

Cheetah Mobile Inc.  
Form 20-F  
April 22, 2016  
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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, 2015.**

**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.**

(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)

**Hui Tong Times Square**

**No. 8, Yaojiayuan South Road**

**Chaoyang District, Beijing 100123**

**People's Republic of China**

(Address of Principal Executive Offices)

**Ka Wai Andy Yeung**

**Chief Financial Officer**

**Cheetah Mobile Inc.**

**Hui Tong Times Square**

**No. 8, Yaojiayuan South Road**

**Chaoyang District, Beijing 100123**

**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	The New York Stock Exchange
representing ten Class A ordinary shares	
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.

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: 365,961,759 Class A ordinary shares and 1,058,514,152 Class B ordinary shares, par value US\$0.000025 per share, as of December 31, 2015.

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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

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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 the subsidiary of a variable interest entity;
- 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;
- 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 smartphone 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;



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- 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; and
- Variable interest entities or VIEs refers to those entities incorporated in PRC consolidated in our financial statements and over which our subsidiaries exercise effective control through a series of contractual arrangements.

**FORWARD-LOOKING STATEMENTS**

This annual report on Form 20-F contains forward-looking statements that reflect our current expectations and views of future events. These statements are made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by words or phrases such as may, could, should, would, will, expect, anticipate, aim, estimate, intend, 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 growth strategies;
- our ability to retain and attract users, customers and business partners, and to expand our product and service offerings;
- our ability to monetize our platform;
- our future business development, results of operations and financial condition;
- expected changes in our revenues and certain cost or expense items;
- competition in our industry;
- relevant 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 data for each of the three years ended December 31, 2015 and the selected consolidated balance sheets data as of December 31, 2014 and 2015 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, 2011 and 2012 and the selected consolidated balance sheets data as of December 31, 2012 and 2013 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.

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	2011	2012	Year Ended December 31,		2015	US\$
	RMB	RMB	2013	2014		
			RMB	RMB	RMB	
	(In thousands except for shares, per share and per ADS data)					
<b>Selected Consolidated Statements of Comprehensive Income (Loss) Data:</b>						
<b>Revenues</b>	140,054	287,927	749,911	1,763,579	3,684,429	568,778
Online marketing services	23,916	212,443	612,565	1,322,612	3,244,130	500,807
Internet value-added services		2,354	83,155	400,671	395,312	61,026
Internet security services and others	116,138	73,130	54,191	40,296	44,987	6,945
Cost of revenues(1)	(53,737)	(71,560)	(140,526)	(403,412)	(935,154)	(144,363)
<b>Gross profit</b>	<b>86,317</b>	<b>216,367</b>	<b>609,385</b>	<b>1,360,167</b>	<b>2,749,275</b>	<b>424,415</b>
Operating income and expenses						
Research and development(1)	(79,105)	(114,329)	(217,846)	(436,840)	(687,235)	(106,091)
Selling and marketing(1)	(28,810)	(57,167)	(201,504)	(580,610)	(1,479,441)	(228,386)
General and administrative(1)	(15,301)	(34,408)	(97,817)	(251,743)	(423,248)	(65,338)
Impairment of goodwill and intangible assets				(8,304)	(49,882)	(7,700)
Other operating income					97,468	15,046
	(123,216)	(205,904)	(517,167)	(1,277,497)	(2,542,338)	(392,469)
<b>Operating (loss)/profit</b>	<b>(36,899)</b>	<b>10,463</b>	<b>92,218</b>	<b>82,670</b>	<b>206,937</b>	<b>31,946</b>
Other income and expenses	4,067	4,296	18,470	8,234	24,438	3,771
(Loss)/income before taxes	(32,832)	14,759	110,688	90,904	231,375	35,717
Income tax benefit/(expenses)	2,597	(4,915)	(48,670)	(23,993)	(60,097)	(9,277)
<b>Net (loss)/income</b>	<b>(30,235)</b>	<b>9,844</b>	<b>62,018</b>	<b>66,911</b>	<b>171,278</b>	<b>26,440</b>
Less: net loss attributable to noncontrolling interests				(1,030)	(5,318)	(821)
Net (loss)/income attributable to Cheetah Mobile Inc.	(30,235)	9,844	62,018	67,941	176,596	27,261
<b>(Losses)/earnings per share</b>						
Basic	(0.0345)	0.0097	0.0567	0.0527	0.1286	0.0199
Diluted	(0.0345)	0.0094	0.0538	0.0506	0.1238	0.0191
<b>(Losses)/earnings per ADS(2)</b>						
Basic	(0.3452)	0.0974	0.5671	0.5272	1.2863	0.1986
Diluted	(0.3452)	0.0940	0.5381	0.5064	1.2377	0.1911
<b>Weighted average number of shares used in computation:</b>						
Basic	875,944,795	908,457,367	929,119,153	1,210,501,020	1,372,863,321	1,372,863,321
Diluted	875,944,795	1,046,982,205	1,135,982,953	1,341,732,457	1,426,810,939	1,426,810,939

