
2016	18.19		8.77
<b>Quarterly Highs and Lows</b>			
First Quarter 2015	30.77		12.50
Second Quarter 2015	36.63		17.23
Third Quarter 2015	29.90		13.33
Fourth Quarter 2015	21.37		13.80
First Quarter 2016	18.19		13.62
Second Quarter 2016	17.13		8.77
Third Quarter 2016	13.79		8.84
Fourth Quarter 2016	13.62		8.91
First Quarter 2017	13.79		9.31
<b>Monthly Highs and Lows</b>			
October 2016	13.62		10.67
November 2016	11.68		9.29
December 2016	10.38		8.91
January 2017	10.70		9.31
February 2017	10.55		9.35
March 2017	13.79		9.62
April 2017 (through April 25, 2017)	11.30		9.85

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**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 was 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 our Class A ordinary shares represented by ADSs.

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**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, 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

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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.

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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 a 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 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. 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. According to SAT Circular 698 and SAT Bulletin 7, 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%. In addition, transferees and transferors in such indirect transfers are subject to tax withholding and reporting obligations, respectively. SAT Bulletin 7 does not replace SAT Circular 698 in its entirety. Instead, it abolishes certain provisions and provides 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.





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**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 our Class A ordinary shares by a U.S. holder (as defined below) that holds the ADSs or our 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. No ruling has been sought from the Internal Revenue Service (the IRS) with respect to any United States federal income tax consequences described below, and there can be no assurance that the IRS or a court will not take a contrary position. 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 voting stock, 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 non-United States, alternative minimum tax, state, or local tax considerations, any non-income tax (such as the United States federal gift and estate tax) considerations, or the Medicare tax. 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 the ownership and disposition of the ADSs or our Class A ordinary shares.

**General**

For purposes of this discussion, a U.S. holder is a beneficial owner of the ADSs or our 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.

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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 our 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 our 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 our 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 average quarterly value of its assets (as determined on the basis of fair market value) 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 and earning a proportionate share of the income of any other corporation in which we own, directly or indirectly, more than 25% (by value) of the stock.

Although the law in this regard is unclear, we treat our VIEs and each of their subsidiaries 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. Assuming that we are the owner of our VIEs and each of their subsidiaries for United States federal income tax purposes, and based upon our income and assets and the market price of our ADSs, we do not believe we were a PFIC for the year ended December 31, 2016 and do not anticipate becoming a PFIC in the foreseeable future.

Assuming that we are the owner of our VIEs and each of their subsidiaries for United States federal income tax purposes, although we do not expect to become a PFIC in the current or future taxable years, the determination of whether we will be or become a PFIC will depend in part upon the value of our goodwill and other unbooked intangibles (which will depend upon the market price of our ADSs from time-to-time, which may be volatile). Among other matters, if our market capitalization declines, we may be or become a PFIC for the current or future taxable years. It is also possible that the IRS may challenge our classification or valuation of our goodwill and other unbooked intangibles, which may result in our company being, or becoming a PFIC for the current or one or more future taxable years.

The determination of whether we will be or become a PFIC will also depend, in part, on the composition of our income and assets, which may be affected by how, and how quickly, we use our liquid assets. Under circumstances where we determine not to deploy significant amounts of cash for active purposes or if we were treated as not owning our VIEs for United States federal income tax purposes, our risk of being classified as a PFIC may substantially increase. Because our PFIC status for any taxable year is a factual determination that can be made only after the close of a taxable year, there can be no assurance that we will not be a PFIC for the current taxable year or any future taxable year. Because PFIC status is determined annually based on the facts at the relevant time, our special United States counsel expresses no opinion with respect to our PFIC status for any taxable year and also expresses no opinion with respect to our expectations regarding our PFIC status. If we were a PFIC

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for any year during which a U.S. holder held the ADSs or our Class A ordinary shares, we generally would continue to be treated as a PFIC for all succeeding years during which such U.S. holder held the ADSs or our Class A ordinary shares.

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The discussion below under *Dividends* and *Sale or Other Disposition of ADSs or Ordinary Shares* is written on the basis that we will not be a PFIC for United States federal income tax purposes. 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 our 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. Thus, we believe that we will be a qualified foreign corporation with respect to dividends paid on the ADSs. Since we do not expect that our Class A ordinary shares will be listed on 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 our 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 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 withholdings, 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.

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***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 ADSs or 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 may elect to treat the gain as PRC source income. 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 our Class A ordinary shares, including the availability of the foreign tax credit under their particular circumstances.

***Passive Foreign Investment Company Rules***

If we are a PFIC for any taxable year during which a U.S. holder holds the ADSs or our Class A ordinary shares, and unless the U.S. holder makes a mark-to-market election (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 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.



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If we are a PFIC for any taxable year during which a U.S. holder holds the ADSs or our 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 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 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 our 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 our 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.

***Information Reporting***

Certain U.S. holders may be required to report information to the IRS relating to an interest in specified foreign financial assets, including shares issued by a non-United States corporation, for any year in which the aggregate value of all specified foreign financial assets exceeds US\$50,000 (or a higher dollar amount prescribed by the IRS), subject to certain exceptions (including an exception for shares held in custodial accounts maintained with a United States financial institution). These rules also impose penalties if a U.S. holder is required to submit such information to the IRS and fails to do so.



In addition, U.S. holders may be subject to information reporting to the IRS with respect to dividends on and proceeds from the sale or other disposition of the ADSs or our Class A ordinary shares. Each U.S. holder is advised to consult with its tax advisor regarding the application of the United States information reporting rules to their particular circumstances.

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**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*

Most of our revenues and costs are denominated in foreign currencies, primarily U.S. dollars, and the rest is denominated in Renminbi. Our overseas revenues, as well as costs and expenses denominated in foreign currencies, expose us to the risk of fluctuations in foreign currency exchange rates against the Renminbi. We are a net receiver of foreign currencies and therefore benefit from a weakening of the Renminbi and are adversely affected by a strengthening of the Renminbi relative to the foreign currency. To date, we have not entered into hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. Although our exposure to foreign exchange risks is generally limited, the value of your investment in the ADSs will be affected by the exchange rate between the U.S. dollar and the Renminbi because the value of our business is mainly denominated in Renminbi, while the ADSs are traded in U.S. dollars. Any significant revaluation of RMB against the U.S. dollar may materially affect our revenues and financial position, and the value of, and any dividends payable on, our ADSs in U.S. dollars. See Item 3. Key Information D. Risk Factors Risks Related to Doing Business in China Fluctuations in exchange rates could have a material adverse effect on our results of operations and the value of your investment.

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As of December 31, 2016, we had RMB-denominated cash and cash equivalents and short-term investments of RMB670.6 million, and U.S. dollar denominated cash and cash equivalents and short-term investments of US\$115.5 million. Assuming we had converted RMB670.6 million into U.S. dollars at the exchange rate of RMB6.9430 for US\$1.00 as of December 31, 2016, our U.S. dollar cash and cash equivalents and short-term investments would have been US\$212.1 million. If the RMB had depreciated by 10% against the U.S. dollar, our U.S. dollar cash and cash equivalents and short-term investments would have been US\$202.5 million instead. Assuming we had converted US\$115.5 million into RMB at the exchange rate of RMB6.9430 for US\$1.00 as of December 31, 2016, our RMB cash and cash equivalents and short-term investments would have been RMB1,472.8 million. If the RMB had depreciated by 10% against the U.S. dollar, our RMB cash and cash equivalents and short-term investments would have been RMB1,553.0 million instead.

***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 RMB28.2 million, RMB14.6 million, and RMB7.8 million (US\$1.1 million), and interest expense of nil, RMB0.5 million and RMB7.9 million (US\$1.1 million), for the years ended December 31, 2014, 2015 and 2016, 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 all held for long-term appreciation or for strategic purposes. All of these are accounted for under cost or equity method and not subject to market price risk. We are not exposed to commodity price risk.

**Item 12. Description of Securities Other than Equity Securities**

**A. Debt Securities**

Not applicable.

**B. Warrants and Rights**

Not applicable.

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**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 depositary 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 depositary 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 depositary may collect its annual fee for depositary 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 depositary may collect any of its fees by deduction from any cash distribution payable to ADS holders that are obligated to pay those fees. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid. The depositary's corporate trust office at which the ADSs will be administered is located at 101 Barclay Street, New York, New York 10286. The depositary's principal executive office is located at One Wall Street, New York, New York 10286.

**Persons depositing or withdrawing shares must pay:**

**For:**

\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)	<ul style="list-style-type: none"> <li>• Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property</li> <li>• Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates</li> </ul>
\$.05 (or less) per ADS	<ul style="list-style-type: none"> <li>• Any cash distribution to ADS holders</li> </ul>
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	<ul style="list-style-type: none"> <li>• Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS holders</li> </ul>
\$.05 (or less) per ADSs per calendar year	<ul style="list-style-type: none"> <li>• Depositary services</li> </ul>
Registration or transfer fees	<ul style="list-style-type: none"> <li>• Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares</li> </ul>
Expenses of the depositary	<ul style="list-style-type: none"> <li>• Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)</li> </ul>

- converting foreign currency to U.S. dollars

Taxes and other governmental charges the depositary or the custodian has to pay on any ADSs or shares underlying ADSs, such as stock transfer taxes, stamp duty or withholding taxes

- As necessary

Any charges incurred by the depositary or its agents for servicing the deposited securities

- As necessary

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**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. For the year ended December 31, 2016, we were entitled to receive approximately US\$0.13 million (after withholding tax) from the depositary as reimbursement for our expenses incurred in connection with, among other things, investor relationship programs related to the ADS facility and the travel expense of our key personnel in connection with such programs. This amount has been fully paid to us as of the date of this annual report.

**PART II**

**Item 13. Defaults, Dividend Arrearages and Delinquencies**

None.

**Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

**E. Use of Proceeds**

None.

**Item 15. Controls and Procedures**

**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 in Rule 13a-15(f) under the Exchange Act. Our management evaluated the effectiveness of our internal control over financial reporting, as required by Rule 13a-15(c) of the Exchange Act, based on criteria established in the Internal Control - Integrated Framework (2013) issued by the



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Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2016.

Our management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of News Republic S.A.S. and Kingsoft Japan, of which we acquired control in 2016. As of December 31, 2016, News Republic S.A.S. constituted RMB425.7 million (US\$61.3 million) and RMB365.4 million (US\$52.6 million) of our total and net assets, respectively, and it contributed RMB16.0 million (US\$2.3 million) and RMB39.6 million (US\$5.7 million) of our revenues and net loss, respectively, for the year ended December 31, 2016. As of December 31, 2016, Kingsoft Japan constituted RMB70.5 million (US\$10.1 million) and RMB50.9 million (US\$7.3 million) of our total and net assets, respectively, and it contributed RMB103.2 million (US\$14.9 million) and RMB6.2 million (US\$0.9 million) of our revenues and net loss, respectively, for the year ended December 31, 2016.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness of our internal control over financial reporting 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 and procedures may deteriorate.

**Attestation Report of the Registered Public Accounting Firm**

Our independent registered public accounting firm, Ernst & Young Hua Ming LLP, has audited the effectiveness of our internal control over financial reporting as of December 31, 2016, as stated in its report, which appears on page F-3 of this Form 20-F.

**Changes in Internal Control over Financial Reporting**

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.

**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. Based upon that evaluation, our management has concluded that, as of December 31, 2016, our disclosure controls and procedures were effective.

**Item 16A. Audit Committee Financial Expert**

Our board of directors has determined that Mr. Richard Weidong Ji, 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

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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.ccm.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.

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	2015		(in thousands)		2016	
Audit fees(1)	US\$	2,219	US\$		1,720	
Audit-related fees(2)	US\$	315	US\$		191	
Tax fees(3)	US\$	301	US\$		85	
All other fees(4)	US\$	112	US\$		48	

## 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 2015 and 2016, the audit refers to financial audit and audit pursuant to Section 404 of the Sarbanes-Oxley Act of 2002.

(2) Audit-related fees means the aggregate fees billed for professional services rendered by our principal auditors for the assurance and related services, which were not included under Audit Fees above. In 2015 and 2016, the professional services are associated with certain due diligence projects.

(3) 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.

(4) All other fees in 2015 and 2016 represent the aggregate fees billed for subscription of certain U.S. GAAP reading materials from our principal auditors and other advisory services rendered by our principal auditors.

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, audit-related 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, audit-related fees, tax fees and all other fees for the year ended December 31, 2016.

**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 March 16, 2016, our board of directors authorized a share repurchase program, whereby our company may repurchase up to US\$100 million of our shares or ADSs for a 12-month period. The share repurchases may be made in accordance with applicable laws and regulations through open market transactions, privately negotiated transactions or other legally permissible means as determined by our management, including through Rule 10b5-1 share repurchase plans. We publicly announced the share repurchase program on March 16, 2016. The share repurchase program expired on March 15, 2017.

The table below is a summary of the shares repurchased by us during 2016. No shares were repurchased during 2016 except during the months indicated and all shares were purchased in the open market pursuant to the share repurchase program announced on March 16, 2016.

<b>Period</b>	<b>Total Number of ADSs Purchased</b>	<b>Average Price Paid Per ADS</b>	<b>Total Number of ADSs Purchased as Part of the Publicly Announced Plan</b>	<b>Approximate Dollar Value of ADSs that May Yet Be Purchased Under the Plan*</b>
May 2016	1,613,434	US\$ 10.6049	1,613,434	US\$ 82,889,695
June 2016	923,374	US\$ 10.9989	923,374	US\$ 72,733,553
<b>Total</b>	<b>2,536,808</b>	<b>US\$ 10.7483</b>	<b>2,536,808</b>	<b>US\$ 72,733,553</b>

\*As of the date of this annual report, dollar value of ADSs that may yet be purchased under our share repurchase program announced on March 16, 2016 is nil as such program has expired on March 15, 2017.

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**Item 16F. Change in Registrant's Certifying Accountant**

Not applicable.

**Item 16G. Corporate Governance**

As of March 31, 2017, Kingsoft Corporation owned 62.8% of the total voting rights in our company. As a result, we are a controlled company under Section 303A of the NYSE Listed Company Manual. As a controlled company, 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.

In addition, we currently rely on the home country practice exemption available under NYSE corporate governance rules to have an audit committee consisting of two instead of three independent directors. 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 controlled company exemptions and home country practice exemptions, our investors may not have the same protection afforded to shareholders of companies that fully comply with NYSE corporate governance requirements.

**Item 16H. Mine Safety Disclosure**

Not applicable.

**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**

<b>Exhibit Number</b>	<b>Description of Document</b>
1.1	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)
2.1	Registrant's specimen American depositary receipt (incorporated by reference to Exhibit 4.1 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 25, 2014)
2.2	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)

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<b>Exhibit Number</b>	<b>Description of Document</b>
2.3	Deposit agreement dated May 7, 2014 among the Registrant, the depositary and owners and holders of the American depositary 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)
4.1*	2011 share award scheme and amendments thereto
4.2	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)
4.3	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)
4.4	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)
4.5	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)
4.6	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)
4.7	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)
4.8	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)
4.9	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)
4.10	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)
4.11	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)
4.12	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)



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<b>Exhibit Number</b>	<b>Description of Document</b>
4.13	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)
4.14	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)
4.15	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)
4.16	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)
4.17	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)
4.18	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)
4.19	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)
4.20	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)
4.21	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)
4.22	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)
4.23	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)

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<b>Exhibit Number</b>	<b>Description of Document</b>
4.24	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)
4.25	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)
4.26	Stock purchase agreement among Hongkong Cheetah Mobile Technology Limited, MobPartner S.A.S. 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)
4.27	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)
4.28	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)
4.29	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)
4.30	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)
4.31	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)
4.32	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)
4.33	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)
4.34*	Supplemental agreement to strategic cooperation agreement dated December 30, 2015 between the Registrant and Shenzhen Tencent Computer Systems Company Limited, dated November 19, 2016
4.35	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)

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<b>Exhibit Number</b>	<b>Description of Document</b>
4.36	Amendment to stock purchase agreement among Hongkong Cheetah Mobile Technology Limited, MobPartner S.A.S. 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)
4.37*	Facebook audience network terms in effect as of the date of this Annual Report on Form 20-F
8.1*	List of subsidiaries and VIEs
11.1	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)
12.1*	Certification by principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	Certification by principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1**	Certification by principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2**	Certification by principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of Global Law Office
15.2*	Consent of Ernst & Young Hua Ming LLP
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

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\* Filed herewith.

\*\* Furnished herewith.

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**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: April 26, 2017

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders of Cheetah Mobile Inc.

We have audited the accompanying consolidated balance sheets of Cheetah Mobile Inc. (the Company) as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive income (loss), cash flows and shareholders' equity for each of the three years in the period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

As disclosed in note 2 to the consolidated financial statements, the Company's consolidated financial statements as of December 31, 2015, and for the years ended December 31, 2014 and 2015 have been restated as a result of the consolidation of Kingsoft Japan Inc. as a subsidiary of the Company on January 29, 2016, which was accounted for as a transaction under common control in accordance with Accounting Standards Codification Topic 805-50-45, *Business Combinations: Related Issues - Other Presentation Matters*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, 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 April 26, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young Hua Ming LLP

Beijing, the People's Republic of China

April 26, 2017



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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders of Cheetah Mobile Inc.

We have audited Cheetah Mobile Inc.'s internal control over financial reporting as of December 31, 2016, 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). Cheetah Mobile Inc.'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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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.

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.

As indicated in the accompanying Management's Annual Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of News Republic S.A.S and Kingsoft Japan, which are included in the 2016 consolidated financial statements of Cheetah Mobile Inc. As of December 31, 2016, News Republic S.A.S constituted RMB425.7 million (US\$61.3 million) and RMB365.4 million (US\$52.6 million) of total and net assets, respectively, and it contributed RMB16.0 million (US\$2.3 million) and RMB39.6 million (US\$5.7 million) of revenues and net loss, respectively, for the year ended December 31, 2016. As of December 31, 2016, Kingsoft Japan constituted RMB70.5 million (US\$10.1 million) and RMB50.9 million (US\$7.3 million) of total and net assets, respectively, and it contributed RMB103.2 million (US\$14.9 million) and RMB6.2 million (US\$0.9 million) of revenues and net loss, respectively, for the year ended December 31, 2016.



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In our opinion, Cheetah Mobile Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Cheetah Mobile Inc. as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive income (loss), cash flows and shareholders' equity for each of the three years in the period ended December 31, 2016 of Cheetah Mobile Inc. and our report dated April 26, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young Hua Ming LLP

Beijing, the People's Republic of China

April 26, 2017

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## CHEETAH MOBILE INC.

## CONSOLIDATED BALANCE SHEETS

(Amounts in thousands of Renminbi ( RMB ) and US dollars ( US\$ ), except for number of shares and per share (or ADS) data)

	Notes	As of December 31,		
		2015 (As adjusted) (a) RMB	2016 RMB	2016 US\$
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		1,843,233	1,411,000	203,226
Restricted cash	2	156,161	167,751	24,161
Short-term investments	4	29,234	361,499	52,067
Accounts receivable (net of allowance for doubtful accounts of RMB17,903 and RMB71,987 (US\$10,369) as of December 31, 2015 and 2016, respectively)	5	633,440	600,885	86,545
Prepayments and other current assets	6	360,004	571,306	82,285
Due from related parties	16	60,794	44,278	6,377
Deferred tax assets	15	5,101	15,527	2,236
<b>Total current assets</b>		<b>3,087,967</b>	<b>3,172,246</b>	<b>456,897</b>
<b>Non-current assets</b>				
Property and equipment, net	7	121,241	117,439	16,915
Intangible assets, net	8	233,092	227,251	32,731
Goodwill	9	617,863	943,922	135,953
Investment in equity investees	4	124,708	100,063	14,412
Other long-term investments	4	700,113	877,094	126,328
Deferred tax assets	15	12,843	74,809	10,775
Other non-current assets	6	28,724	28,310	4,077
<b>Total non-current assets</b>		<b>1,838,584</b>	<b>2,368,888</b>	<b>341,191</b>
<b>Total assets</b>		<b>4,926,551</b>	<b>5,541,134</b>	<b>798,088</b>
<b>LIABILITIES, NONCONTROLLING INTERESTS AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities</b> (including current liabilities of the VIEs and a VIE's subsidiary without recourse to the Company amounting to RMB277,364 and RMB140,487 (US\$20,234) as of December 31, 2015 and 2016, respectively) (note 1)				
Bank loans	10	130,273	379,544	54,666
Accounts payable		137,883	194,882	28,069
Accrued expenses and other current liabilities	11	1,309,191	1,359,758	195,846
Deferred revenue	12	56,070	48,661	7,009
Due to related parties	16	56,932	71,167	10,250
Income tax payable		29,822	12,209	1,759

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Deferred tax liabilities	15	414		
<b>Total current liabilities</b>		<b>1,720,585</b>	<b>2,066,221</b>	<b>297,599</b>
<b>Non-current liabilities</b> (including non-current liabilities of the VIEs and a VIE's subsidiary without recourse to the Company amounting to RMB2,160 and RMB1,304 (US\$188) as of December 31, 2015 and 2016, respectively) (note 1)				
Bank loans	10	10,523	118,797	17,110
Deferred revenue	12	8,166	6,001	864
Deferred tax liabilities	15	99,006	112,438	16,194
Other non-current liabilities	11	73,826	36,499	5,257
<b>Total non-current liabilities</b>		<b>191,521</b>	<b>273,735</b>	<b>39,425</b>
<b>Total liabilities</b>		<b>1,912,106</b>	<b>2,339,956</b>	<b>337,024</b>
<b>Commitments and contingencies</b>	18			

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## CHEETAH MOBILE INC.

## CONSOLIDATED BALANCE SHEETS (CONTINUED)

(Amounts in thousands of Renminbi ( RMB ) and US dollars ( US\$ ), except for number of shares and per share (or ADS) data)

	Notes	As of December 31,		
		2015 (As adjusted) (a) RMB	2016 RMB	2016 US\$
<b>Shareholders equity</b>				
Class A ordinary shares (par value of US\$0.000025 per share; 7,600,000,000 shares authorized; 365,961,759 and 410,608,263 shares issued as of December 31, 2015 and 2016, respectively; 350,398,737 and 380,922,773 shares outstanding as of December 31, 2015 and 2016, respectively)	19	56	65	9
Class B ordinary shares (par value of US\$0.000025 per share; 1,400,000,000 shares authorized; 1,058,514,152 and 1,015,128,452 shares issued as of December 31, 2015 and 2016, respectively; 1,035,037,339 and 1,003,326,973 shares outstanding as of December 31, 2015 and 2016, respectively)	19	170	165	24
Treasury stock (nil and 25,368,080 shares as of December 31, 2015 and 2016, respectively)	21		(178,991)	(25,780)
Additional paid-in capital		2,416,907	2,725,675	392,579
Accumulated other comprehensive income	19	119,116	228,145	32,858
Retained earnings	19	317,818	237,293	34,177
<b>Total Cheetah Mobile Inc. shareholders equity</b>		<b>2,854,067</b>	<b>3,012,352</b>	<b>433,867</b>
<b>Noncontrolling interests</b>		<b>160,378</b>	<b>188,826</b>	<b>27,197</b>
<b>Total equity</b>		<b>3,014,445</b>	<b>3,201,178</b>	<b>461,064</b>
<b>Total liabilities, noncontrolling interests and shareholders equity</b>		<b>4,926,551</b>	<b>5,541,134</b>	<b>798,088</b>

*Note:*

- (a) *Kingsoft Japan Inc. ( Kingsoft Japan ) became a subsidiary of the Company on January 29, 2016, which was accounted for as an under common control transaction in accordance with ASC 805-50. The Company retrospectively adjusted the above comparative consolidated balance sheets in prior year. (Note 3)*

The accompanying notes are an integral part of these consolidated financial statements.

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## CHEETAH MOBILE INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Amounts in thousands of Renminbi ( RMB ) and US dollars ( US\$ ), except for number of shares and per share (or ADS) data)

	Notes	Year ended December 31,			
		2014 (As adjusted) (a) RMB	2015 (As adjusted) (a) RMB	2016 RMB US\$	
<b>Revenues(b)</b>	13	1,858,182	3,773,877	4,564,650	657,446
<b>Cost of revenues(b)</b>		(438,661)	(956,353)	(1,543,817)	(222,356)
<b>Gross profit</b>		1,419,521	2,817,524	3,020,833	435,090
<b>Operating income and expenses (b)</b>					
Research and development		(443,214)	(695,185)	(905,854)	(130,470)
Selling and marketing		(601,433)	(1,505,951)	(1,650,581)	(237,733)
General and administrative		(274,991)	(447,984)	(561,834)	(80,921)
Impairment of goodwill and intangible assets		(8,304)	(49,882)	(2,889)	(416)
Other operating income		1,087	98,376	87,877	12,657
		<b>(1,326,855)</b>	<b>(2,600,626)</b>	<b>(3,033,281)</b>	<b>(436,883)</b>
<b>Operating profit (loss)</b>		<b>92,666</b>	<b>216,898</b>	<b>(12,448)</b>	<b>(1,793)</b>
<b>Other income (expenses)</b>					
Interest income, net		28,221	14,550	7,783	1,121
Changes in fair value of redemption right and put options granted		4,375	22	(94)	(14)
Settlement and changes in fair value of contingent considerations	3/23	(13,749)	7,011	(3,377)	(486)
Foreign exchange gain (loss), net		25	(213)	3,747	540
Impairment of investments	4	(9,136)	(34,728)	(141,069)	(20,318)
Other income, net	3/4	2,862	46,981	87,925	12,664
Losses from equity method investments, net		(6,064)	(12,144)	(11,363)	(1,637)
<b>Income (Loss) before income taxes</b>		<b>99,200</b>	<b>238,377</b>	<b>(68,896)</b>	<b>(9,923)</b>
Income tax (expenses) benefits	15	(27,895)	(63,740)	12,189	1,756
<b>Net income (loss)</b>		<b>71,305</b>	<b>174,637</b>	<b>(56,707)</b>	<b>(8,167)</b>
<b>Less: net income (loss) attributable to noncontrolling interests</b>		2,988	(1,710)	23,818	3,431
<b>Net income (loss) attributable to Cheetah Mobile Inc.</b>		<b>68,317</b>	<b>176,347</b>	<b>(80,525)</b>	<b>(11,598)</b>

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## CHEETAH MOBILE INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (CONTINUED)

(Amounts in thousands of Renminbi ( RMB ) and US dollars ( US\$ ), except for number of shares and per share (or ADS) data)

	Notes	Year ended December 31,			
		2014 (As adjusted) (a) RMB	2015 (As adjusted) (a) RMB	2016 RMB	US\$
<b>Earnings (losses) per share</b>	20				
Basic		0.0530	0.1285	(0.0580)	(0.0084)
Diluted		0.0509	0.1236	(0.0580)	(0.0084)
<b>Earnings (losses) per ADS (1 ADS represents 10 Class A ordinary share)</b>	20				
Basic		0.5301	1.2845	(0.5805)	(0.0836)
Diluted		0.5092	1.2360	(0.5805)	(0.0836)
<b>Weighted average number of shares used in computation of ordinary shares:</b>					
<b>Class A ordinary shares</b>					
Basic		124,564,984	314,229,617	368,910,885	368,910,885
Diluted		1,341,732,457	1,426,810,939	1,387,254,551	1,387,254,551
<b>Class B ordinary shares</b>					
Basic		1,085,936,036	1,058,633,704	1,018,343,666	1,018,343,666
Diluted		1,208,004,257	1,079,059,263	1,018,343,666	1,018,343,666
<b>Other comprehensive (loss) income, net of tax of nil</b>	19				
Foreign currency translation adjustments		(6,083)	115,515	132,450	19,077
Unrealized gains on available-for-sale securities, net		18,119	9,729	1,241	179
Reclassification adjustments for gains included in net income (loss)		(21,121)	(6,814)	(21,666)	(3,121)
<b>Other comprehensive (loss) income</b>		<b>(9,085)</b>	<b>118,430</b>	<b>112,025</b>	<b>16,135</b>
<b>Total comprehensive income</b>		<b>62,220</b>	<b>293,067</b>	<b>55,318</b>	<b>7,968</b>
<b>Less: Total comprehensive income (loss) attributable to noncontrolling interests</b>		<b>3,597</b>	<b>(195)</b>	<b>26,814</b>	<b>3,862</b>
<b>Total comprehensive income attributable to Cheetah Mobile Inc.</b>		<b>58,623</b>	<b>293,262</b>	<b>28,504</b>	<b>4,106</b>

Note:

- (a) Kingsoft Japan became a subsidiary of the Company on January 29, 2016, which was accounted for as an under common control transaction in accordance with ASC 805-50. The Company retrospectively adjusted the above comparative consolidated statements of comprehensive income (loss) in prior years. (Note 3)

(b) *The amount of transactions with related parties recorded in revenue, cost of revenues and operating income (expenses) are as follows:*

	Year ended December 31,		2016	US\$
	2014 (As adjusted) (a) RMB	2015 (As adjusted) (a) RMB		
Revenues	82,191	307,986	155,849	22,447
Cost of revenues	(19,317)	(20,932)	(58,118)	(8,371)
Research and development	(5,942)	(6,448)	(4,788)	(690)
Selling and marketing	(27,379)	(108,422)	(76,933)	(11,081)
General and administrative	(5,158)	(5,072)	(25,620)	(3,690)

Details of the related party transactions are set out in note 16(b) to the consolidated financial statements.

The accompanying notes are an integral part of these consolidated financial statements.

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## CHEETAH MOBILE INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands of Renminbi ( RMB ) and US dollars ( US\$ ), except for number of shares and per share (or ADS) data)

	Year ended December 31,			
	2014 (As adjusted) (a) RMB	2015 (As adjusted) (a) RMB	2016 RMB	US\$
<b>Cash flows from operating activities</b>				
Net income (loss)	71,305	174,637	(56,707)	(8,167)
<b>Adjustments to reconcile net income (loss) to net cash from operating activities</b>				
Depreciation of property and equipment	22,374	26,002	46,455	6,691
Amortization of intangible assets	57,257	120,834	116,903	16,838
Provision for doubtful accounts	5,464	13,188	55,152	7,944
Impairment of goodwill and intangible assets	8,304	49,882	2,889	416
Impairment of investments	9,136	34,728	141,069	20,318
Loss on disposal of property and equipment	10	1,247	118	17
Loss (gain) on disposal of intangible assets		3,539	(5,397)	(777)
Gain on disposal of a VIE's subsidiary			(28,071)	(4,043)
Gain on disposal/deemed disposal of equity method investments		(44,483)	(30,625)	(4,411)
Gain on disposal of cost method investments			(721)	(104)
(Gain) loss on disposal of available-for-sale securities	(1,967)	202	(24,338)	(3,505)
Settlement and changes in fair value of contingent consideration	13,749	(7,011)	3,377	486
Changes in fair value of redemption right and put options granted	(4,375)	(22)	94	14
Losses from equity method investments	6,064	12,144	11,363	1,637
Gain on dividends received from a cost method investee			(123)	(18)
Deferred income tax expenses (benefits)	12,906	(7,080)	(53,432)	(7,696)
Share-based compensation expenses	173,771	315,740	306,149	44,095
	373,998	693,547	484,155	69,735
<b>Changes in operating assets and liabilities</b>				
Restricted cash		(378)	(3,790)	(546)
Accounts receivable	(157,605)	(308,570)	26,067	3,754
Prepayments and other current assets	(86,559)	(158,926)	(176,188)	(25,377)
Due from related parties	(35,134)	(43,332)	15,353	2,211
Other non-current assets	(15,917)	(2,727)	(217)	(31)
Accounts payable	33,325	28,864	50,231	7,235
Accrued expenses and other current liabilities	224,093	639,041	8,037	1,157
Deferred revenue	29,700	15,097	(5,548)	(800)
Due to related parties	5,036	52,373	14,203	2,046
Income tax payable	(7,330)	22,589	(14,752)	(2,125)
Other non-current liabilities	(4,385)	10,909		
<b>Net cash provided by operating activities</b>	<b>359,222</b>	<b>948,487</b>	<b>397,551</b>	<b>57,259</b>
<b>Cash flows from investing activities</b>				
Purchase of property and equipment	(36,561)	(61,901)	(74,161)	(10,681)



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Purchase of intangible assets	(145,108)	(34,590)	(43,530)	(6,270)
Purchase of cost method investments	(157,304)	(399,522)	(304,687)	(43,884)
Purchase of available-for-sale securities	(110,774)		(6,647)	(957)
Purchase of equity method investments	(58,092)	(107,131)	(6,542)	(942)
Purchase of time deposits	(1,388,167)	(481,207)	(915,963)	(131,926)
Proceeds from maturity of time deposits	959,837	901,364	590,566	85,059
Acquisition of business, net of cash acquired	(196,570)	(249,424)	(326,168)	(46,978)
Dividends from a cost method investee			96	14
Proceeds from disposal of a VIE's subsidiary			8,184	1,179
Proceeds from sales of property and equipment	100	490	60	9
Proceeds from sales of intangible assets		3,320		
Proceeds from sales of available-for-sale securities	17,076	7,016	49,565	7,139
Proceeds from maturity of available-for-sale securities		61,146		
Proceeds and deposits from disposal of equity method investments		13,000	16,125	2,322
Proceeds and advance from disposal of cost method investments			32,694	4,709
Entrusted loan to equity investees			(13,000)	(1,872)
Entrusted loan to a third party		(3,000)		
Repayment of entrusted loans from a third party	1,000		3,000	432
Repayment of entrusted loan from an equity investee			6,031	869
Repayment of entrusted loans from an investor of an equity investee	4,940	9,000	1,574	227
<b>Net cash used for investing activities</b>	<b>(1,109,623)</b>	<b>(341,439)</b>	<b>(982,803)</b>	<b>(141,551)</b>

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## CHEETAH MOBILE INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(Amounts in thousands of Renminbi ( RMB ) and US dollars ( US\$ ), except for number of shares and per share (or ADS) data)

	Year ended December 31,			
	2014 (As adjusted) (a) RMB	2015 (As adjusted) (a) RMB	2016 RMB	US\$
<b>Cash flows from financing activities</b>				
Proceeds from bank loans		127,332	332,078	47,829
Repayment for bank loans			(8,873)	(1,278)
Restricted cash for bank loans		(25,466)	(39,190)	(5,645)
Proceeds and advance from exercise of restricted shares with an option feature	2	4,092	37,329	5,376
Settlement of contingent consideration	(4,265)	(27,706)	(30,871)	(4,446)
Share repurchase			(178,991)	(25,780)
Purchase of shares from noncontrolling shareholders	(60,931)		(8,007)	(1,153)
Capital contribution from noncontrolling shareholders	6,750	3,375		
Distribution to a shareholder due to under common control acquisition	(37,166)			
Proceeds from the initial public offering( IPO ) and concurrent private placement	1,409,177			
<b>Net cash provided by financing activities</b>	<b>1,313,567</b>	<b>81,627</b>	<b>103,475</b>	<b>14,903</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>				
	(1,879)	38,820	49,544	7,134
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>561,287</b>	<b>727,495</b>	<b>(432,233)</b>	<b>(62,255)</b>
Cash and cash equivalents at beginning of year	554,451	1,115,738	1,843,233	265,481
Cash and cash equivalents at end of year	1,115,738	1,843,233	1,411,000	203,226
<b>Supplemental disclosures</b>				
Income taxes paid	(21,427)	(24,526)	(67,962)	(9,789)
Interest expense paid		(547)	(7,306)	(1,052)
<b>Non-cash investing and financing activities:</b>				
Acquisition of property and equipment and intangible assets included in accrued expenses and other liabilities	755	43,785	10,902	1,570
Acquisition of a cost method investment included in accrued expenses and other liabilities		5,104		
Acquisition of an equity method investment included in accrued expenses and other liabilities		3,247		
Disposal of an equity method investment included in prepayments and other current assets			22,143	3,189
Contingent consideration payable for business acquisitions	53,592	23,338	25,067	3,610
Non-cash acquisition of an equity method investment	5,000			
Non-cash acquisition of a cost method investment		64,110		
Non-cash acquisition of business	3,000	23,309		

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Note:

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- (a) *Kingsoft Japan became a subsidiary of the Company on January 29, 2016, which was accounted for as an under common control transaction in accordance with ASC 805-50. The Company retrospectively adjusted the above comparative consolidated statements of cash flows in prior years. (Note 3)*

The accompanying notes are an integral part of these consolidated financial statements.

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## CHEETAH MOBILE INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Amounts in thousands of Renminbi ( RMB ) and US dollars ( US\$ ), except for number of shares and per share (or ADS) data)

	Number of Ordinary Shares	Ordinary Shares RMB	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 equity RMB
<b>Balance at January 1, 2014 (As adjusted) (a)</b>	900,551,482	150					71,578		11,895	73,154	156,727
Net income										68,317	68,317
Issuance of ordinary shares upon IPO and concurrent private placement, net of offering costs			173,714,285	27			1,409,150				1,409,177
Re-designation of ordinary shares to Class B ordinary shares	(900,551,482)	(150)			900,551,482	150					
Reclassification of ordinary shares from mezzanine equity to Class B ordinary shares					224,905,170	35	441,906				441,941
Conversion of Class B ordinary shares to Class A ordinary shares by shareholders			45,000,000	7	(45,000,000)	(7)					
Share-based compensation							129,269				129,269
Exercise and vesting of share-based awards			41,331,627	8	15,000,000	2	44,939				44,941
Distribution to a shareholder due to under common control acquisition (note 3)							(37,166)				(37,166)
Other comprehensive (loss) income									(9,694)		(9,694)
Share of reserves of an equity investee							1,013				1,013
Noncontrolling interest in connection with business combination (note 3)											
Capital contribution from a noncontrolling interest shareholder (note 3)							1,250				1,250

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Share purchase from noncontrolling interest shareholders (note 3)					(53,749)			(53,749)
<b>Balance at December 31, 2014 (As adjusted) (a)</b>	260,045,912*	42	1,095,456,652*	180	2,008,190	2,201	141,471	2,152,864
Net income (loss)							176,347	176,347
Conversion of Class B ordinary shares to Class A ordinary shares by shareholders	69,100,000	11	(69,100,000)	(11)				
Share-based compensation					315,083			315,083
Exercise and vesting of share-based awards	14,527,696	2	8,680,687	1	3,954			3,954
Issuance of ordinary shares for business acquisition (note 3)	2,173,039				23,309			23,309
Issuance of ordinary shares in relation to investment in an equity investee	4,552,090	1			64,109			64,109
Other comprehensive income							116,915	116,915
Share of reserves of an equity investee					576			576
Noncontrolling interest in connection with business combination (note 3)								
Capital contribution from a noncontrolling interest shareholder (note 3)					1,686			1,686
<b>Balance at December 31, 2015 (As adjusted) (a)</b>	350,398,737**	56	1,035,037,339**	170	2,416,907	119,116	317,818	2,854,038
Net (loss) income							(80,525)	(80,525)
Conversion of Class B ordinary shares to Class A ordinary shares by shareholders	43,385,700	7	(43,385,700)	(7)				
Share-based compensation					305,689			305,689
Exercise and vesting of share-based awards	12,506,416	2	11,675,334	2	21,911			21,911
Other comprehensive income							109,029	109,029
Share of reserves of an equity investee					240			240
Share purchase from noncontrolling interest shareholders (note 3)					(6,109)			(6,109)
Repurchase of common stock (note 3)					(178,991)			(178,991)

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21)										
Disposal of a VIE s subsidiary (note 3)										
Distribution to a Shareholder due to under common control transaction						(12,963)				(12,963)
<b>Balance at December 31, 2016</b>	406,290,853***	65	1,003,326,973***	165	2,725,675	(178,991)	228,145	237,293		3,012,145
<b>Balance at December 31, 2016, in US\$</b>	406,290,853	9	1,003,326,973	24	392,579	(25,780)	32,858	34,177		433,834

Note:

(a) *Kingsoft Japan became a subsidiary of the Company on January 29, 2016, which was accounted for as an under common control transaction in accordance with ASC 805-50. The Company retrospectively adjusted the above comparative consolidated statements of changes in shareholders' equity in prior years. (Note 3)*

\* As at December 31, 2014, 28,942,648 Class A ordinary shares were deemed issued but not outstanding and excluded, representing 11,511,873 and 14,999,000 Class A ordinary shares issued but not transferred to the grantees under the 2011 Share Award Scheme and the 2013 Incentive Scheme, respectively, and 2,431,775 Class A ordinary shares issued but not yet granted to employee beneficial owners in relation to the acquisition of the HK Zoom business (note 3); 32,157,500 Class B ordinary shares issued but not transferred to the grantees under the 2011 Share Award Scheme were deemed issued but not outstanding and excluded.