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

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	2011 RMB	2012 RMB	Year Ended December 31,		2015 RMB	US\$
			2013 RMB	2014 RMB		
			(In thousands)			
Cost of revenues	94	21	10	1,393	1,523	235
Research and development	4,313	6,663	14,520	51,176	142,682	22,026
Selling and marketing	47	609	2,835	7,407	18,068	2,789
General and administrative	1,381	12,994	20,031	113,298	153,134	23,640
<b>Total</b>	<b>5,835</b>	<b>20,287</b>	<b>37,396</b>	<b>173,274</b>	<b>315,407</b>	<b>48,690</b>

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

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	2012 RMB	2013 RMB	As of December 31, 2014 RMB (In thousands)	2015 RMB	US\$
<b>Selected Consolidated Balance Sheets Data:</b>					
Cash and cash equivalents	134,376	530,536	1,093,285	1,809,288	279,306
Short-term investments	40,376	55,780	513,621	29,234	4,513
Total assets	316,995	909,593	3,001,175	4,942,649	763,012
Total current liabilities	152,062	263,968	621,656	1,708,687	263,776
Total liabilities	156,869	315,525	718,306	1,894,519	292,463
Total mezzanine equity	119,976	441,941			
Total Cheetah Mobile Inc. shareholders equity	40,150	152,127	2,206,338	2,911,939	449,525
Total equity	40,150	152,127	2,282,869	3,048,130	470,549

**Exchange Rate Information**

Our revenues and costs are partly denominated in Renminbi and partly denominated in foreign currencies, primarily U.S. dollars. 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 RMB6.4778 to US\$1.00, the noon buying rate in effect as of December 31, 2015. 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 15, 2016, the noon buying rate was RMB6.4730 to US\$1.00.

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
2011	6.2939	6.4475	6.6364	6.2939
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
October	6.3180	6.3505	6.3591	6.3180
November	6.3883	6.3640	6.3945	6.3180
December	6.4775	6.4491	6.4896	6.3883
2016				
January	6.5752	6.5726	6.5932	6.5219
February	6.5525	6.5501	6.5795	6.5154
March	6.4480	6.5027	6.5500	6.4480
April (through April 15)	6.4730	6.4713	6.4810	6.4580

(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**

*If we fail to retain or grow our user base, or if our users decrease their 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. 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;
- technical or other problems prevent us from delivering our products or services in a rapid and reliable manner or otherwise affect user experience;



- there are user concerns related to privacy, safety, security or other factors;
- 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.

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.

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***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.***

In 2015, 66.0% of our revenues were derived from our mobile applications, compared to 26.4%, 7.4% and 2.2% in 2014, 2013 and 2012, 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 applications on the Android and iOS platforms. 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, or mobile revenues, 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 currently exploring a number of monetization models for our mobile business. We currently generate mobile revenues primarily through mobile advertising services. 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.