\*\* As at December 31, 2015, 15,563,022 Class A ordinary shares were deemed issued but not outstanding and excluded, representing 12,909,200 Class A ordinary shares issued but not transferred to the grantees under the 2013 incentive Scheme, and 2,079,787 Class A ordinary shares issued but not transferred to employee beneficial owners in relation to the acquisition of the HK Zoom business (note 3); 574,035 Class A ordinary shares issued but not transferred to employee beneficial owners in relation to the investment in equity investee; 23,476,813 Class B ordinary shares issued but not transferred to the grantees under the 2011 Share Award Scheme were deemed issued but not outstanding and excluded.

\*\*\* As at December 31, 2016, 4,317,410 Class A ordinary shares were deemed issued but not outstanding and excluded, representing 1,751,450 Class A ordinary shares issued but not transferred to the grantees under the 2013 incentive Scheme, and 1,991,925 Class A ordinary shares issued but not transferred to employee beneficial owners in relation to the acquisition of the HK Zoom business (note 3); 574,035 Class A ordinary shares issued but not transferred to employee beneficial owners in relation to the investment in equity investee; 11,801,479 Class B ordinary shares issued but not transferred to the grantees under the 2011 Share Award Scheme were deemed issued but not outstanding and excluded. 25,368,080 Class A ordinary shares were repurchased but not cancelled and recorded as treasury stock at historical purchase price (note 21).

The accompanying notes are an integral part of these consolidated financial statements.

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**CHEETAH MOBILE INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016**

**(Amounts in thousands of Renminbi ( RMB ) and US dollars ( US\$ ), except for number of shares and per share (or ADS) data)**

**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 online marketing services, internet value-added services and internet security services and others. The Company conducts its primary business operations through its subsidiaries and VIEs. The immediate holding company and the ultimate holding company of the Company is Kingsoft Corporation Limited ( Kingsoft ), a company listed on the Stock Exchange of Hong Kong Limited.

In 2009, Kingsoft undertook a corporate reorganization to establish the Group, which started to specialize in internet security services on a stand-alone basis with separate management oversight distinct from Kingsoft. Subsequent to the reorganization in 2009, all revenues and costs generated by the internet security services, are reflected in the consolidated financial statements of the Group.

Details of the Company's principal subsidiaries and VIEs as of December 31, 2016 are as follows:

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Company	Date of incorporation/ registration	Place of incorporation/ registration	Percentage of ownership	Principal activities
<b>Principle subsidiaries of the Company:</b>				
Cheetah Technology Corporation Limited ( Cheetah Technology )	August 26, 2009	Hong Kong	100%	Investment holding, provision of online advertising services and provision of online games publishing services.
Zhuhai Juntian Electronic Technology Co., Ltd. ( Zhuhai Juntian )	September 28, 2000	The People s Republic of China ( PRC )	100%	Investment holding, research and development and provision of internet security services
Beijing Kingsoft Internet Security Software Co., Ltd. ( Beijing Security )	November 30, 2009	The PRC	100%	Provision of online marketing services, internet security services and research and development of online applications
Conew Network Technology (Beijing) Co., Ltd. ( Conew Network )	March 19, 2009	The PRC	100%	Research and development of mobile applications and provision of online marketing services
Cheetah Mobile America, Inc. ( Cheetah Mobile America )	November 28, 2012	United States	100%	Provision of mobile marketing, value-added services, and research and development services
Hongkong Zoom Interactive Network Marketing Technology Limited ( HK Zoom )	July 4, 2014	Hong Kong	100%	Provision of online marketing services
Hong Kong Youloft Technology Limited ( Youloft HK )	August 1, 2014	Hong Kong	51.9%	Provision of online marketing services
Chongqing Calendar Technology Co., Ltd. ( Chongqing Calendar )	December 3, 2014	The PRC	100%	Provision of online marketing services
Cheetah Information Technology Company Limited ( Cheetah Information )	March 9, 2015	Hong Kong	100%	Investment holding
MobPartner S.A.S. ( MobPartner )	February 23, 2010	France	100%	Provision of online marketing services
MobPartner Inc.	September 20, 2013	United States	100%	Provision of online marketing services
Moxiu Technology (Beijing) Co., Ltd. ( Moxiu )	June 12, 2008	The PRC	52.1%	Provision of mobile application development and provision of



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Technology )				online marketing services
Cheetah Mobile Singapore Pte. Ltd. ( Cheetah Mobile Singapore )	May 27, 2015	Singapore	100%	Provision of online advertising services
News Republic S.A.S. ( News Republic )	March 12, 2008	France	100%	Provision of global mobile news services
Hong Kong Live.Me Corporation Limited ( Hong Kong Live.Me )	October 17, 2016	Hong Kong	100%	Provision of internet value-added services
Taiwan Cheetah Mobile Corporation ( Taiwan Cheetah )	January 21, 2016	Taiwan	100%	Sale of electronic products
Kingsoft Japan Inc. ( Kingsoft Japan ) (i)	March 9, 2005	Japan	46.1%	Provision of online marketing services, development and sale of the security software and office application software
<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 online marketing services
Beijing Cheetah Network Technology Co., Ltd. ( Beijing Network )	July 18, 2012	The PRC	Nil	Provision of internet value-added services and online game services

(i) On January 29, 2016, the Group obtained additional 4.6% equity interest of Kingsoft Japan, and further obtained 5% voting rights of Kingsoft Japan from Kingsoft. As a result, the Group had a total of 51.1% voting rights in Kingsoft Japan and accounted for it as a business combination under common control in accordance with ASC 805-50.(Note 3)

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*VIE arrangements*

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 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 Primary Beneficiaries ) through loans extended to the VIEs' shareholders, Sheng Fu, Ming Xu, Wei Liu, who are executives and/or directors of the Group, as well as Ms. Weiqin Qiu, an affiliate of the Group. The effective control of the VIEs is held by the Primary Beneficiaries, through a series of contractual agreements (the Contractual Agreements ). As a result of the Contractual Agreements, the 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.

The following is a summary of the Contractual Agreements amongst the Primary Beneficiaries, Beijing Mobile, Beijing Network and their respective shareholders ( Nominee Shareholders ):

*Exclusive technology development, support and consulting agreements*

Pursuant to the exclusive technology development, support and consulting agreements entered into between the Primary Beneficiaries and the VIEs, the VIEs engaged the Primary Beneficiaries as their 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 Primary Beneficiaries have 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 VIEs may not enter into any agreement with third parties for the provision of any technical or management consulting services without the consent of the Primary Beneficiaries.

*Loan agreements*

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Pursuant to the loan agreements between the Primary Beneficiaries and the Nominee Shareholders, the Primary Beneficiaries granted interest free loans in an aggregate amount of RMB16,800 (US\$2,420) to the Nominee Shareholders for their sole purpose of contributing to the registered capital of the VIEs. The loans have no definite maturity date. At the option of the Primary Beneficiaries, repayment may be requested at any time, which may be in the form of transferring the VIE's equity interest to the Primary Beneficiaries 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 Primary Beneficiaries or its designees.

### *Exclusive equity option agreements*

Pursuant to the exclusive equity option agreements entered into between the Primary Beneficiaries, the VIEs and the Nominee Shareholders, the Primary Beneficiaries were granted an exclusive and irrevocable option to purchase, or designate a third party to purchase, all or part of the equity interest of the VIEs held by the Nominee Shareholders. Without the prior written consent of the Primary Beneficiaries, the Nominee Shareholders shall not assign or transfer to any third party, or create or cause any security interest in whatsoever form to be created on, all or any part of the equity interest held in the VIEs. In addition, dividends and any form of distributions are not permitted without the prior consent of the Primary Beneficiaries. The exercise consideration should be equal to the corresponding loan amount as described above or the minimum consideration permitted under the PRC laws, whichever is higher. The consideration in excess of the corresponding loan amount shall be waived by the Nominee Shareholders. While in the exclusive equity option agreement with respect to Beijing Mobile, 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 Beijing Security or Beijing Security may deduct the excess amount upon payment of consideration. The Primary Beneficiaries or their designee(s) may exercise such option at any time until it has acquired all the equity interest of the VIEs. The agreements will remain effective until all the equity interests held by the Nominee Shareholders have been lawfully transferred to the Primary Beneficiaries or its designee(s) pursuant to the terms of the agreements.

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*Equity pledge agreements*

Pursuant to the equity pledge agreements entered into between the Nominee Shareholders, the VIEs and the Primary Beneficiaries, the Nominee Shareholders pledged all of their equity interest in the VIEs to the Primary Beneficiaries as collateral for all of their payments due to the Primary Beneficiaries and to secure their obligations under the above agreements. Without the prior written consent of the Primary Beneficiaries, the Nominee Shareholders may not assign or transfer to any third party, or create or cause any security interest in whatsoever form to be created on, all or any part of the equity interest it holds in the VIEs. The Primary Beneficiaries are entitled to transfer or assign in full, or in part, the shares pledged. In the event of default, the Primary Beneficiaries as the pledgee, have 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 agreements 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 agreements signed between the Nominee Shareholders, the VIEs and the Primary Beneficiaries, the Nominee Shareholders irrevocably nominates, appoints and constitutes any person designated by the Primary Beneficiaries 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 agreements are effective for an initial ten years and will be automatically renewed on an annual basis thereafter if the Primary Beneficiaries do not provide notice of termination to the Nominee Shareholders thirty days prior to expiration.

*Business operation agreements*

Pursuant to the business operations agreements entered into between the Nominee Shareholders, the VIEs and the Primary Beneficiaries, the Nominee Shareholders must appoint candidates designated by the Primary Beneficiaries as its board of directors and the Primary Beneficiaries have the right to appoint senior executives of the VIEs. In addition, the VIEs agree not to engage in any transaction that may materially affect their assets, obligations, rights or operation without the prior written consent of the Primary Beneficiaries. The Nominee Shareholders also agree to unconditionally pay or transfer to the Primary Beneficiaries any bonus, dividends or any other profits or interest (in whatever form) that they are entitled to as shareholders of the VIEs, and waives any consideration connected therewith. The agreement has a term of ten years, unless otherwise terminated by the Primary Beneficiaries. Neither the VIEs nor the Nominee Shareholders may terminate this agreement.

*Spousal consent letters*

The spouses of certain shareholders of the VIEs have executed spousal consent letters. Pursuant to these letters, the spouses of certain shareholders of the VIEs acknowledged that certain equity interest in the respective VIEs held by and registered in the name of his or 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. These spouses undertake not to take any action to interfere with the disposition of such equity interest, including, without limitation, claiming that such equity interest constitute communal marital property.

On January 17, 2014, the Contractual Agreements were supplemented with financial support undertaking letters executed by the Primary Beneficiaries to memorialize the Primary Beneficiaries' 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 letters, the Primary Beneficiaries commit to provide unlimited financial support to the VIEs to support their operations whether or not the VIEs incur any losses, and not request for repayment if the VIEs are unable to do so.

Despite the lack of technical majority ownership, there exists a parent-subsidary relationship between the 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 Primary Beneficiaries. Furthermore, pursuant to the exclusive equity option agreements, which include a substantive kick-out right, the 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 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.

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The shareholders of the VIEs elect and terminate the executive directors of the VIEs, approve the annual budget, financial statements and significant investing and financing activities of the VIEs. 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 nominated, appointed or designated by the Primary Beneficiaries. Senior management of the Company, all employees of the 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 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 the primary beneficiaries of the VIEs. As a result of the above, the Company, through the Primary Beneficiaries, consolidate the VIEs in accordance with SEC Regulation SX-3A-02 and Accounting Standards Codification ( ASC ) topic 810-10 ( ASC 810-10 ), *Consolidation: Overall*.

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 is in compliance with all existing PRC laws and regulations; (ii) each of the Contractual Agreements amongst the Primary Beneficiaries, 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 and 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 the Group's business operations in the PRC are in compliance with existing PRC laws and regulations.

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 Primary Beneficiaries 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 Primary Beneficiaries, and the VIEs, revoking the business licenses or operating licenses of the Primary Beneficiaries, 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 Primary Beneficiaries to lose the rights to direct the activities of VIEs or the right to receive their economic benefits, the Company, through the Primary Beneficiaries, 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 Beneficiaries' 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 Primary Beneficiaries 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 carrying amounts and classifications of the assets and liabilities of the VIEs are as follows:

	2015 RMB	As of December 31, RMB	2016 US\$
Cash and cash equivalents	148,161	40,485	5,831
Restricted cash		3,480	501
Short-term investments		26,250	3,781
Accounts receivable	204,798	18,027	2,596
Prepayments and other current assets	148,896	147,670	21,269
Due from related parties	134,349	272,740	39,283
Deferred tax assets		7,324	1,055
Total current assets	636,204	515,976	74,316
Property and equipment , net	52,114	45,544	6,560
Intangible assets, net	5,864	7,085	1,020
Goodwill	962	962	139
Investment in equity investees	49,442	34,740	5,004
Other long term investments	125,265	62,565	9,011
Other non-current assets	4,396	2,833	408
Deferred tax assets		11,002	1,585
Total non-current assets	238,043	164,731	23,727
Total assets	874,247	680,707	98,043
Accounts payable	62,745	27,111	3,905
Accrued expenses and other current liabilities	139,927	84,190	12,126
Due to related parties (i)	523,781	420,219	60,524
Deferred revenue	29,296	21,255	3,061
Income tax payable		779	112
Total current liabilities	755,749	553,554	79,728
Other non-current liabilities	2,160	478	69
Deferred revenue		826	119
Total non-current liabilities	2,160	1,304	188
Total liabilities	757,909	554,858	79,916



(i) As of December 31, 2015 and 2016, the balances due to related parties of the VIEs mainly represented amounts due to subsidiaries of the Group of RMB478,385 and RMB413,067 (US\$59,494), respectively, which were eliminated upon consolidation by the Company.

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The financial performance and cash flows of the VIEs as follows:

	Year ended December 31,			
	2014	2015	2016	
	RMB	RMB	RMB	US\$
Revenues	1,536,443	1,817,642	517,926	74,597
Cost of revenues	596,371	1,338,932	342,979	49,399
Net income (loss)	13,847	(43,325)	(7,680)	(1,106)
Net cash provided by (used in) operating activities	188,513	110,090	(65,187)	(9,389)
Net cash used in investing activities	(267,346)	(31,043)	(42,489)	(6,120)
Net cash provided by (used in) financing activities	6,750	(588)		

The revenue producing assets that are held by the VIEs 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 on the Company's consolidated balance sheets as they do not meet all the capitalization criteria. The VIEs also hire assembled work force on sales, research and development and operations whose costs are expensed as incurred.

There was no pledge or collateralization of the VIEs' assets. Creditors of the VIEs have no recourse to the general credit of the Primary Beneficiaries.

**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 ).

On January 29, 2016, because of the Group's acquisition of Kingsoft Japan, which is under common control by Kingsoft (note 3), the Group's consolidated financial statements as of December 31, 2015 and 2016, and for the years ended December 31, 2014, 2015 and 2016 incorporated the results of operations of Kingsoft Japan as if it had been consolidated from the date when it first came under the control of Kingsoft, the controlling party. The Group's consolidated financial statements as of December 31, 2015, and for the years ended December 31, 2014 and 2015 have been adjusted accordingly.

*Principles of consolidation*

The consolidated financial statements include the financial statements of the Company, its subsidiaries and VIEs. All significant intercompany transactions and balances between the Company, its subsidiaries and VIEs are eliminated upon consolidation. Results of subsidiaries, businesses acquired from third parties and VIEs are consolidated from the date on which control is transferred to the Company. Results of the entities and businesses acquired from Kingsoft are consolidated from the date when Kingsoft Japan first came under the control of Kingsoft, regardless of the date of the common control acquisition.

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 assets and liabilities of the Share Award Scheme Trust are included in the consolidated balance sheets and any ungranted, unvested, and vested shares held by the Share Award Scheme Trust not transferred to grantees are not considered legally issued and outstanding ordinary shares of the Company.

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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 allowance for doubtful accounts, average paying player lives of exclusive online games, weight average unit price of virtual currencies of live.me, the purchase price allocation and fair value of noncontrolling interests and the contingent consideration with respect to business combinations, useful lives of long-lived assets and intangible assets, impairment of long-lived assets, impairment of cost method investment, impairment of equity method investment, impairment of available-for-sale securities, impairment of intangible assets, impairment of goodwill, gain or loss on disposal of investments, valuation allowance for deferred tax assets, uncertain tax positions, share-based compensation, redemption right liabilities, fair values of available-for-sale securities and loss contingencies, among others. Changes in facts and circumstances may result in revised estimates. Actual results could differ from those estimates, and as such, differences may be material to the consolidated financial statements.

*Comparative Information*

Certain items in the consolidated financial statements have been reclassified to conform to the current year's presentation to facilitate comparison. The Group's financial statements as of December 31, 2015 and for the years ended December 31, 2014 and 2015 have been adjusted because of the acquisition of Kingsoft Japan.

*Foreign currency translation and transactions*

The functional currency of the Company is the US\$. The Company's subsidiaries and 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.

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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 Other income in the consolidated statements of comprehensive income (loss).

### *Convenience translation*

Amounts in US\$ are presented for the convenience of the reader and are translated at the noon buying rate of RMB6.9430 to US\$1.00 on December 31, 2016 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.

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***Business combinations and noncontrolling interests***

Except for the acquisition of Kingsoft Japan, which was accounted for as a 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 to the consolidated statements of operations.

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 income (loss) on the consolidated statements of comprehensive income (loss) includes the net income (loss) 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 and cash equivalents consist 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.

***Restricted cash***

Restricted cash consists primarily of the cash reserved in escrow accounts for the remaining payments in relation to business acquisition of RMB94,180 (US\$13,565) and RMB129,797 as of December 31, 2016 and 2015, respectively, and the cash pledged as collateral for a short-term bank loan of RMB69,370 (US\$9,991) and RMB 25,974 as of December 31, 2016 and 2015, respectively.

***Accounts receivable and allowance for doubtful accounts***

Accounts receivable are 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 general and 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 age of the balance, the customer's payment history, its current credit-worthiness and current economic trends.

***Deferred IPO costs***

Direct costs incurred by the Company attributable to its IPO of Class A ordinary shares in the United States have been deferred and recorded in prepayment and other current assets and was charged against the gross proceeds received from such offering.

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**CHEETAH MOBILE INC.**

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**FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016**

**(Amounts in thousands of Renminbi ( RMB ) and US dollars ( US\$ ), except for number of shares and per share (or ADS) data)**

***Investments***

*Short-term investments*

All highly liquid 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. The Group accounts for its investments in debt and equity securities in accordance with ASC 320-10, *Investments Debt and Equity Securities: Overall*. The Group classifies the investments in debt and equity 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 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. 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.

The 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 the consolidated statements of comprehensive income (loss).

Investments not classified as trading or as held-to-maturity are classified as available-for-sale securities. Available-for-sale securities are reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive income. Realized gains or losses are charged to earnings during the period in which the gain or loss is realized. An impairment loss on available-for-sale securities would be recognized in the consolidated statements of comprehensive income (loss) when the decline in value is determined to be other-than-temporary.





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*Long-term investments*

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 of accounting in accordance with ASC 323-10, *Investments-Equity Method and Joint Ventures: Overall*. 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. Under the equity method, 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 recognized as equity method goodwill, which is included in the equity method investment on the consolidated balance sheets. 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.

In accordance with ASC 325-20, *Investments-Other: Cost Method Investments*, for other equity investments that are not considered as debt securities or equity securities that have readily determinable fair values and over which the Group neither has significant influence nor control through investment in common stock or in-substance common stock, the cost method is used. Under cost method, the Group carries the investment at cost and only adjusts for other-than-temporary declines in fair value and distributions of earnings. The Group's management regularly evaluates the impairment of its cost method investments based on the performance and financial position of the investee as well as other evidence of estimated market values. Such evaluation includes, but is not limited to, reviewing the investee's cash position, recent financing, projected and historical financial performance, cash flow forecasts and current and future financing needs. An impairment loss is recognized in the consolidated statements of comprehensive income (loss) equal to the excess of the investment's cost over its fair value at the balance sheet date of the reporting period for which the assessment is made. The fair value would then become the new cost basis of investment.

*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, available-for-sale securities, short-term loans, accounts payable, other current liabilities, contingent consideration payable, redemption right liabilities and long-term loans. The carrying amounts of these financial instruments, except for long-term investments, long-term available-for-sale securities, contingent consideration payable, redemption right liabilities and long-term loans, approximate their fair values because of their generally short-term maturities.

Available-for-sale securities were initially recognized at cost and subsequently remeasured at the end of each reporting period with the adjustment in its fair value recognized in other comprehensive income. The Group, with the assistance of an independent third party valuation firm, determined the estimated fair value of its post-acquisition settlement consideration, redemption right granted to a noncontrolling shareholder, put options granted to employees and debt securities classified as available-for-sale securities that are recognized in the consolidated financial statements.

Equity method investments and cost method investments have no quoted market prices and it is not practicable to estimate their fair value without incurring excessive costs. The Group reviews the investments for impairment whenever events or changes in circumstances indicate that the carrying amount may no longer be recoverable.

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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
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 income (loss).

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***

Goodwill represents the excess of the purchase price over the amounts assigned to the fair value of the identifiable assets acquired and the liabilities assumed of an acquired business (note 3). In accordance with ASC 350, *Goodwill and Other Intangible Assets*, recorded goodwill amounts are not amortized, but rather are tested for impairment annually or more frequently at the reporting unit level if there are indicators of impairment present.

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According to ASC 350, the Group tests goodwill for impairment by performing a qualitative assessment before calculating the fair value of a reporting unit in step one of the goodwill impairment test. If the Group determines, on the basis of qualitative factors, that the fair value of a reporting unit is more likely than not less than the carrying amount, a two-step impairment test is required. Otherwise, further testing is not needed. The events or circumstances that would more likely than not reduce the fair value of a reporting unit below its carrying amount include a significant change in stock prices, business environment, legal factors, financial performances, competition, or events affecting the reporting unit. 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 estimated fair value using a combination of the income approach and the market 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. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit.

As of December 31, 2015, the Group had two reporting units, consisting of the online lottery business and the remaining business of the Group. Upon disposal of online lottery business on May 31, 2016, the Group had only one reporting unit as of December 31, 2016.

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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:

	<b>Estimated useful life</b>
Customer/supplier relationship	2-6 years
Trademark	3-10 years
Technology	1-10 years
Non-compete agreement	2 years
Online game licenses	3 years
User base	3 years
Domain names	1-10 years
Platform	5 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

*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. The repurchase of ordinary shares was recorded as treasury stock at historical purchase price.

***Revenue recognition***

The Group generates its revenues primarily through online marketing services, internet value-added services and internet security services and others. The Group recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured.

**(1) *Online marketing services***

***Online advertising***

Online advertising services 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 the period the advertising is displayed. 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 when the specified performance criteria are met. For contracts that are charged on the cost per impression basis, the Group charges an agreed-upon fee to its customers based on the number of impressions in the contracted period in which impressions are delivered. Revenue is recognized when an advertisement is displayed to users, while impressions are considered delivered. Revenue is recognized when there is persuasive evidence of an arrangement, the fee is fixed or determinable and collection is reasonably assured, as prescribed by ASC 605, *Revenue Recognition*. For online advertising services arrangement involving third-party advertising publishers' websites or mobile publications, the Group recognizes gross revenue for the amount of fees received or receivable from customers as the Group is the primary obligor. Payments made to the third-party advertising



publishers or content provider are included in cost of revenues.

*Advertising agency services*

The Group provides advertising agency services by arranging advertisers to purchase various advertisement products from certain online networks, primarily Facebook and Google. 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 in the advertising agency arrangement as it is neither the primary obligor to provide advertisement product nor to assume inventory risk. Revenue from advertising agency services is recognized on a net basis 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 were no significant difference between the Group's estimates and the subsequent periodic invoices provided by the online network for all the periods presented.

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(2) *Internet value-added services*

*Web and mobile games publishing*

The Group enters into agreements with third party game developers to provide web and mobile game publishing and payment collection services, in order for game players to purchase and recharge virtual currencies used in the games. The games are developed and hosted by third-party game developers, and accessed by game players through the Group's PC game center and mobile applications or a third-party mobile platform. The payment collection services are mainly provided through third-party payment and settlement institutions. The Group generally charges commission as a percentage of the gross proceeds or collection amount from the settlement institutions, and pays the remaining proceeds to the game developers. When the settlement institutions directly remit the collection amount to the developers, the Group collects its commission from the developer. The Group believes it acts as an agent to the game developers in these arrangements as the Group is not considered the primary obligor, is not primarily responsible for fulfillment of services, does not incur significant upfront costs, generally does not have the discretion in establishing prices, and earns a fixed percentage of the collection amount from the settlement institutions. The Group estimates the commission based on its internal system, which is confirmed with the respective settlement institutions in the same month in which the services are provided, and recognizes the commission revenue accordingly. Purchases of in-game currency are not refundable after they have been sold as long as the game is continued.

*Exclusively licensed games*

The Group operates some games exclusively licensed from third-party developers. The proceeds, after commission fees paid to distribution channels and third-party payment institutions, received from game players are shared between the Group and the game developers based on a predetermined percentage for each game under exclusive license. The exclusively licensed games allow players to play for free and the Group generates revenue from game players' purchase of in-game virtual currency for in-game virtual items to enhance their game-playing experience.

The Group acts as the principal in the exclusively licensed game arrangements under which the Group is the primary obligor of the fulfillment of the game operation, including the selection of distribution platforms, the access maintenance, the promotion and customer services, the hosting of game servers, if needed, and the determination of the service specifications and the pricing of the in-game virtual items. Accordingly, the Group records revenues from operating the exclusively licensed mobile games on a gross basis. 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 recognizes the payment received from the paying players into revenue evenly over their estimated average paying player life of each game. The Group tracks each paying player's purchases and log-in history to estimate the average life of the paying players. While the Group believes its estimates to be reasonable based on sufficient available game player information, it may revise such estimates in the future as the games' operation periods change or there is indication that the similarities in characteristics and playing patterns of paying players of the games change. Any adjustments arising from changes in the estimates of the average paying player life would be applied prospectively. The average paying player life ranged from 14 to 64 days in 2016.

*Online live broadcast services*

The Group creates and offers virtual items to be used by users on mobile live broadcast application *live.me*, which is operated and maintained by the Group. All *live.me* 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 *Live.me* on a gross basis as it is the primary obligor for the fulfillment of providing mobile live broadcasts on the *Live.me* platform, and records payments to the performers and third-party payment platforms as cost of revenues. Proceeds received from users for the sales of virtual currencies are recorded as deferred revenue, representing prepayments received from users in the form of the Group's virtual currency not yet converted into virtual items, and are recognized as revenue based on the weighted average unit price of virtual currencies and the quantities of virtual currencies converted into virtual items which are consumed simultaneously. The weighted average unit price of virtual currencies is calculated on a monthly basis as the deferred revenue at the beginning of the month plus proceeds received during the month divided by the corresponding quantity of virtual currencies.

*Online lottery sales services*

The Group received online lottery purchase orders from the end users through its website or mobile application and processed the orders either with other entities or individuals who are authorized agents of lottery sales offices established by provincial governments ( Authorized Distributors ). The Group received service fees from the Authorized Distributors based on the pre-determined rate and the total amount of the processed orders. Upon fulfillment of its service obligations to the Authorized Distributors, the Group recorded the revenue on a net basis because the Group acted as an agent of the Authorized Distributors in the distribution and administration of the lottery products. Due to the temporary suspension of the Group's online lottery business in 2015 in response to regulatory changes in China, no revenue was recorded starting from April 1, 2015. On May 31, 2016, 65% shares of the online lottery business were disposed. Subsequent to the transaction, the 15% share interest retained was accounted for under cost method investment in accordance with ASC 323, and no online lottery revenues was recorded by the Group upon the disposal.

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(3) *Internet security services and others*

*Internet security services*

The Group markets and distributes its off-the-shelf anti-virus security solutions and office application software to enterprise and individual users.

The software, including unspecified upgrades, for the individual solutions are provided to users free of charge via online downloads. However, the Group does provide the individual users the option to purchase additional value-added services, which are non-essential to the functionality of the software concurrent with the download of software. The value-added services are provided over the period of time as determined and purchased by the respective users. The fees for value-added services are recognized as revenue ratably over the term of such services.

*Others*

Other revenues primarily comprise of the sale of office application software. Customers purchasing an office application software will receive unspecified updates over the licensing period, including term-based license and perpetual license. These unspecified updates are determined to not meet the definition of an upgrade and was not sold on a stand-alone basis.

Arrangements that include term-based licenses for current products with the right to use unspecified future versions of the software during the coverage period, are accounted for as subscriptions, with revenue recognized ratably over the coverage period. Arrangements that include perpetual license, revenue is generally recognized as products are shipped or made available.

Other revenue also comprise of the sale of air purifier products. The Group recognizes revenue for the sale of air purifiers after a sales agreement is signed, the price is fixed or determinable, products are delivered to customers, and collection of the resulting receivables is assured. Product is considered delivered to the customers once it has been shipped and the amount of future returns can be reasonably estimated, risk of loss and rewards of ownership have been transferred.



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*Deferred revenues*

Deferred revenues primarily consist of payments received from customers in relation to the service to be provided by the Group but for which not all of the revenue recognition criteria are met and government subsidies not recognized in the consolidated statements of comprehensive income (loss) due to required conditions not being met.

*Cost of revenues*

Cost of revenues primarily consists of traffic acquisition cost, bandwidth costs and internet data center costs, content and channel costs associated with our content-driven products, royalty fees, salaries and benefits, share-based compensation expenses, depreciation of equipment, amortization of licenses and other intangible assets, cost of products sold, value-added tax ( VAT ), business tax and related surcharges.

The Group's business is subject to VAT, business taxes and surcharges levied on advertising related sales in China. Pursuant to ASC 605-45, *Revenue Recognition - Principal Agent Considerations*, all such VAT, business taxes and surcharges of RMB109,572, RMB138,088 and RMB138,105 (US\$19,891) are presented as cost of revenues on the consolidated statements of comprehensive income (loss) for the years ended December 31, 2014, 2015 and 2016, respectively. As of December 31, 2016, the Company's subsidiaries in the PRC and VIEs are subject to VAT at 6% or 17%.

*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 and online platforms. Advertising and promotional expenses are expensed when incurred. For the years ended December 31, 2014, 2015 and 2016, advertising and promotional expenses were RMB521,618, RMB1,322,844 and RMB1,328,910 (US\$191,403), respectively.

The cash incentives and credits granted to the Group's end users of online lottery sales services, which could be applied against future lottery purchase orders placed through its website or mobile application, are expensed as incurred and are classified within Selling and marketing expense in the consolidated statements of comprehensive income (loss).

***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 and mobile applications and amortization of intangible assets used in research and development. The Group expensed 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. For the years ended December 31, 2014, 2015 and 2016, capitalized software development costs were nil, nil and RMB2,505 (US\$361), respectively.

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***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 deferred revenue when received and will be offset against *Research and development* expenses over the project period when no further conditions are to be met.

***Leases***

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 had no capital leases as of December 31, 2015 and 2016.

***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.

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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 line item 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 benefit (expense), in the consolidated statements of comprehensive income (loss).

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*.

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 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. Forfeiture rates are estimated based on historical experience and future expectations of employee turnover rates and are periodically reviewed. If required vesting conditions are not met resulting in the forfeiture of the share-based awards, previously recognized share-based compensation expenses relating to those awards are reversed. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in the subsequent period if actual forfeitures differ from initial estimates. To the extent the Group revises these estimates in the future, the share-based payments could be materially impacted in the period of revision, as well as in following periods. Share-based compensation expenses was recorded net of estimated forfeitures such that expense was recorded only for those share-based awards that are expected to vest. The Group, with the assistance of an independent third party valuation firm, determined the fair value of share-based awards granted to employees. Determining the fair value of share-based awards of the Group required complex and subjective judgments regarding its projected financial and operating results, its unique business risks, the liquidity of its ordinary shares and its operating history and

prospects at the time the grants were made.

The Group has accounted for equity instruments issued to non-employees in accordance with the provisions of ASC 718-10 and ASC 505-50, *Equity: Equity-based Payments to Non-Employees*. The Group records compensation expenses equal to the fair value of the share at the measurement date, which is determined to be the earlier of the performance commitment date or the service completion date.

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***Earnings (losses) per share***

Earnings (losses) per share are calculated in accordance with ASC 260-10, *Earnings (losses) per Share: Overall*. Basic earnings (losses) per share are computed by dividing net income (loss) 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 income (loss) is allocated between the convertible preferred shares, ordinary shares, Class A ordinary shares and Class B ordinary shares based on their participating rights in the undistributed earnings as if all the earnings (losses) for the reporting period had been distributed.

Basic earnings (losses) per share is computed by dividing net income (loss) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings (losses) per share is calculated by dividing net income (loss) 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 shares issuable upon the conversion of the convertible preferred shares using the if-converted method, the vesting of restricted shares and the exercising of restricted shares with an option feature using the treasury stock method. The computation of the dilutive earnings (losses) per share of Class A ordinary share assumes the conversion of Class B ordinary shares.

***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.

***Segment reporting***

In accordance with ASC 280, *Segment Reporting*, the Group's chief operating decision maker has been identified as the chief executive officer, who reviews the consolidated results of operations when making decisions about allocating resources and assessing performance of the Group as a whole and hence, the Group operates and manages its business as a single segment.

*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, 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, 2016, the Group has RMB1,940,250 (US\$279,454) in cash and cash equivalents, restricted cash and short-term investments, 45.9% and 54.1% 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.

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*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.

For the year ended December 31, 2014, approximately 14%, 14% and 11% of the Group's total revenue were derived from Baidu, Alibaba and Sogou, respectively. For the year ended December 31, 2015, approximately 29%, 10% and 8% of the Group's total revenue were derived from Facebook, Baidu and Tencent, respectively. For the year ended December 31, 2016, approximately 20%, 12% and 6% of the Group's total revenue were derived from Facebook, Baidu and Google, respectively.

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. 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, to date the majority of the Group's revenues and costs are generated and denominated in US\$, and a significant portion of the Group's assets and liabilities are 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 and assets as 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. On April 16, 2012, the People's Bank of China announced a policy to expand the maximum daily floating range of RMB trading prices against the U.S. dollar in the inter-bank spot foreign exchange market from 0.5% to 1%. On March 17, 2014, the People's Bank of China announced a policy to further expand the maximum daily floating range of RMB trading prices against the U.S. dollar in the inter-bank spot foreign exchange market to 2%. The depreciation of the RMB against US\$ was 2.4%, 5.8% and 6.2% during the years ended December 31, 2014, 2015 and 2016, respectively. In the long term, the RMB may appreciate or depreciate more significantly in value against the U.S. dollar or other foreign currencies, depending on the market supply and demand with reference to a basket of currencies.

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***Recently issued accounting pronouncements***

In May 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2014-09 ( ASU 2014-09 ), *Revenue from Contracts with Customers*, which supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of the promised goods or services to customers in an amount that reflects the consideration to which entity expects to be entitled to in exchange for goods or services. The amendments in ASU 2014-09 are effective for annual reporting periods beginning after December 15, 2016, including interim period within that reporting period. Early adoption is not permitted. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers-Deferral of the effective date* ( ASU 2015-14 ). The amendments in ASU 2015-14 defer the effective date of ASU 2014-09 issued in May 2014. According to ASU 2015-14, the new revenue guidance ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Group will apply the new revenue standard beginning January 1, 2018, and will not early adopt. The Group has set up an implementation schedule and is currently in the process of analyzing each of the Group's revenue streams in accordance with the new revenue standard to determine the impact on the Group's consolidated financial statements. The Group plans to continue the evaluation, analysis, and documentation of its adoption of ASU 2014-09 (including those subsequently issued updates that clarify ASU 2014-09's provisions) throughout 2017 as the Group works towards the implementation and finalizes its determination of the impact that the adoption will have on its consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16 ( ASU 2015-16 ), *Business Combinations (Topic 805) Simplifying the Accounting for Measurement-Period Adjustments*, which eliminates the requirement to restate prior period financial statements for measurement period adjustments. The new guidance requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. The new guidance is effective prospectively for the Group for the year beginning January 1, 2017 and interim reporting periods during the year beginning January 1, 2017. Early adoption is permitted. The Group does not expect the standard to have a material impact on its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17 ( ASU 2015-17 ), *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, which simplifies the presentation of deferred income taxes by requiring deferred tax assets and liabilities to be classified as noncurrent on the balance sheet. The amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual



periods. Early adoption is permitted. Additionally, the new guidance may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Group plans to adopt this guidance prospectively beginning January 1, 2017.