***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 2013, 2014 and 2015, our five largest customers in aggregate contributed approximately 65.0%, 55.5% and 59.1% 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 a significant customer substantially reduces its spending with us, 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 the revenue sharing and fee arrangement with our customers.***

We generated 81.7%, 75.0% and 88.0% of our revenues from online marketing services in 2013, 2014 and 2015, 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. The revenue sharing and fee arrangement with these customers are subject to changes which may not be favorable to us. For example, our fee arrangement with one of our significant customers was changed from a pay per click and pay per sale model to pay per sale only model for certain traffic we refer to them, which affected our revenues in 2013. If our customers reduce or discontinue their advertising spending with us, or if we fail to attract new customers or if the revenue sharing and fee arrangements with our customers become less favorable to us, our business, financial condition and results of operations could be materially and adversely affected.



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*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;
- 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, Battery Doctor 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.

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*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, 2013, 2014 and 2015, approximately 53.2%, 68.8% and 78.6%, respectively, of our mobile monthly active users were from overseas markets, including the United States, Europe and certain emerging markets (other than China), while the remainder were from China. Revenues from overseas markets accounted for 1.4%, 12.6% and 50.0% of our total revenues in 2013, 2014 and 2015, respectively. We currently expect to continue our global expansion as a key growth strategy, which exposes us to a number of risks, including:

- 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, Yahoo, Google and Tencent, through which advertisers place their advertisements on our mobile applications. In addition, we work with game developers for our game publishing business;
  
- challenges in selecting suitable geographical regions for global expansion;
  
- 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; and
  
- 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, Australia and Brazil, our system 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. 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.

***If we fail to source suitable third party products, such as online games, on reasonable terms, revenues from our internet value-added services, or IVAS, may be materially and adversely affected.***

We derive a portion of our revenues from IVAS, which mainly include game publishing services. The success of our IVAS business depends on our ability to source suitable third party products on reasonable terms. For example, 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.

***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.

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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.

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.

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

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

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

We use open source software in some of our applications, including our 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.

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***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.

***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.



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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 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 and chief technology officer, 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.

***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 short-term 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 and 2015, we have made investments, both long-term and short-term, and acquisitions in an aggregate amount of RMB583.0 million and RMB961.8 million (US\$148.5 million), respectively. If these investments and acquisitions do not perform as we have expected, become less valuable to our business due to a change in our overall business strategy, or if the industry or economic trends deteriorate, they could result in significant impairment of goodwill, intangible assets and investments. 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.



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***If we fail to effectively manage our growth, our business and operating results could be harmed.***

Our revenues have grown significantly in recent years. Our revenues increased from RMB749.9 million in 2013 to RMB1,763.6 million in 2014, representing a 135.2% growth, and further to RMB3,684.4 million (US\$568.8 million) in 2015, representing a 108.9% growth.

In recent years, we have reoriented our business model, expanded our product offerings to include a wide array of mobile and PC applications and rapidly established our market position in China and globally. While we expect our user base for mobile applications to continue to grow, we do not expect our user base for PC based applications to show a similar trend, as the PC applications market has ceased to grow. Accordingly, the growth and successful monetization of our mobile business is critical for the continued growth of our business. In addition, our ability to grow our online game business will be limited by a non-competition agreement between us and Kingsoft Corporation. For more information, see Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Transactions and Agreements with Kingsoft Corporation and its Subsidiaries Non-compete undertaking. To manage the further expansion of our business and the growth of our operations and personnel, we need to continuously improve our operational and financial systems, procedures and controls, and expand, train, manage and maintain good relations with our growing employee base. In addition, we must maintain and expand our relationships with a growing number of 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.

***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.

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***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.

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 Duba 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.

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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.

***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 and a VIE's subsidiary 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, Online Culture Operating Licenses for the operation of online games and Computer Information System Security Products Sales Licenses for our mobile and PC security applications. These licenses are essential to the operation of our business and are generally subject to regular government review or renewal. However, we cannot assure you that we can successfully renew these licenses in a timely manner or that these licenses are sufficient to conduct all of our present or future business.