In February 2016, the FASB issued ASU No. 2016-02 ( ASU 2016-02 ), *Leases*. ASU 2016-02 specifies the accounting for leases. For operating leases, ASU 2016-02 requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. ASU 2016-02 is effective for public companies for annual reporting periods, and interim periods within those years beginning after December 15, 2018. Early adoption is permitted. The Group is currently evaluating the impact of adopting this standard on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07 ( ASU 2016-07 ), *Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting*, which eliminates the requirement to retrospectively apply the equity method in previous periods. Instead, the investor must apply the equity method prospectively from the date the investment qualifies for the equity method. The amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods, with early adoption permitted. The Group does not expect the standard to have a material impact on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09 ( ASU 2016-09 ), *Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting*, which relates to the accounting for employee share-based payments. This standard addresses several aspects of the accounting for share-based payment award transactions, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows; (d) accounting for forfeitures of share-based payments. This standard will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Group does not expect this standard to have a material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15 ( ASU 2016-15 ), *Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments*. This Update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments in this Update should be applied using a retrospective transition method to each period presented. The Group is in the process of evaluating the impact of the Update on its consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16 ( ASU 2016-16 ), *Income Taxes (Topic 740): Intra-Entity Transfers Other than Inventory*, which requires companies to recognize the income-tax consequences of an intra-entity transfer of an asset other than inventory. The amendments in this update are effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual periods beginning after December 15, 2019. Early adoption is permitted. The Group does not expect the standard to have a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18 ( ASU 2016-18 ), *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires companies to include amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The standard should be applied using a retrospective transition method to each period presented. The Group is currently evaluating the impact of adopting this standard on its consolidated financial statements.

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In January 2017, the FASB issued ASU No. 2017-01( ASU 2017-01 ), *Business Combinations (Topic 805): Clarifying the Definition of a Business*, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The standard should be applied prospectively on or after the effective date. The Group will evaluate the impact of adopting this standard prospectively upon any transactions of acquisitions or disposals of assets or businesses.

In January 2017, the FASB issued ASU No. 2017-04 ( ASU 2017-04 ), *Simplifying the Test for Goodwill Impairment*. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance should be adopted on a prospective basis for the annual or any interim goodwill impairment tests beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Group is currently evaluating the impact of adopting this standard on its consolidated financial statements.

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**3. BUSINESS COMBINATIONS**

**Business combinations in 2016**

On March 18, 2014, the Group entered into an equity transfer agreement with Kingsoft to purchase 20% ordinary shares of Kingsoft Japan, a subsidiary of Kingsoft, for an aggregate purchase price in cash of Japanese Yen ( JPY ) 614 million (equivalent to RMB37,166). The Group had significant influence over Kingsoft Japan after the acquisition. On October 10, 2014, the Group acquired additional 21.5% ordinary shares of Kingsoft Japan from a third party shareholder, for a purchase price of US\$9,967 (equivalent to RMB60,931) and continued to have significant influence over Kingsoft Japan. On January 29, 2016, the Group acquired additional 4.6% ordinary shares of Kingsoft Japan from third party shareholders for a purchase price of JPY136 million (equivalent to RMB8,007) and Kingsoft delegated the voting right of 5% of the total shares of Kingsoft Japan to Cheetah Mobile. Upon completion of this acquisition, the Group held 46.1% equity interests and 51.1% voting right of Kingsoft Japan. As the Company and Kingsoft Japan were under common control by Kingsoft both before and after the closing of the transaction, in accordance with ASC 805-50, this acquisition was accounted for as business combination under common control. The purchase price paid to Kingsoft was recorded as deemed distribution to Kingsoft. The acquisition of additional 21.5% and 4.6% equity interest of Kingsoft Japan from third parties in 2014 and 2016 were accounted for as equity transactions, and difference between the fair value of the consideration and the carrying value of the non-controlling interests acquired was recognized in the Group's equity amounting to RMB53,749, nil and RMB6,109 (US\$880) for the years ended December 31, 2014, 2015 and 2016, respectively. The results of Kingsoft Japan have been included in the Group's consolidated financial statements retrospectively throughout the periods presented at historical carrying values.

***Acquisition of News Republic***

On June 8, 2016, the Group acquired 100% equity interest of News Republic, a global mobile news company, and its wholly-owned subsidiaries for a total consideration of US\$55,401 (equivalent to RMB364,481). The acquisition is expected to enhance the Group's expertise in mobile advertising and accelerate global mobile monetization capabilities. The results of News Republic have been included in the Group's consolidated financial statements since June 2016.

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	RMB	US\$
Total purchase price comprised of:		
-Cash consideration(i)	339,414	48,886
-Contingent consideration in cash(ii)	25,067	3,610
Total	364,481	52,496

Details of the purchase consideration are as follows:

(i) US\$47,591 (equivalent to RMB313,098) of cash consideration was paid in June 2016 and US\$4,000 (equivalent to RMB26,316) was in an unconditional escrowed account, which will be settled in May 2017 and was recorded in Accrued expenses and other current liabilities .

(ii) Part of the acquisition consideration is contingent on the achievement by News Republic of certain business targets from June 2016 to June 2018 and capped at US\$6,000 (equivalent to RMB39,474) in total. The Group estimated and recognized a financial liability for the contingent consideration at its fair value of US\$3,810 (equivalent to RMB 25,067) as of the acquisition date.

The actual results of operation after the acquisition date and pro forma results of operations for the acquisition have not been presented because the effects were not material.

The table below summarized the estimated fair values of the assets acquired and liabilities assumed from News Republic as of the acquisition date:

	News Republic	
	RMB	US\$
Cash and cash equivalents	21,857	3,148
Restricted cash	402	58
Accounts receivable, net	5,171	745
Prepayments and other current assets	2,877	414
Deferred tax assets	33,300	4,795
Property and equipment, net	334	48
Intangible assets:		
Supplier relationship	42,763	6,159
Trademark	23,027	3,317
Non-compete agreement	6,579	948
Technology	5,263	758
Goodwill	277,492	39,967
Short-term loans	(5,555)	(800)
Accounts payable	(13,493)	(1,943)
Accrued expenses and other current liabilities	(5,701)	(821)
Long-term loans	(3,960)	(570)
Deferred tax liabilities	(25,875)	(3,727)
Total fair value of purchase price consideration	364,481	52,496

The Group performed the valuation of tangible assets, intangible assets acquired and liabilities assumed and the fair value of contingent liabilities for the above business combination with the assistance of an independent valuation firm using the income approach. The Group has

incorporated certain assumptions and inputs which include projected cash flows and replacement costs.

The goodwill arising from the above business combination, which is not tax deductible, is mainly attributable to synergies expected to be achieved from the acquisition. The synergies are mainly attributable to the enhancement of the Group's monetization capabilities by diversifying sources of traffic, promoting existing products and increasing customer's loyalty.

**Business combinations in 2015**

*Acquisition of MobPartner*

On April 1, 2015, the Group acquired 100% equity interest of MobPartner, a global mobile advertising company, and its wholly-owned subsidiaries for a total consideration of RMB314,237. The acquisition is expected to enhance the Group's expertise in mobile advertising and accelerate global mobile monetization capabilities. The results of MobPartner have been included in the Group's consolidated financial statements since April 1, 2015.

	<b>RMB</b>
Total purchase price comprised of:	
-Cash consideration	273,726
-Equity consideration	23,309
-Contingent consideration in cash	17,202
<b>Total</b>	<b>314,237</b>

Table of Contents*Acquisition of Moxiu Technology*

In 2014, the Group acquired 50.5% equity interests of Moxiu Technology with cash consideration of RMB50,000. However, as the article of association of Moxiu Technology requires approval from two-third of the voting interest for significant financial and operating decisions, the Group did not obtain control of Moxiu Technology and recognized equity interest as equity method investment. On May 28, 2015, the Group acquired an additional 1.6% equity interest of Moxiu Technology for a consideration of RMB25,000 and the article of association of Moxiu Technology was amended to require simple majority of voting interests for approval of significant financial and operating decisions. Upon completion of this acquisition, the Group obtained controls over Moxiu Technology through its 52.1% voting interests. This acquisition is to enhance the Group's online marketing services and provide synergies with its existing business. The results of Moxiu Technology have been included in the Group's consolidated financial statements since May 28, 2015.

	RMB
Total purchase price comprised of:	
- Cash consideration	25,000
- Fair value of previously held equity interests	63,488
Total	88,488

*Other acquisitions*

In 2015, the Group also completed other acquisitions for a total consideration of RMB37,581. These acquisitions are expected to strengthen the Group's current technology and to generate the synergy with the Group's mobile business. The total consideration for the acquisitions was fully paid in cash in 2015.

The table below summarized the estimated fair values of the assets acquired and liabilities assumed from the 2015 acquisitions as of the respective acquisition dates:

	MobPartner RMB	Moxiu Technology RMB	Others RMB	Total RMB
Cash and bank balance	60,150	26,732		86,882
Accounts receivable, net	37,308	1,043		38,351
Prepayments deposits and other current asset	1,091	767	33	1,891
Property and equipment, net	1,207	2,270		3,477
Other non-current assets	465	5,065		5,530
Accounts payable	(41,774)	(259)		(42,033)
Accrued expenses and other current liabilities	(7,633)	(7,361)		(14,994)
Other non-current liabilities	(10,028)			(10,028)
Intangible assets:				
- Trademark	13,515	6,000		19,515
- Technology		6,200	7,572	13,772
- User base		430	7,994	8,424
- Customer relationship	6,266			6,266
- Platform	67,579			67,579

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Deferred tax liabilities	(29,117)	(1,895)		(31,012)
Goodwill	215,208	111,720	21,982	348,910
Total fair value of purchase price consideration	314,237	88,488	37,581	440,306
Fair value of noncontrolling interests		62,224		62,224

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On April 1, 2014, the Group through its wholly owned subsidiary Suzhou Jianguodu Technology Co., Ltd. ( Suzhou JDD ) acquired certain fixed assets, intellectual properties, material contracts and key employees of the online lottery business (the Online Lottery Business ) from third-party selling shareholders for a total consideration of RMB26,663. The acquisition is to enhance the Group's strategy to monetize its user base through diversified service offerings.

	RMB
Cash consideration	27,000
Contingent consideration in cash	3,963
Less: Prepaid employee compensation	(4,300)
Total fair value of purchase consideration	26,663

On September 15, 2014, the Group entered into a capital contribution agreement with an entity wholly owned by one of the sellers of the Online Lottery Business, pursuant to which the entity is required to contribute RMB13,500 in exchange for 25% equity interests of Suzhou JDD, the purchaser of the Online Lottery Business. During the years ended December 31, 2014 and 2015, RMB6,750 and RMB3,375 representing 14.3% and 5.7% of equity interests of Suzhou JDD was contributed from this entity. RMB6,090 and RMB1,689 were recognized in noncontrolling interest and RMB660 and RMB1,686 were recognized in the additional paid in capital on the consolidated balance sheets as of December 31, 2014 and 2015, respectively.

For the years ended December 31, 2015, the Group recognized an impairment of goodwill and intangible assets amounted to RMB24,748 in the consolidated statements of comprehensive income (loss) due to its suspension on the online lottery sales in response to the PRC government's regulatory uncertainty.

On May 31, 2016, the Group entered into an agreement to dispose 65% share of Suzhou JDD for a total consideration at a fair value of RMB14,500. Subsequent to the transaction, the Group owned 15% equity interest of Suzhou JDD. The Group considered lost control over Suzhou JDD and accounts for remaining share interest as a cost method investment in accordance with ASC 323 due to its not having significant influence over Suzhou JDD. The Group recognized a total gain of RMB28,071 from the transaction in Other income in the consolidated statements of comprehensive income (loss) for the year ended December 31, 2016. The deconsolidation of Suzhou JDD did not meet the definition of a discontinued operation in accordance with ASC subtopic 205-20 ( ASC 205-20 ), *Presentation of Financial Statements - Discontinued Operations*, as the disposal of Suzhou JDD 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.





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On July 4, 2014, the Group acquired 100% controlling interest of HK Zoom, a mobile advertising agency, and certain operating assets (the HK Zoom Business ), including certain fixed assets, intellectual properties, material contracts and working capital, for a total consideration of RMB152,274. The acquisition is expected to strengthen the Group's global mobile monetization capabilities.

In addition, the Group issued 2,431,775 restricted shares of the Company to a selling shareholder for future grant to the employees of the HK Zoom Business over requisite service period subsequent to the acquisition. The related compensation for post-acquisition services provided by the employees is accounted as compensation and recorded in the Group's consolidated statements of comprehensive income (loss). The Company granted nil and 807,950 restricted shares to the employees of the HK Zoom for the years ended 2014 and 2015, respectively.

	<b>RMB</b>
Cash consideration	123,284
Contingent consideration in cash	28,990
Total fair value of purchase consideration	152,274

*Acquisition of Youloft HK*

On August 1, 2014, the Group acquired approximately 51.9% equity interests in Youloft HK which engages in development of mobile applications, from a shareholder of Youloft HK, for a total consideration of RMB87,655 in cash. The acquisition allows the Group to enhance the online marketing services and provide synergies with its existing business.

	<b>RMB</b>
Cash consideration	102,390
Less: Prepaid employee compensation	(14,735)
Total fair value of purchase consideration	87,655

*Other acquisitions*

On 18 July 2014, the Group, through a subsidiary, Kingsoft Japan signed a purchase agreement with a company engaged in social networking service on mobile internet and VoIP service, to acquire a 95.5% equity interest of WowTech, at a total consideration of RMB5,737, among which RMB2,737 was in cash and RMB3,000 was in the form of Kingsoft Japan's ordinary shares.

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The table below summarized the estimated fair values of the assets acquired and liabilities assumed from the 2014 acquisitions as of the respective acquisition dates:

	Online Lottery Business RMB	HK Zoom Business RMB	Youloft HK RMB	WowTech RMB	Total RMB
Cash and bank balance		13,768		11	13,779
Accounts receivable, net		11,170			11,170
Prepayments deposits and other receivables		39,659	24,672		64,331
Accrued expenses and other current liabilities		(56,408)		(983)	(57,391)
Property and equipment, net	817	132			949
Intangible assets:					
Technology	1,700	36,000	15,420	1,559	54,679
Customer relationship		31,100			31,100
User base	400		27,756		28,156
Deferred tax liabilities		(11,072)	(7,124)		(18,196)
Goodwill	23,746	87,925	98,481	5,176	215,328
Total fair value of purchase price consideration	26,663	152,274	87,655	5,737	272,329
Fair value of noncontrolling interests			71,550	26	71,576

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**4. INVESTMENTS**

*(a) Short-term investments*

As of December 31, 2015 and 2016, short-term investments included time deposits in commercial banks RMB29,234 and RMB361,499 (US\$52,067) , respectively.

For the years ended December 31, 2014, 2015 and 2016, interest income related to the time deposits of RMB15,901, RMB9,877 and RMB6,563 (US\$945), respectively, was recognized in the consolidated statements of comprehensive income (loss).

For the years ended December 31, 2014, 2015 and 2016, the Group recognized a realized gain (loss) on disposal of available-for-sale debt and equity securities of RMB1,967, RMB(202) and nil, respectively, in Other income, net in the consolidated statements of comprehensive income (loss).

For the years ended December 31, 2014, 2015 and 2016, the Group recognized an impairment loss of available-for-sale equity security of RMB8,664, nil and nil, respectively, in the consolidated statements of comprehensive income (loss).

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*(b) Long-term investments*

As of December 31, 2015 and 2016, long-term investments consisted of the following:

	As of December 31,		
	2015	2016	
	(As adjusted) RMB	RMB	US\$
Cost method investments	653,740	869,741	125,269
Equity method investments	124,708	100,063	14,412
Available-for-sale debt security		7,353	1,059
Available-for-sale equity security	46,373		
Total	824,821	977,157	140,740

*Cost method investments*

In 2016, the Group acquired: i) 2.8% additional equity interest of a third party mobile application developer at a cash consideration of RMB130,432 (US\$18,786), ii) 4.6% equity interest of a third-party mobile technique provider at a consideration of RMB80,000 (US\$11,522) and iii) other equity interests in 12 internet companies for total consideration of RMB94,133 (US\$13,558).

In 2015, the Group acquired: i) 2.8% equity interest of a third party mobile application developer at a cash consideration of RMB171,531, ii) 9.6% equity interest of a third-party mobile advertising software provider at a consideration of RMB122,896, iii) preferred shares representing 35% equity interest not qualified as in-substance common stock of a third-party e-commerce company at a consideration of RMB107,452, and iv) other equity interests in eleven internet companies for total consideration of RMB72,800.

In 2014, the Group s acquired 4% equity interest of NDP Media Corp. ( NDP ), a third-party online game developer at a cash consideration of RMB120,000, and the Group also acquired 500,000 series A preferred share of NDP at a consideration of US\$5,000.

The Group recognized impairment loss on the cost method investments of nil, RMB6,031 and RMB129,616 (US\$18,668) in the consolidated statements of comprehensive income (loss) for the years ended December 31, 2014, 2015 and 2016, respectively. The Group received dividends from cost method investees of nil, RMB700 and RMB123 (US\$18) in the consolidated statements of comprehensive income (loss) for the years ended December 31, 2014, 2015 and 2016, respectively. Disposal gain of cost method investment amounting to nil, nil and RMB721 (US\$104) was recognized in Other income, net in the consolidated statements of comprehensive income (loss) for the years ended December 31, 2014, 2015 and 2016, respectively.

*Equity method investments*

In 2016, the Group acquired equity method investments with aggregate consideration of RMB3,277 (US\$472).

In 2015, the Group acquired: i) 51.73% of the equity interests in Dianjing Fund, L.P. with a consideration of RMB45,000; ii) other eight internet companies and three limited partnerships to acquire approximately 5% to 50% of the equity interests, with aggregate consideration of RMB65,317.

In 2014, the Group acquired: i) as disclosed in note 3, 50.5% equity interests of Moxiu Technology with a consideration of RMB50,000; 2) 34% equity interest of an internet company and 6.7% interest of a limited partnership, with aggregate consideration of RMB3,000.

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None of our equity method investments was considered individually material for the years ended December 31, 2014, 2015 and 2016. The Group summarized the condensed financial information of the Group's equity investments as a group below in accordance with Rule 4-08 of Regulation S-X:

	2015 RMB	As of December 31, RMB	2016 RMB	US\$
<b>Balance sheet data:</b>				
Current assets	224,443	206,376		29,724
Non-current assets	179,835	243,356		35,051
Current liabilities	33,818	56,828		8,185
Non-current liabilities		223		32

	2014 RMB	Year ended December 31, RMB		2016 RMB	US\$
<b>Operating data:</b>					
Revenues	28,900	45,797	94,343		13,588
Gross profit	26,582	21,444	65,097		9,376
Operating loss	(15,855)	(39,325)	(50,475)		(7,270)
Net loss	(12,765)	(32,562)	(40,192)		(5,789)

The Group recorded a loss of RMB6,064, RMB12,144 and RMB11,363 (US\$1,637) from equity method investments for the years ended December 31, 2014, 2015 and 2016, respectively. The Group also recognized impairment losses of RMB472, RMB2,806 and RMB11,453 (US\$1,650) for equity method investments in the consolidated statements of comprehensive income (loss) for the years ended December 31, 2014, 2015 and 2016, respectively. The Group recognized disposal gain of nil, RMB13,626 and RMB30,625 (US\$4,411) and deemed disposal gain of nil, RMB30,857 and nil for the years ended December 31, 2014, 2015 and 2016.

*Available-for-sale security*

Long-term available-for-sale equity security represents investment in the equity securities of a publicly listed company. As the Group does not have significant influence over the investee, the investment was classified as available-for-sale security and reported at fair value. During the



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year ended December 31, 2016, the Group disposed the long-term available-for-sale equity security and recognized a realized gain of RMB24,338(US\$3,505).

Long-term available-for-sale debt security represents investment in the convertible bond of a third party internet company.

For the years ended December 31, 2014, 2015 and 2016, the Group recognized an impairment loss on the long-term available-for-sale security of nil, RMB25,891 and nil, respectively, in the consolidated statements of comprehensive income (loss).

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## 5. ACCOUNTS RECEIVABLE, NET

	As of December 31,		
	2015		2016
	(As adjusted)		
	RMB	RMB	US\$
Accounts receivable	651,343	672,872	96,914
Allowance for doubtful accounts	(17,903)	(71,987)	(10,369)
	633,440	600,885	86,545

The Group maintains allowance for doubtful accounts for estimated is recorded when loss is probable based on an assessment of specific evidence indicating troubled collection, historical experience, accounts aging and other factors. The Group reviews the accounts receivable on a periodic basis and makes general and 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 age of the balance, the customer's payment history, its current credit-worthiness and current economic trends. As of December 31, 2015 and 2016, all accounts receivable were due from third party customers. Provision for doubtful accounts for the years ended December 31, 2014, 2015 and 2016 were RMB 3,253, RMB 13,641 and RMB 42,533 (US\$6,126), respectively.

## 6. PREPAYMENTS AND OTHER ASSETS

Prepayments and other current assets

	As of December 31,		
	2015		2016
	(As adjusted)		
	RMB	RMB	US\$
Other receivables from advertisers	98,518	212,592	30,620
VAT prepayments	122,645	157,048	22,620
Advances to suppliers	25,879	50,088	7,214
Receivable from third party payment platform	3,311	37,057	5,337
Receivable from equity investees		33,564	4,834
Prepaid expenses	25,286	24,757	3,566

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Prepaid deposits	10,915	10,455	1,506
Advances to employees	12,260	9,147	1,317
Receivables from employees	28,928	7,533	1,085
Prepaid employees compensation	5,292	1,873	270
Loan to an investor of an equity investee	2,765	1,191	172
Deferred cost	4,894	448	65
Entrusted loan to a third party	3,000		
Others	16,311	25,553	3,679
Total	360,004	571,306	82,285

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Provision (Reversal) for doubtful accounts for the years ended December 31, 2014, 2015 and 2016 were RMB2,211, RMB(453) and RMB4,337 (US\$625), respectively.

Other non-current assets

	2015 (As adjusted) RMB	As of December 31,	
		2016 RMB	2016 US\$
Loan to an investor of an equity investee	2,765	2,765	398
Rental deposits	20,468	21,662	3,120
Others	5,491	3,883	559
	28,724	28,310	4,077

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## 7. PROPERTY AND EQUIPMENT, NET

	As of December 31,		
	2015	2016	
	(As adjusted) RMB	RMB	US\$
Electronic equipment	98,869	127,786	18,405
Leasehold improvements	55,794	62,702	9,031
Office equipment and fixtures	20,979	25,091	3,614
Motor vehicles	2,673	4,209	606
Construction in progress	1,322		
Less: Accumulated depreciation	(58,396)	(102,349)	(14,741)
Property and equipment, net	121,241	117,439	16,915

Depreciation expense of property and equipment for the years ended December 31, 2014, 2015 and 2016 were RMB 22,374 , RMB26,002 and RMB46,455 (US\$6,691), respectively.

## 8. INTANGIBLE ASSETS, NET

Intangible assets and the related accumulated amortization were summarized as follows:

	As of December 31, 2015 (As adjusted)			
	Gross carrying value RMB	Accumulated amortization RMB	Accumulated impairment RMB	Net carrying value RMB
	Indefinite-lived:			
Trade name and domain names	2,161			2,161
Finite-lived:				
Technology	176,661	(90,598)	(213)	85,850
Online game licenses	71,804	(30,039)	(34,452)	7,313

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Customer/supplier relationship	39,385	(13,373)		26,012
User base	74,811	(50,216)		24,595
Trademark	30,726	(5,823)		24,903
Domain names	3,794	(1,471)	(789)	1,534
Non-compete agreements	1,610	(1,610)		
Platform	71,439	(10,715)		60,724
	472,391	(203,845)	(35,454)	233,092

As of December 31, 2016

	Gross carrying value RMB	Accumulated amortization RMB	Accumulated impairment RMB	Net carrying value RMB	US\$
Indefinite-lived:					
Trade name and domain names	2,161			2,161	311
Finite-lived:					
Technology	208,716	(149,176)		59,540	8,576
Online game licenses	69,198	(26,622)	(35,619)	6,957	1,002
Customer/supplier relationship	94,160	(31,759)		62,401	8,988
User base	79,438	(73,368)		6,070	874
Trade marks	45,709	(11,437)		34,272	4,936
Domain names	3,317	(1,990)		1,327	191
Non-compete agreements	8,547	(3,633)		4,914	708
Platform	76,317	(26,708)		49,609	7,145
	587,563	(324,693)	(35,619)	227,251	32,731

The Group recognized impairment loss on intangible assets of RMB8,304, RMB26,136 and RMB2,889 (US\$416) for the years ended December 31, 2014, 2015 and 2016, respectively .

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Amortization expense of intangible assets for the years ended December 31, 2014, 2015 and 2016 were RMB57,257, RMB120,834 and RMB116,903 (US\$16,838), respectively. Estimated amortization expense relating to the existing intangible assets with finite lives for each of next five years and thereafter is as follows:

	Years ending December 31,	
	RMB	US\$
2017	92,534	13,328
2018	56,857	8,189
2019	33,806	4,869
2020	16,130	2,323
2021	11,755	1,693
Thereafter	14,008	2,018

**9. GOODWILL**

The changes in the carrying amount of goodwill were as follows:

	2015	2016	
	(As adjusted)	RMB	US\$
Balance as of January 1,	266,113	617,863	88,991
Goodwill acquired in business combinations (note 3)	348,910	277,492	39,967
Impairment of Goodwill	(23,746)		
Foreign exchange effect	26,586	48,567	6,995
Balance as of December 31,	617,863	943,922	135,953

For the years ended December 31, 2014, 2015 and 2016, the Group recognized impairment loss of nil, RMB23,746 and nil for the online lottery business reporting unit as the carrying amount exceeded its fair value due to suspension on the online lottery sales in response to the PRC government's regulatory uncertainty.

**10. BANK LOANS***Short-term loans*

In May 2015 and July 2016, the Group entered into two revolving loan facility agreements with certain financial institutions, pursuant to which the Group is entitled to borrow US\$ denominated loan with total amount of US\$60,000 (equivalent to RMB416,220). As of December 31, 2016, the Group has drawn down US\$50,000 (equivalent to RMB346,850) with a revolving term of one month and the loan was secured by a pledge of bank deposit US\$10,000 (equivalent to RMB69,370). The interest rate on outstanding utilized amount under those credit facilities is calculated based on 1.65% per annum over 1-month LIBOR for both the year ended December 31, 2015 and 2016. The credit facilities are mainly reserved for the general working capital of the Group.

*Long-term loans*

In June 2016, the Group entered into a loan facility agreement with certain financial institution, pursuant to which the Group is entitled to borrow an unsecured US\$ denominated loan of US\$50,000 (equivalent to RMB346,850) or its equivalent in Euro with an interest rate of 2.25% per annum over LIBOR for US\$ drawings and 2% per annum over EURIBOR for Euro drawings. The principal amount is maturing serially in 3 years from the date of each drawdown. This facility is intended for the general working capital of the Group. As of December 31, 2016, the Group has drawn down US\$15,000 plus Euro5,000 (equivalent to RMB140,616), and the Group has repaid US\$500 (equivalent to RMB3,469) of principals.

Between 2010 and 2015, the Group entered into several loan agreements with certain financial institutions, pursuant to which the Group borrowed unsecured Euro denominated loans of Euro2,335 (equivalent to RMB17,072 with a term ranging from 4.08 to

7.59 years. The loans are settled with interest rate ranging from 0% to 5.2% plus 3-month EURIBOR during the respective term of loans. The Group has repaid Euro373 (equivalent to RMB2,728) of principals as of December 31, 2016.

As of December 31, 2016, the long-term borrowings will be due according to the following schedule:

	RMB	US\$
Within 1 year	32,694	4,709
Between 1 to 2 years	48,635	7,005
Between 2 to 3 years	65,867	9,487
Between 3 to 4 years	2,376	342
Between 4 to 5 years	1,919	276
	151,491	21,819



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## 11. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other current liabilities

	As of December 31,		
	2015		2016
	(As adjusted)	RMB	US\$
	RMB		
Payable to online advertising platforms as an agency	356,647	364,206	52,457
Salary and welfare payable	170,819	229,146	33,004
Accrued advertising, marketing and promotional expenses	253,384	194,791	28,056
Accrued operating expenses	133,748	150,828	21,724
Advances from customers	70,926	128,228	18,469
Payable for aquisition	88,054	89,155	12,840
Accrued bandwidth and internet data center costs	69,524	57,491	8,280
Other taxes payable	76,618	35,562	5,122
Advances from disposal of investment		31,728	4,570
Contingent consideration payable (note 3)	23,338	19,933	2,871
Payable for purchase of property, equipment and intangible assets	43,785	10,902	1,570
Redemption right liabilities	474	652	94
Others	21,874	47,136	6,789
Total	1,309,191	1,359,758	195,846

Other non-current liabilities

	As of December. 31,		
	2015		2016
	(As adjusted)	RMB	US\$
	RMB		
Contingent consideration payable (note 3)		10,425	1,502
Payable for acquisitions	55,665	3,468	499
Uncertain tax position (note 15)	18,161	22,606	3,256
Total	73,826	36,499	5,257



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## 12. DEFERRED REVENUE

	As of December 31,		
	2015 (As adjusted) RMB	RMB	2016 US\$
<b>Current:</b>			
Deferred revenue from customers	46,519	32,969	4,749
Deferred government subsidies	9,551	15,692	2,260
	56,070	48,661	7,009
<b>Non-current:</b>			
Deferred revenue from customers	7,166	6,001	864
Deferred government subsidies	1,000		
	8,166	6,001	864

## 13. REVENUES

	Years ended December 31,			
	2014 (As adjusted) RMB	2015 (As adjusted) RMB	2016 RMB	US\$
Online marketing services	1,339,250	3,283,423	3,950,886	569,045
Internet value-added services	400,671	395,312	500,991	72,158
Internet security services and others	118,261	95,142	112,773	16,243
	1,858,182	3,773,877	4,564,650	657,446

## 14. GEOGRAPHICAL INFORMATION

The following tables set forth revenue and property and equipment, net by geographic area:

For the years ended December 31,

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	2014 (As adjusted) RMB	2015 (As adjusted) RMB	2016 RMB	US\$
Revenue				
PRC	1,538,698	1,840,290	1,817,874	261,828
Non-PRC(i)	319,484	1,933,587	2,746,776	395,618
United States	53,683	282,543	977,257	140,754
Ireland(ii)	72,082	1,086,110	911,154	131,233
Rest of the world(iii)	193,719	564,934	858,365	123,631

	As of December 31,			
	2015 (As adjusted) RMB	RMB	2016	US\$
Property and equipment, net				
PRC	116,787	109,846		15,821
Non-PRC	4,454	7,593		1,094

(i) Non-PRC revenue refers to revenues generated by the Group's operating legal entities incorporated outside China. Such revenues are primarily attributable to customers located outside China based on customers' registered addresses.

(ii) Revenues from Ireland were primarily derived from online advertising service from Facebook, which is incorporated in Ireland but operates primarily in the United States, representing 20% of the Group's total revenue.

(iii) No individual country, other than disclosed above, exceeded 10% of our total revenue for any period presented.

## 15. INCOME TAXES

The Company is incorporated in the Cayman Islands and conducts its primary business operations through its subsidiaries and VIEs in the PRC. It also has subsidiaries in the United States, Hong Kong, Singapore, Japan, France and Taiwan.

### *Cayman Islands*

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gain arising in Cayman Islands. Additionally, upon payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

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*The United States*

Cheetah Mobile America and MobPartner Inc. are incorporated in the United States and are subject to 35% for the federal income tax in United States and 8.84% for the state income tax in California.

*Hong Kong*

Cheetah Technology, HK Zoom, Youloft HK, Cheetah Information and Hong Kong Live.Me are incorporated in Hong Kong and are subject to Hong Kong profits tax rate of 16.5%.

*Singapore*

Cheetah Mobile Singapore is incorporated in Singapore and is subject to Singapore corporate income tax rate of 17% in 2015. Started from 2016, the Singapore Economic Development Board provides a tax holiday of a reduced corporate tax rate at 5% on incremental income from qualifying activities to Cheetah Mobile Singapore for ten years from 2016 to 2025 under the Development Expansion Incentive scheme.

*Japan*

Kingsoft Japan is incorporated in Japan with paid-in capital in excess of JPY100 million and is subject to a national corporate income tax rate of 25.5% through March 31, 2015, and the income tax rate has been reduced to 23.9% and 23.4% since April 1, 2015 and April 1, 2016, respectively. 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 23.4% on the portion over JPY8 million from April 1, 2016. Local income taxes, which are local inhabitant tax and enterprise tax, are also imposed on corporate income.

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### *France*

MobPartner and News Republic are incorporated in France and are subject to French corporate tax rate of 33.33%.

### *Taiwan*

Taiwan Cheetah is incorporated in Taiwan and is subject to corporate tax rate of 17%.

### *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.

Pursuant to CaiShui [2008] No.1, qualified new software development enterprises 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. Conew Network and Chongqing Calendar, being qualified new software development enterprises, started each of their 2+3 tax holidays from 2013 and 2015, respectively. Further, Zhuhai Juntian, Beijing Security, Beijing Mobile, Beijing Network and Moxiu Technology being qualified as High New Technology Enterprise ( "HNTE") are entitled to the preferential income tax rate of 15% for three years.

Without the tax holidays, the Group's income tax expenses would have increased by RMB40,509, RMB21,301 and RMB 31,470 (US\$4,532) for the years ended December 31, 2014, 2015 and 2016, respectively. The impacts of the tax holidays on the basic earnings (losses) per share were an increase of RMB0.0314, RMB 0.0155 and RMB0.0227 (US\$0.0033) for the years ended December 31, 2014, 2015 and 2016, 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,			
	2014 (As adjusted) RMB	2015 (As adjusted) RMB	2016 RMB	US\$
PRC	218,060	154,095	(54,764)	(7,888)
Non-PRC	(118,860)	84,282	(14,132)	(2,035)
<b>Total</b>	<b>99,200</b>	<b>238,377</b>	<b>(68,896)</b>	<b>(9,923)</b>



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The current and deferred portions of income tax expenses (benefits) included in the consolidated statements of comprehensive income (loss) are as follows:

	Year ended December 31,			
	2014 (As adjusted) RMB	2015 (As adjusted) RMB	2016 RMB	US\$
Current income tax expenses	14,989	70,820	41,243	5,940
Deferred income tax expenses (benefits)	12,906	(7,080)	(53,432)	(7,696)
Income tax expenses (benefits) for the year	27,895	63,740	(12,189)	(1,756)

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,			
	2014 (As adjusted) RMB	2015 (As adjusted) RMB	2016 RMB	US\$
Income (loss) before income tax	99,200	238,377	(68,896)	(9,923)
Income tax expense (benefit) computed at the PRC statutory tax rate of 25%	24,800	59,594	(17,224)	(2,481)
Effect of different tax rates in different jurisdictions	17,191	(21,538)	(18,988)	(2,735)
Effect of tax holiday and preferential tax rates	(54,944)	(35,434)	(20,969)	(3,020)
Research and development super-deduction	(37,483)	(47,179)	(54,081)	(7,789)
Non-deductible expenses(i)	51,979	84,348	75,085	10,814
Effect of change in tax rate	(8,795)	1,464	5,009	721
Outside basis difference on investment in VIEs	15,821	11,378	(2,847)	(410)
Withholding tax and others	530	6,160	10,962	1,579
Changes in valuation allowance	18,796	4,947	10,864	1,565
Income tax expenses (benefits)	27,895	63,740	(12,189)	(1,756)

(i) 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, 2015 and 2016 are as follows:

	As of December 31,		
	2015 (As adjusted) RMB	RMB	2016 US\$
<b>Deferred tax assets, current portion:</b>			
Deferred revenue	111	646	92
Provision for doubtful debts	14,400	8,495	1,224
Tax loss carry forward	96	263	38
Accrued expenses	2,277	2,767	399
Government subsidies	1,383	2,354	339
Others		1,173	169
Less: Valuation allowance	13,166	171	25
<b>Current deferred tax assets</b>	<b>5,101</b>	<b>15,527</b>	<b>2,236</b>
<b>Deferred tax assets, non-current portion:</b>			
Deferred revenue		1,566	226
Intangible assets and accrued expense	4,586	6,560	945
Foreign tax credit	1,222		
Equity investment (gain) loss	(908)	10,725	1,545
Contingent consideration	1,434	777	112
Tax loss carry forward	27,517	84,824	12,217
Share-based compensation		11,206	1,614
Others	458	368	52
Less: Valuation allowance	21,466	41,217	5,936
<b>Non-current deferred tax assets</b>	<b>12,843</b>	<b>74,809</b>	<b>10,775</b>
<b>Deferred tax liabilities, current portion:</b>			
Long-lived assets arising from acquisitions	414		
<b>Current deferred tax liabilities</b>	<b>414</b>		
<b>Deferred tax liabilities, non-current portion:</b>			
Long-lived assets arising from acquisitions	37,897	54,176	7,803
Outside basis difference on investment in VIEs	61,109	58,262	8,391
<b>Non-current deferred tax liabilities</b>	<b>99,006</b>	<b>112,438</b>	<b>16,194</b>

The Group operates through several subsidiaries and VIEs and the valuation allowance is considered for each subsidiary and VIE on an individual basis. As of December 31, 2015 and 2016, the Group's total deferred tax assets before valuation allowances were RMB52,576 and RMB131,724 (US\$18,972), respectively. As of December 31, 2015 and 2016, the Group recorded valuation allowances of RMB34,632 and RMB41,388 (US\$5,961), 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 RMB588,704 and RMB654,425 (US\$94,255) on December 31, 2015 and 2016, 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 are approximately ranging from RMB29,294 to RMB58,589 and RMB32,721 (US\$4,713) to RMB 65,442 (US\$9,426) as of December 31, 2015 and 2016, respectively.

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Taxable outside basis differences are noted in the Group's investment in Beijing Mobile, a VIE of the Group. The registered shareholders of Beijing Mobile are contractually required to remit dividends received from Beijing Mobile to Beijing Security. This distribution chain results in (i) taxable dividend from Beijing Mobile to its registered shareholders and (ii) a taxable contribution to Beijing Security when the proceeds are remitted to Beijing Security by the registered shareholders. The tax impact on the future cash distribution is recognized in deferred tax liabilities as outside basis difference on investment in VIEs .

As of December 31, 2016, the Group had taxable losses of approximately RMB320,369 (US\$46,142) deriving from entities in the PRC, Hong Kong, France, USA, Taiwan 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 2017 to 2022; the USA taxable loss will expire from 2036 to 2037, the Taiwan taxable loss will not expire until 2021, the Hong Kong, France and Singapore taxable loss can be carried forward without an expiration date.

*Unrecognized tax benefits*

As of December 31, 2015 and 2016, the Group had unrecognized tax benefits of RMB46,615 and RMB61,557 (US\$8,866), of which RMB29,948 and RMB 43,934 (US\$6,328), respectively, were deducted against the deferred tax assets on tax losses carry forward, and the remaining amounts of RMB16,667 and RMB17,623 (US\$2,538), 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, 2015 and 2016 were primarily related to the tax-deduction of share-based compensation expenses and other expenses. 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, 2015 and 2016, there are RMB16,667 and RMB13,228 (US\$1,905) 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:

	2015 RMB	2016 RMB	2016 US\$
Balance at January 1	16,046	46,615	6,714
Additions based on tax positions related to current year	30,569	15,447	2,225
Reversal based on tax positions related to prior years		(505)	(73)
Balance at December 31	46,615	61,557	8,866

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The Group recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expenses. For the years ended December 31, 2015 and 2016, the Group recognized approximately RMB638 and RMB3,489 (US\$503) in interest and nil in penalties. The Group had approximately RMB1,494 and RMB4,983 (US\$718) accrued interest as of December 31, 2015 and 2016, respectively.