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 in order to operate and distribute games through the mobile and PC internet networks. Each online game is also required to be approved by 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, some of the developers of the games we publish, who have contractual obligations to procure such approval from SARFT, have not obtained such approval, and certain of the games 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 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.

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In addition, we commenced our online lottery sales business in April 2014 but suspended such business in March 2015 due to regulatory uncertainty in China. Prior to the suspension in March 2015, we conducted online lottery sales through an online lottery platform by way of a series of cooperation agreements, including (i) cooperation agreements between Suzhou Jiangduoduo and lottery sales offices, which are authorized by lottery issuance authorities, and (ii) cooperation agreements between Suzhou Jiangduoduo's authorized employees and lottery sales agents that are authorized by lottery issuance authorities or lottery sales offices. Under such business model, we may be deemed a lottery sales agent conducting online lottery sales or an entity providing online sales services to lottery sales offices or lottery sales agents, which would require us to obtain an approval from the Ministry of Finance, or the MOF. We do not have such an approval. See Item 4. Information on the Company B. Business Overview Regulations Regulations on Online Lottery Sales for relevant laws and regulations.

Considerable uncertainties exist regarding the interpretation and implementation of existing and future laws and regulations governing our business activities. We cannot assure you that we will not be found in violation of any future laws and regulations or any of the laws and regulations currently in effect due to changes in the relevant authorities' implementation or interpretation of these laws and regulations. If we fail to complete, obtain or maintain any of the required licenses or approvals or make the necessary filings, or otherwise fail to comply with the laws and regulations, we may be subject to various penalties, such as confiscation of revenues that were generated through the unlicensed internet or mobile activities, the imposition of fines and the discontinuation or restriction of our operations. Any such penalties may disrupt our business operations and materially and adversely affect our business, financial condition and results of operations.

***Failure to comply with data privacy and protection laws and regulations could damage our reputation, deter 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.***

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. In addition, we are also subject to regulation 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, which may conflict with, or be more stringent than, the regulations to which we are currently subject. Complying with any additional or new regulatory requirements could force us to incur substantial costs or require us to change our business practices.

While we strive to protect our users' privacy and comply with all applicable data protection laws and regulations, any failure or perceived failure to do so may result in proceedings or actions against us by government entities or others, and could damage our reputation, deter current and potential users from using our applications and subject us to fines and damages. 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. Concerns regarding the collection, use or disclosure of personal information or other data privacy-related matters, even if unfounded, could damage our reputation and results of operations. Negative publicity in relation to our applications, regardless of its veracity, could seriously harm our reputation, which in turn may deter current and potential users from using our applications, which could have material adverse effects on our business and results of operations.



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*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.

*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.



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***In addition to Chinese laws and regulations, our business is subject to complex and evolving foreign laws and regulations regarding privacy, data protection, and other matters. 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.***

We face risks and costs overseas as our products and services are increasingly offered in overseas markets and may be subject to additional foreign laws regulations. In addition to laws and regulations of China, we are subject to a variety of laws and regulations in foreign jurisdictions that involve matters central to our business, including privacy and data protection, rights of publicity, content, intellectual property, advertising, marketing, distribution, data security, data retention and deletion, personal information, electronic contracts and other communications, competition, protection of minors, consumer protection, telecommunications, taxation, and economic or other trade prohibitions or sanctions. The introduction of new products 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 the United States.

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. Such actions could affect the manner in which we provide our services or adversely affect our financial results.

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.

***We may not be able to sustain profitability and may not be able to obtain additional capital in a timely manner or on acceptable terms, or at all.***

Although we had a net loss of RMB30.2 million in 2011, we were able to achieve net income in the subsequent years. However, we may not remain profitable and we may incur net losses in the future as we continue to develop our mobile business and expand our markets outside China. Our net income attributable to Cheetah Mobile shareholders increased by 9.6% from RMB 62.0 million in 2013 to RMB 67.9 million in 2014, and further by 159.9% to RMB176.6 million (US\$27.3 million) in 2015. The relatively slow growth of net income in 2014 was primarily due to a significant increase in marketing spending to grow our global mobile user base, and the expansion of our mobile business team to develop mobile applications and expand our mobile business in the global market. Although our net income increased more significantly in 2015, and we expect to take a more balanced approach towards user acquisition and revenue growth in 2016, we may not be able to sustain profitability and we may not be able to raise sufficient capital to satisfy our anticipated capital expenditures and other cash needs, in which case our business, results of operations and financial condition may be materially adversely affected.