As of December 31, 2016, the tax years ended December 31, 2011 through 2016 for the Group's subsidiaries in the PRC and the VIEs are generally subject to examination by the PRC tax authorities.

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**16. RELATED PARTY TRANSACTIONS**

a) Related parties

*The ultimate holding company*

Kingsoft

*Entities controlled by Kingsoft*

Beijing Kingsoft Cloud Network Technology Corporation Limited ( Beijing Kingsoft Cloud Network )  
Beijing Kingsoft Cloud Technology Corporation Limited ( Beijing Kingsoft Cloud Technology )  
Beijing Kingsoft Digital Entertainment Corporation Limited ( Beijing Kingsoft Digital Entertainment )  
Beijing Kingsoft Office Software Corporation Limited ( Beijing Kingsoft Office Software )  
Beijing Kingsoft Software Corporation Limited ( Beijing Kingsoft Software )  
Chengdu Kingsoft Digital Entertainment Technology Co., Ltd. ( Chengdu Kingsoft Digital Entertainment )  
Chengdu Kingsoft Interactive Entertainment Corporation Limited ( Chengdu Kingsoft Interactive Entertainment )  
Chengdu Westhouse Interactive Entertainment Co., Ltd. ( Chengdu Westhouse Interactive Entertainment )  
Kingsoft Office Software Corporation Limited ( Kingsoft Office Software )  
Westhouse Corporation Limited ( Westhouse Corporation )  
Zhuhai Kingsoft Application Software Corporation Limited ( Zhuhai Kingsoft Application )  
Zhuhai Kingsoft Software Corporation Limited ( Zhuhai Kingsoft Software )

*Entities controlled by a shareholder of the Company*

Shenzhen Tencent Computer Systems Corporation Limited ( Tencent Shenzhen )  
Tencent Technology (Shenzhen) Company Limited ( Tencent Shenzhen )  
Tencent Technology (Beijing) Company Limited ( Tencent Beijing )  
Beijing Starsinhand Technology Limited ( Beijing Starsinhand Technology )  
WeChat International Pte. Ltd. ( WeChat International )  
Sixjoy Hong Kong Limited  
VNG Corporation

*Entities controlled by a director of the Company*

Xiaomi Technology Company Limited ( Xiaomi Technology )  
Beijing Xiaomi Mobile Software Co., Ltd. ( Beijing Xiaomi Mobile )  
Beijing Wali Network Technology Co., Ltd. ( Beijing Wali Network Technology )

*Equity investees*

Beijing Security System Technology Co., Ltd. ( Beijing Security System Technology )  
Beijing Shangyao World Technology Co., Ltd.  
Wuhan Antian Information Technology Co., Ltd.  
Baomi Information Technology(Shanghai) Co., Ltd.  
Musical.ly Inc.



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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, 2014, 2015 and 2016:

		For the years ended December 31,			
		2014 (As adjusted) RMB	2015 (As adjusted) RMB	2016 RMB	US\$
<i>Corporate, technical support and leasing services received from:</i>	(i)				
Entities controlled by Kingsoft		7,827	7,588	26,613	3,833
An equity investee				820	118
<i>Licensing fees paid to:</i>	(ii)				
Entities controlled by Kingsoft		16,650	9,129	12,162	1,752
<i>Sub-licensing revenue received from:</i>	(iii)				
Entities controlled by Kingsoft		24	90	90	13
<i>Transfer of fixed assets, technology know-how, trademarks and other intellectual properties from:</i>	(iv)				
Entities controlled by Kingsoft		13,580			
<i>Promotion services received from:</i>	(v)				
Entities controlled by Kingsoft		24,455	28,231	22,599	3,255
An entity controlled by a director of the Company		2,924	47,826	59,377	8,552
An entity controlled by a shareholder of the Company			41,599	39,069	5,627
<i>Online marketing services provided to:</i>	(vi)				
Entities controlled by a shareholder of the Company		78,432	293,510	153,650	22,130
An entity controlled by a director of the Company		4,081	117	28	4
Entities controlled by Kingsoft		1,653		109	16
<i>Purchase of exclusive online game operating license from:</i>	(vii)				
Entities controlled by Kingsoft		13,944			
<i>Acquisition of equity method investments from:</i>	(viii)				
An entity controlled by a shareholder of the Company		30,000			
<i>Sales of products to:</i>	(ix)				
An equity investee			12,701		



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(i) In 2014, 2015 and 2016, the Group entered into agreements with certain entities controlled by Kingsoft and an equity investee, pursuant to which these entities provided services including corporate, technology support and leasing services to the Group. The expenses related to these services were recognized in the consolidated statements of comprehensive income (loss).

(ii) In 2011, the Group entered into authorization and licensing agreements with certain entities controlled by Kingsoft to obtain rights to use, redevelop and sub-license certain internet security software copyrights, patents and trademarks for five years for a total consideration of RMB42,000. These agreements were terminated upon the transfer of these assets to the Group in April 2014. On January 1, 2009, Kingsoft Japan Inc. 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. This agreement was later amended in October 2013 and effective until dissolution of Kingsoft Japan. The license fees were recognized in the consolidated statements of comprehensive income (loss).

(iii) In April 2014, the Group entered into sub-licensing agreement with an entity controlled by Kingsoft and granted the right to use certain trademarks and copyright of software until February 1, 2024. These sub-licensing revenues were recognized in the consolidated statements of comprehensive income (loss).

(iv) In April 2014, the Group purchased certain internet security software copyrights, patents and trademarks from certain entities controlled by Kingsoft for a cash consideration of RMB13,580.

(v) In 2014, 2015 and 2016, the Group entered into agreements with entities controlled by Kingsoft, an entity controlled by a director of the Company, and an entity controlled by a shareholder of the Company for promotion services ranging from six months to two years. The promotion service fees were recognized in the consolidated statements of comprehensive income (loss).

(vi) In 2014, 2015 and 2016, the Group entered into a series of agreements with an entity controlled by a director of the Company, entities controlled by a shareholder, and entities controlled by Kingsoft to provide online marketing services. These online marketing revenues were recognized in the consolidated statements of comprehensive income (loss).

(vii) In October 2014, the Group entered into exclusive operating agreements with entities controlled by Kingsoft to obtain the license rights to exclusively operate certain mobile games developed by these entities from October 16, 2014 to December 31, 2015. The Group paid a total consideration of RMB13,944.

(viii) In August 2014, the Group acquired 22.2% of Moxiu Technology from an entity controlled by a shareholder of the Company for an amount of RMB30,000 (note 4).

(ix) In 2015, the Group entered into a series of agreements with an equity investee to sell purifiers. The sales of the purifiers were recognized in the consolidated statements of comprehensive income (loss).

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c) The balances between the Group and its related parties as of December 31, 2015 and 2016 are listed below:

(1) *Amount due from related parties*

	As of December 31,		
	2015	2016	
	(As adjusted) RMB	RMB	US\$
Kingsoft	13,977	14,754	2,125
Entities controlled by a shareholder of the Company	36,639	14,412	2,076
Entities controlled by Kingsoft	610	508	73
Entities controlled by a director of the Company	2,302	7,694	1,108
Equity investees	7,266	6,910	995
Total	60,794	44,278	6,377

(2) *Amount due to related parties*

	As of December 31,		
	2015	2016	
	(As adjusted) RMB	RMB	US\$
Kingsoft	589	616	89
Entities controlled by Kingsoft	16,846	25,631	3,692
Entities controlled by a director of the Company	23,421	11,638	1,676
Entities controlled by a shareholder of the Company	16,039	26,421	3,805
Equity investees	37	6,861	988
Total	56,932	71,167	10,250

All the balances with related parties as of December 31, 2015 and 2016 were unsecured and repayable on demand. Nil, nil and RMB8,282 (US\$1,193) allowance for doubtful accounts was recognized for the amount due from related parties for the years ended December 31, 2014, 2015 and 2016.



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## 17. 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 restricted shares with an option feature activity under the 2014 Restricted Shares Plan during the year ended December 31, 2016:

	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, 2016	19,797,900	0.30	2.20	8.31	25,801
Granted	40,904,390	0.31	1.13		
Forfeited	(6,770,890)	0.32	1.83		
Exercised	(3,065,470)	0.20	2.22		
Outstanding at December 31, 2016	50,865,930	0.31	1.37	7.31	32,839
Vested and expected to vest at December 31, 2016	49,189,470	0.31	1.38	7.31	31,854
Exercisable as at December 31, 2016	1,864,530	0.21	2.15	7.31	1,387

Total intrinsic value of restricted shares with an option feature exercised for the year ended December 31, 2016 was RMB18,203 (US\$2,622). The weighted-average grant-date fair value of options granted during the years 2015 and 2016 was US\$2.21 and US\$1.13, respectively.

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The grant date fair value of each restricted share with an option feature is estimated on the date of grant using the binomial tree option pricing model with the following assumptions used for grants in 2016:

	Year ended December 31, 2016
Fair value of ordinary share (US\$)	0.95-1.63
Risk-free interest rates	1.99%-2.98%
Expected volatility range	44.6%-53%
Expected dividend yield	0%
Expected exercise multiple	2.2
Fair value per option granted (US\$)	0.67-1.33

The risk-free interest rate for periods within the contractual life of the restricted shares with an option feature 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 our expected dividend policy over the expected term of the restricted shares with an option feature. The expected exercise multiple is based on management's estimation, which the Company believes is representative of the future.

Share-based compensation expenses recorded in respect of the 2014 Restricted Shares Plan amounted to nil, RMB71,772, RMB170,239 (US\$24,520) for the year ended December 31, 2014, 2015 and 2016, respectively.

As of December 31, 2015 and 2016, 200,000 and 3,265,470 Class A ordinary shares were issued and outstanding for the exercised share awards under the 2014 Restricted Shares Plan.

As of December 31, 2016, there was RMB260,936 (US\$37,583) of total unrecognized share-based compensation expenses related to non-vested restricted shares with an option feature and the cost is expected to be recognized over a weighted average period of 2.43 years. Total estimation share-based compensation expenses may be adjusted for future changes in estimated forfeitures.

### *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, 2016, all the share awards granted under 2013 Incentive Scheme were restricted shares with an option feature with vesting terms of no longer than 5 years from the date of grant.

The fair value of restricted shares with an option feature was determined by reference to the fair value of the Company's ordinary shares at their respective grant date, which was valued based on retrospective valuation with the assistance of an independent third party valuation firm using the binomial tree model for an option pricing applied. The Company's management is ultimately responsible for the determination of the estimated fair value of its ordinary shares. Subsequent to the IPO, fair value of the ordinary shares was determined based the price of the Company's publicly traded ADSs.

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The following table summarizes the Group's restricted shares with an option feature activity under the 2013 Incentive Scheme during the year ended December 31, 2016:

	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, 2016	61,320,331	0.33	1.23	8.01	77,726
Forfeited	(4,261,000)	0.34	1.38		
Exercised	(8,092,280)	0.33	1.19		
Outstanding at December 31, 2016	48,967,051	0.33	1.22	7.01	30,438
Vested and expected to vest at December 31, 2016	48,515,858	0.33	1.23	7.01	30,137
Exercisable as at December 31, 2016	14,181,172	0.33	1.14	7.01	8,908

Total intrinsic value of restricted shares with an option feature exercised for the year ended December 31, 2016 was RMB59,557 (US\$8,578). The weighted-average grant-date fair value of options granted during the years 2014 and 2015 was US\$1.03 and US\$2.16, respectively.

Share-based compensation expenses recorded in respect of the 2013 Incentive Scheme amounted to RMB126,399, RMB139,422 and RMB92,231 (US\$13,284) for the years ended December 31, 2014, 2015 and 2016, respectively.

As of December 31, 2015 and 2016, 1,890,800 and 9,983,080 Class A ordinary shares were issued and outstanding for the exercised share awards under the 2013 Incentive Scheme, respectively.

As of December 31, 2016, there was RMB96,350 (US\$13,877) of total unrecognized share-based compensation expenses



related to non-vested restricted shares with an option feature and the cost is expected to be recognized over a weighted average period of 1.94 years. Total estimation share-based compensation expenses may be adjusted for future changes in estimated forfeitures.

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***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 restricted shares, unvested or vested, may not, at any time prior to being transferred to employees and the initial public offering of the Company, be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered. Upon the occurrence of certain contingent events which are considered outside the Company's control, the Company has the right to repurchase all of an employee's vested restricted shares for an aggregate consideration of US\$1.00 and any unvested shares would be forfeited.

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, 2016, 4,793,807 (2015: 1,273,840) forfeited and ungranted restricted shares are held by the Share Award Scheme and available to be granted in the future.

Among the 2013 grants, 3,000,000 restricted shares were granted to two employees who have the unilateral right to request the Company to repurchase their vested restricted shares at a fixed price of RMB4 per share (if certain breaching conditions considered within the control of the employee are not met). The Company also has the option to repurchase up to all of the vested restricted shares at a fixed price of RMB4 per share if (i) the employee has served the Company for more than a year but less than four years; and (ii) employment is terminated for any reason either by the Company or the employee. The restricted shares are accounted for as tandem awards as they provide the employees the option to put the restricted shares back to the Company and therefore, have both an equity and liability component.

The equity portion of the restricted share is recognized as share-based compensation based on its grant date fair value over the requisite service period of four years. The redemption right liability as of December 31, 2015 and 2016 were and RMB474 and RMB652 (US\$94), respectively. The redemption right liability considers the fair value of the employee's redemption right as of the end of a reporting period and the number of restricted shares that have vested to date. For the year ended December 31, 2016,

the change in the fair value of the redemption right liability of RMB84 (US\$12) was recorded as share-based compensation expenses and RMB94 (US\$14) was recorded in changes in fair value of put options granted to employees, respectively.

The fair value of restricted shares was determined by reference to the fair value of the Company's ordinary shares at their respective grant dates, which was valued based on retrospective valuation with the assistance of an independent third party valuation firm using a discounted cash flow. The Company's management is ultimately responsible for the determination of the estimated fair value of its ordinary shares. Subsequent to the IPO, fair value of the ordinary shares was determined based on the price of the Company's publicly traded ADSs.

The following table summarizes the restricted shares activity pursuant to the 2011 Share Award Scheme for the year ended December 31, 2016:

	Number of ordinary shares	Weighted average grant date fair value (US\$)
Unvested at January 1, 2016	22,202,973	1.11
Granted	1,374,000	1.61
Vested	(11,675,334)	0.82
Forfeited	(4,893,967)	1.67
Unvested at December 31, 2016	7,007,672	1.30

The weighted-average grant-date fair value of options granted during the years 2014, 2015 and 2016 was US\$1.27, US\$1.91 and US\$1.61, respectively.

Share-based compensation expenses recorded in respect of the 2011 Share Award Scheme amounted to RMB41,259, RMB72,535 and RMB32,514 (US\$4,683) for the years ended December 31, 2014, 2015 and 2016, respectively.

As of December 31, 2016, the total estimated unrecognized share-based compensation expenses related to restricted shares awarded to employees pursuant to the 2011 Share Award Scheme amounted to RMB19,565 (US\$2,818), net of estimated forfeitures, and is expected to be recognized over a weighted-average period of 1.59 years. Total unrecognized share-based compensation expenses may be adjusted for future changes in estimated forfeitures.

The total fair value of vested restricted shares on their respective vesting dates during the years ended December 31, 2014, 2015 and 2016 were RMB243,214, RMB301,715 and RMB120,343 (US\$17,333), respectively.

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*Other Share Incentive Awards*

In addition to awards granted pursuant to the Group's share incentive plans stated above, the Group granted some restricted shares to certain individuals for their employment or consultant service with the Group in connection with certain investments and acquisitions made by the Group. Such awards are subjected to such employees and consultants' continued employment with the Group for specified terms.

The following table summarizes the restricted shares activity pursuant to the Other Share Incentive Award for the year ended December 31, 2016:

	Number of ordinary shares	Weighted average grant date fair value (US\$)
Unvested at January 1, 2016	3,690,668	2.28
Granted	105,000	1.62
Vested	(1,348,667)	1.54
Forfeited	(454,350)	2.36
Unvested at December 31, 2016	1,992,651	1.08

The weighted-average grant-date fair value of options granted during the years 2015 and 2016 was US\$2.26 and US\$1.62, respectively.

Share-based compensation expenses recorded in respect of the Other Share Incentive Award amounted to nil, RMB24,926 and RMB7,534 (US\$1,085) for the years ended December 31, 2014, 2015 and 2016, respectively.

As of December 31, 2016, the total estimated unrecognized share-based compensation expenses related to the Other Share Incentive Award to grantees amounted to RMB4,818 (US\$694), net of estimated forfeitures, and is expected to be recognized over a weighted-average period of 1.16 years. Total unrecognized share-based compensation expenses may be adjusted for future changes in estimated forfeitures.

The total fair value of vested restricted shares on their respective vesting dates during the years ended December 31, 2014, 2015 and 2016 were nil, RMB12,247 and RMB12,831 (US\$1,848), respectively.

***Kingsoft shares awarded to the Group's employees***

On March 31, 2008, the board of directors of Kingsoft approved and adopted the share award scheme (the Kingsoft Share Award Scheme) in which selected employees of Kingsoft (including its subsidiaries and VIEs) are entitled to participate.

The Group determined that all Kingsoft awarded shares granted to employees of the Group are classified and accounted for as equity awards. The fair value of awarded shares granted under the Kingsoft Share Award Scheme was determined based on the fair market value of Kingsoft's ordinary shares at the grant date.

A summary of the awarded shares activity, relating to awarded shares held by employees of the Group pursuant to the Kingsoft Share Award Scheme for the year ended December 31, 2016, is presented below:

	Number of Kingsoft ordinary shares	Weighted average grant date fair value (US\$)
Unvested at January 1, 2016	1,387,000	2.0
Granted	9,000	2.1
Vested	(944,100)	2.3
Forfeited	(117,500)	2.7
Unvested at December 31, 2016	334,400	0.9

The weighted-average grant-date fair value of options granted during the years 2014, 2015 and 2016 was US\$3.15, US\$2.9 and US\$2.1, respectively.

Share-based compensation expenses recorded in respect of the Kingsoft Share Award Scheme amounted to RMB5,874, RMB5,857 and RMB3,545 (US\$511) for the years ended December 31, 2014, 2015 and 2016, respectively.

As of December 31, 2016, the total estimated unrecognized share-based compensation expenses related to awarded shares granted to the Group's employees pursuant to the Kingsoft Share Award Scheme amounted to RMB472(US\$68), net of estimated forfeitures, and is expected to be recognized over a weighted-average period of 1.28 years.

The total fair value of vested awarded shares on their respective vesting dates during the years ended December 31, 2014, 2015 and 2016 were RMB18,560, RMB28,991 and RMB11,647 (US\$1,679), respectively.



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Total share-based compensation expenses recorded by the Group are as follows:

	Years ended December 31,			
	2014	2015	2016	
	(As adjusted)	(As adjusted)	RMB	US\$
	RMB	RMB		
Cost of revenues	1,393	1,523	1,490	215
Research and development	51,322	142,777	148,211	21,347
Selling and marketing	7,621	18,206	13,830	1,992
General and administrative	113,435	153,234	142,618	20,541
	173,771	315,740	306,149	44,095

## 18. COMMITMENTS AND CONTINGENCIES

*Operating lease commitments*

The Group leases facilities under non-cancelable operating leases expiring on different dates. Payments under operating leases are expensed on a straight-line basis over the periods of the respective leases. Total rental expense for offices was RMB41,543, RMB82,710, and RMB88,694 (US\$12,775) for the years ended December 31, 2014, 2015 and 2016, respectively. Total other operating lease expenses were RMB111,188, RMB222,138, and RMB347,711 (US\$50,081) for the years ended December 31, 2014, 2015 and 2016, respectively.

Future minimum payments under non-cancelable operating leases consist of the following as of December 31, 2016:

	RMB	US\$
2017	77,931	11,224
2018	72,722	10,474
2019	62,948	9,066
2020	47,782	6,882
2021 and thereafter		





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*Litigation*

The Group is involved in several other proceeding as of December 31, 2016 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.

**19. SHAREHOLDERS' EQUITY**

*Ordinary shares*

Immediately following the closing of 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 69,100,000 and 43,385,700 Class B ordinary shares transferred to Class A ordinary shares in the year ended December 31, 2015 and 2016, respectively.

As of December 31, 2015, there were 350,398,737 and 1,035,037,339 Class A and Class B ordinary shares outstanding. As of December 31, 2016, there were 380,922,773 and 1,003,326,973 Class A and Class B ordinary shares outstanding.

*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.

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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,		
	2015	RMB	2016
	(As adjusted)		
	RMB		US\$
PRC statutory reserve funds	27,121	31,824	4,584
Unreserved retained earnings	290,697	205,469	29,593
Total retained earnings	317,818	237,293	34,177

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 RMB1,037,038 (US\$149,365) as of December 31, 2016.

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 (loss)*

The components of accumulated other comprehensive income (loss) is as follows:

Foreign currency translation adjustments	Unrealized gains on available-for-sale securities	Total
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		RMB	RMB
Balance at January 1, 2014 (As adjusted)	(9,034)	20,929	11,895
Other comprehensive income before reclassification	(6,083)	18,119	12,036
Amounts reclassified from accumulated other comprehensive income		(21,121)	(21,121)
Other comprehensive loss attribute to noncontrolling interests	(609)		(609)
Balance at December 31, 2014 (As adjusted)	(15,726)	17,927	2,201
Other comprehensive income before reclassification	115,515	9,729	125,244
Amounts reclassified from accumulated other comprehensive income		(6,814)	(6,814)
Other comprehensive loss attribute to noncontrolling interests	(1,515)		(1,515)
Balance at December 31, 2015 (As adjusted)	98,274	20,842	119,116
Other comprehensive income before reclassification	132,450	1,241	133,691
Amounts reclassified from accumulated other comprehensive income		(21,666)	(21,666)
Other comprehensive loss attribute to noncontrolling interests	(2,996)		(2,996)
Balance at December 31, 2016	227,728	417	228,145
Balance at December 31, 2016, in US\$	32,798	60	32,858

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, 2014, 2015 and 2016.

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## 20. EARNINGS (LOSSES) PER SHARE

Basic and diluted earnings (losses) per share for each of the years presented are calculated as follows:

	Year ended December 31,					
	2014 (As adjusted)	2015 (As adjusted)	2016			
	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>Earnings (Losses) per share-basic</b>						
<b>Numerator:</b>						
Net income (loss) attributable to Cheetah Mobile Inc.	68,317	176,347	(21,414)	(3,084)	(59,111)	(8,514)
Allocation of net income attributable to Series A Preferred Shareholders	(1,889)					
Allocation of net income attributable to Series B Preferred Shareholders	(2,259)					
Allocation of net income (loss) attributable to ordinary shareholders	64,169	176,347	(21,414)	(3,084)	(59,111)	(8,514)
<b>Denominator:</b>						
Weighted average number of ordinary shares outstanding	1,210,501,020	1,372,863,321	368,910,885	368,910,885	1,018,343,666	1,018,343,666
Earnings (Losses) per share basic	0.0530	0.1285	(0.0580)	(0.0084)	(0.0580)	(0.0084)

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	Years ended December 31,					
	2014 (As adjusted)	2015 (As adjusted)	2016		Class B ordinary shares RMB	Class B ordinary shares US\$
	Ordinary shares RMB	Ordinary shares RMB	Class A ordinary shares RMB	Class A ordinary shares US\$		
<b>Earnings (Losses) per share diluted</b>						
<b>Numerator:</b>						
Allocation of net income (loss) attributable to ordinary shareholders	64,169	176,347	(21,414)	(3,084)	(59,111)	(8,514)
Reallocation of net income attributable to ordinary shareholders as a result of conversion of Series A Preferred Shares to ordinary shares	1,889					
Reallocation of net income attributable to ordinary shareholders as a result of conversion of Series B Preferred Shares to ordinary shares	2,259					
Reallocation of net loss as a result of conversion of Class B into Class A ordinary shares			(59,111)	(8,514)		
Net income (loss) attributable to ordinary shareholders	68,317	176,347	(80,525)	(11,598)	(59,111)	(8,514)
<b>Denominator:</b>						
Weighted average ordinary shares outstanding	1,210,501,020	1,372,863,321	368,910,885	368,910,885	1,018,343,666	1,018,343,666
Conversion of Series A Preferred Shares to ordinary shares	35,632,943					
Conversion of Series B Preferred Shares to	42,621,733					

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ordinary shares						
Dilutive effect of Restricted Shares	43,813,545	21,284,316				
Dilutive effect of restricted shares with an option feature	9,163,216	32,663,302				
Conversion of Class B into Class A ordinary shares			1,018,343,666	1,018,343,666		
Denominator used for earnings (losses) per share	1,341,732,457	1,426,810,939	1,387,254,551	1,387,254,551	1,018,343,666	1,018,343,666
Earnings (losses) per share diluted	0.0509	0.1236	(0.0580)	(0.0084)	(0.0580)	(0.0084)
<b>Earnings (Losses) per ADS:</b>						
Denominator used for earnings (losses) per ADS basic	121,050,102	137,286,332	36,891,088	36,891,088		
Denominator used for earnings (losses) per ADS diluted	134,173,246	142,681,094	138,725,455	138,725,455		
<b>Earnings (Losses) per ADS basic</b>	0.5301	1.2845	(0.5805)	(0.0836)		
<b>Earnings (Losses) per ADS diluted</b>	0.5092	1.2360	(0.5805)	(0.0836)		

The Group did not include certain restricted shares and restricted shares with an option feature in the computation of diluted earnings (losses) per share for the years ended December 31, 2014, 2015 and 2016 because those restricted shares and restricted shares with an option were anti-dilutive for earnings (losses) per share for the respective years.

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**21. TREASURY STOCK**

On March 16, 2016, the Board of Directors of the Company authorized a share repurchase plan (the Share Repurchase Plan ), pursuant to which the Company was authorized to repurchase its own issued and outstanding ADSs up to an aggregate value of US\$100 million from the open market, in negotiated transactions off the market, or through other legally permissible means in accordance with applicable securities laws from time to time within one year. As of December 31, 2016, the Company had repurchased under the Share Repurchase Plan an aggregate of 2,536,808 ADSs, representing 25,368,080 Class A ordinary shares, at an average price of \$10.7483 per ADS, or \$1.0748 per Class A ordinary share, for an aggregate US\$ denominated consideration of US\$27,266 (equivalent to RMB178,991). These shares were recorded at their historical purchase cost and were not canceled.

**22. EMPLOYEE BENEFIT**

Full time employees of the Group in the PRC participate in a government mandated defined contribution plan, pursuant to which certain pension benefits, medical care, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require that the subsidiaries in the PRC and VIEs of the Group make contributions to the government for these benefits based on certain percentages of the employees' salaries. 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 RMB75,538, RMB105, 554 and RMB152,231 (US\$21,926) for the years ended December 31, 2014, 2015 and 2016, respectively.

**23. FAIR VALUE MEASUREMENT**

ASC 820-10, *Fair Value Measurements and Disclosures: Overall*, 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.

*Assets and liabilities measured or disclosed at fair value*

In accordance with ASC 820-10, the Group measures available-for-sale securities, contingent consideration payable at fair value on a recurring basis. The fair value of the available-for-sale equity securities are measured based on the market price in an active market. The available-for-sale debt securities are classified within Level 3 as the fair value is measured based on business enterprise value allocation method and probability expected return method. The contingent consideration for the acquisition are classified within Level 3 as the fair value is measured based on inputs linked to the achievement of certain performance target that are unobservable in the market.

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The Group measures certain financial assets, including loans receivable, other investments stated at cost and equity method investments, at fair value on a nonrecurring basis only if an impairment loss were to be recognized. 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.

For the year ended December 31, 2016, assets and liabilities measured or disclosed at fair value are summarized below:

	Total Fair Value at December 31, 2016 RMB	Total Fair Value at December 31, 2016 US\$	Fair value measurement or disclosure at December 31, 2016 using			Total losses RMB
			Quoted prices in active markets for identical assets (Level 1) RMB	Significant other observable inputs (Level 2) RMB	Significant unobservable inputs (Level 3) RMB	
<b>Fair value measurement Recurring:</b>						
Available-for-sale debt security	7,353	1,059			7,353	
<b>Fair value measurement Non-Recurring:</b>						
Intangible assets, net	370	53			370	(2,889)
Investment in equity investees						(11,453)
Other long-term investments	132,417	19,072			132,417	(129,616)
<b>Total assets measured at fair value</b>	<b>140,140</b>	<b>20,184</b>			<b>140,140</b>	<b>(143,958)</b>
<b>Fair value measurement Recurring:</b>						
Contingent consideration payable	30,358	4,372			30,358	
<b>Total liabilities measured at fair value</b>	<b>30,358</b>	<b>4,372</b>			<b>30,358</b>	

For the year ended December 31, 2015, assets and liabilities measured or disclosed at fair value are summarized below:

**Fair value measurement or disclosure (As adjusted)  
at December 31, 2015 using**

**Total losses**

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	Total Fair Value at December 31, 2015 RMB	Quoted prices in active markets for identical assets (Level 1) RMB	Significant other observable inputs (Level 2) RMB	Significant unobservable inputs (Level 3) RMB	RMB
<b>Fair value measurement Recurring:</b>					
Available-for-sale equity security	46,373	46,373			
<b>Fair value measurement Non-Recurring:</b>					
Intangible assets, net					(26,136)
Goodwill					(23,746)
Investment in equity investees					(2,806)
Other long-term investments					(6,031)
<b>Total assets measured at fair value</b>	<b>46,373</b>	<b>46,373</b>			<b>(58,719)</b>
<b>Fair value measurement Recurring:</b>					
Contingent consideration payable	23,338			23,338	
<b>Total liabilities measured at fair value</b>	<b>23,338</b>			<b>23,338</b>	

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There were no transfers of fair value measurements into or out of Level 3 for the years ended December 31, 2014, 2015 and 2016.

The Group has measured the available-for-sale debt securities and contingent consideration payable at fair value on a recurring basis using significant unobservable inputs (Level 3) as of the years ended December 31, 2015 and 2016. The significant unobservable inputs used in the fair value measurement and the corresponding impacts to the fair values are presented below:

	Valuation techniques	Unobservable inputs	Estimation as of December 31, 2015	Estimation as of December 31, 2016	Change in unobservable inputs	Change in fair value
Contingent consideration payable	Discounted cash flow method	• Probability of achieving performance target	0%-99%	0%-100%	Increase / (decrease)	Increase / (decrease)
		• Discount rate	10.0%-12.3%	10.9%	Increase / (decrease)	Decrease / (increase)
Available-for-sale debt security	Probability expected return method	• Discount rate for lack of marketability	*	3.81%	Increase / (decrease)	Decrease / (increase)
		• Probability of conversion	*	20.0%	Increase / (decrease)	Increase / (decrease)

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The following table presents a reconciliation of the assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2015 and 2016:

	Contingent consideration payable	Available- for-sales debt securities
Balance as of December 31, 2014	53,592	78,378
Recognized during the year	17,202	
Realized or unrealized gains	(7,011)	(11,094)
Settlement	(42,641)	(67,507)
Foreign exchange translation adjustments	2,196	223
Balance as of December 31, 2015	23,338	
Recognized during the year	25,067	6,647
Realized or unrealized losses	3,377	417
Settlement	(23,266)	
Foreign exchange translation adjustments	1,842	289
Balance as of December 31, 2016	30,358	7,353
Balance as of December 31, 2016 in US\$	4,372	1,059

Realized or unrealized gains in the available-for-sale debt securities, realized or unrealized gains in the available-for-sale equity securities and the contingent consideration payable were recorded as Other income, Settle and Changes in fair value of contingent consideration, respectively, in the consolidated statements of comprehensive income (loss).

**24. SUBSEQUENT EVENTS**

On February 13, 2017, Kingsoft entered into a proxy agreement dated February 12, 2017 with Sheng Fu, to delegate the voting rights attached to not more than 399,445,025 class B ordinary shares of the Company to Sheng Fu. The effectiveness of the agreement is subject to Kingsoft's shareholder approval and signing of a definitive agreement between Sheng Fu and the Company in relation to a potential transfer of Sheng Fu's interest in certain robotics business to the Company (subject to approval of the Company's audit committee and board of directors). As of April 26, 2017, the proxy agreement is not yet effective.



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## 25. CONDENSED FINANCIAL INFORMATION OF THE COMPANY

*Balance Sheets*

	2015	As of December 31,	
	RMB	RMB	2016
			US\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	583,374	74,488	10,729
Restricted cash	25,974	69,370	9,991
Short-term investments	6,494	316	46
Prepayments and other current assets	15,162	33,564	4,834
Due from related parties	1,411,418	2,619,793	377,327
<b>Total current assets</b>	<b>2,042,422</b>	<b>2,797,531</b>	<b>402,927</b>
<b>Non-current assets</b>			
Intangible assets, net	25,022	9,846	1,418
Goodwill	59,404	63,460	9,140
Investment in equity investees	5,802	5,814	837
Other long-term investment	46,373		
Investment in subsidiaries	891,622	864,120	124,460
<b>Total non-current assets</b>	<b>1,028,223</b>	<b>943,240</b>	<b>135,855</b>
<b>Total assets</b>	<b>3,070,645</b>	<b>3,740,771</b>	<b>538,782</b>
<b>LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS EQUITY</b>			
<b>Current liabilities</b>			
Bank loans	129,872	346,850	49,957
Accounts payable		32	5
Accrued expenses and other current liabilities	18,208	24,101	3,471
Due to related parties	57,933	356,898	51,404
Income tax payable	10,351	344	50
<b>Total current liabilities</b>	<b>216,364</b>	<b>728,225</b>	<b>104,887</b>

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**Non-current liabilities**

Other non-current liabilities	214	194	28
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<b>Total non-current liabilities</b>	<b>214</b>	<b>194</b>	<b>28</b>
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<b>Total liabilities</b>	<b>216,578</b>	<b>728,419</b>	<b>104,915</b>
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**Shareholders equity**

Class A ordinary shares (par value of US\$0.000025 per share; 7,600,000,000 shares authorized; 365,961,759 and 410,608,263 shares issued as of December 31, 2015 and 2016, respectively; 350,398,737 and 380,922,773 shares outstanding as of December 31, 2015 and 2016, respectively)	56	65	9
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Class B ordinary shares (par value of US\$0.000025 per share; 1,400,000,000 shares authorized; 1,058,514,152 and 1,015,128,452 shares issued as of December 31, 2015 and 2016, respectively; 1,035,037,339 and 1,003,326,973 shares outstanding as of December 31, 2015 and 2016, respectively)	170	165	24
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Treasury stock (nil and 25,368,080 shares as of December 31, 2015 and 2016, respectively)		(178,991)	(25,780)
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Additional paid-in capital	2,416,907	2,725,675	392,579
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Retained earnings	317,818	237,293	34,177
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Accumulated other comprehensive income	119,116	228,145	32,858
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<b>Total shareholders equity</b>	<b>2,854,067</b>	<b>3,012,352</b>	<b>433,867</b>
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<b>Total liabilities and shareholders equity</b>	<b>3,070,645</b>	<b>3,740,771</b>	<b>538,782</b>
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## CHEETAH MOBILE INC.

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*Statements of Comprehensive Income*

	Years ended December 31,			
	2014 RMB	2015 RMB	2016 RMB	US\$
<b>Revenues</b>	22,002	196,640	105,497	15,195
<b>Cost of revenues</b>	(17,752)	(20,531)	(15,993)	(2,303)
<b>Gross profit</b>	<b>4,250</b>	<b>176,109</b>	<b>89,504</b>	<b>12,892</b>
<b>Operating expenses</b>				
Research and development	(44,011)	(74,426)	(61,389)	(8,842)
Selling and marketing	(31)	(107)	(347)	(50)
General and administrative	(13,103)	(31,279)	(33,153)	(4,775)
<b>Total operating expenses</b>	<b>(57,145)</b>	<b>(105,812)</b>	<b>(94,889)</b>	<b>(13,667)</b>
Equity in profit (loss) of subsidiaries	99,589	133,246	(94,219)	(13,570)
Interest income (expense), net	20,908	7,169	(3,213)	(463)
Changes in fair value of redemption right and put options granted	3,576			
Losses from equity method investments		(42)	(352)	(51)
Impairment of investments		(25,891)		
Settlement and changes in fair value of contingent considerations	(1,755)	(707)	(240)	(35)
Foreign exchange (loss) gain, net	(17)	389	4,385	632
Other income, net		1,620	25,211	3,631
<b>Income (Loss) before income taxes</b>	<b>69,406</b>	<b>186,081</b>	<b>(73,813)</b>	<b>(10,631)</b>
<b>Income tax expenses</b>	<b>(1,089)</b>	<b>(9,734)</b>	<b>(6,712)</b>	<b>(967)</b>
<b>Net income (loss)</b>	<b>68,317</b>	<b>176,347</b>	<b>(80,525)</b>	<b>(11,598)</b>
<b>Other comprehensive income (loss), net of tax of nil</b>				
Unrealized (loss) gain on available-for-sale securities, net	(3,002)	2,915	(20,425)	(2,942)
Foreign currency translation adjustments	(6,692)	114,000	129,454	18,646
<b>Other comprehensive (loss) income</b>	<b>(9,694)</b>	<b>116,915</b>	<b>109,029</b>	<b>15,704</b>

<b>Total comprehensive income</b>	<b>58,623</b>	<b>293,262</b>	<b>28,504</b>	<b>4,106</b>
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## CHEETAH MOBILE INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

(Amounts in thousands of Renminbi ( RMB ) and US dollars ( US\$ ), except for number of shares and per share (or ADS) data)

*Statements of Cash Flows*

	Years ended December 31,			
	2014 RMB	2015 RMB	2016 RMB	US\$
Net cash (used in) provided by operating activities	(629,518)	118,281	(114,699)	(16,520)
Net cash used in investing activities	(516,106)	(202,844)	(437,878)	(63,068)
Net cash provided by financing activities	1,404,056	102,366	11,546	1,663
Effect of exchange rate changes on cash and cash equivalents	(6,626)	31,181	32,145	4,630
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>251,806</b>	<b>48,984</b>	<b>(508,886)</b>	<b>(73,295)</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>282,584</b>	<b>534,390</b>	<b>583,374</b>	<b>84,024</b>
<b>Cash and cash equivalents at end of the year</b>	<b>534,390</b>	<b>583,374</b>	<b>74,488</b>	<b>10,729</b>

*(a) Basis of presentation*

For the Company only condensed financial information, the Company records its investment in its subsidiaries and 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 income. The subsidiaries and 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*

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The Company does not have any significant commitments or long-term obligations as of any of the periods presented.

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