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

We adopted a share award scheme, or the 2011 Plan, in May 2011, a 2013 equity incentive plan, or the 2013 Plan, in January 2014, and a restricted shares plan, or the 2014 Plan, in April 2014, 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, and Moxiu Technology (Beijing) Co., Ltd., or Moxiu Technology, our 52.1%-owned subsidiary, has granted options to purchase its ordinary shares to certain employees. See Item 6. Directors, Senior Management and Employees B. Compensation Share Incentive Awards. In 2013, 2014 and 2015, we recorded RMB37.4 million, RMB173.3 million and RMB315.4 million (US\$48.7 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.

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*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, 2016, Kingsoft Corporation owned 60.8% 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 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.

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*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, 2016, Kingsoft Corporation owned 60.8% 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. Hongjiang Zhang, one of our directors, is also the chief executive officer and director of Kingsoft Corporation. Mr. Yuk Keung Ng, one of our directors, 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. 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.

*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.

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*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, the APUS Group, an Android app developer, has published certain negative statements about our company and products, and we have filed a complaint on May 27, 2015 in the district court of Northern District of California against the APUS Group for defamation and trade libel, among other things. See Item 8. Financial Information A. Consolidated Statements and Other Financial Information Legal Proceedings. Allegations, directly or indirectly against us or any of our executive officers, may be posted on the internet, including in internet chat-rooms or on blogs or websites by anyone, whether or not well-founded, on an anonymous basis. In addition, third parties may file complaints, anonymous or otherwise, to regulatory agencies. We may be subject to regulatory or internal investigation as a result of such third-party conduct and may be required to expend significant time and incur substantial costs to address such third-party conduct, and there is no assurance that we will be able to conclusively refute each of the allegations within a reasonable period of time, or at all. Additionally, our reputation could be harmed as a result of the public dissemination of anonymous allegations or malicious statements about our business, which in turn may cause us to lose users and customers and adversely affect our business and results of operations.

*If we fail to implement 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, 2015. 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, 2015.

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.

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***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 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.

***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.





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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 we conduct our operations in China primarily through our VIEs and a VIE's subsidiary. Our VIEs and a VIE's subsidiary contributed a significant portion of our consolidated revenues in the years ended December 31, 2013, 2014 and 2015. We exercise effective control over our VIEs and a VIE's subsidiary 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 a VIE's subsidiary and give us the obligation to absorb losses and the right to receive benefits of the VIEs and a VIE's subsidiary, 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.

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, VIEs and a VIE's subsidiary, 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.

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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, VIEs and a VIE's subsidiary, 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.

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 and a VIE's subsidiary 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.

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*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.

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 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 Item 4. Information on the Company C. Organizational Structure Contractual Arrangements with Our VIEs. 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.

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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 60.8% 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 and a VIE's subsidiary 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.

*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.

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***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, as well as Ms. Weiqin Qiu, an affiliate of our company. 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.

***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, 2016, Kingsoft Corporation, our controlling shareholder, and Messrs. Sheng Fu and Ming Xu, directly or through their holding vehicles, together beneficially own an aggregate of 58.8% of our total outstanding Class A and Class B shares, and 72.6% 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 and a VIE's subsidiary if such entities go bankrupt or become subject to a dissolution or liquidation proceeding.***

Some of our VIEs and a VIE's subsidiary 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.



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**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 great majority of our assets are located in China and a significant number 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.

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.



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*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, online game operations and online lottery business. 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, 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.

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.

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*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.

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.

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***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.

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.



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*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 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 requires PRC residents that directly establish or indirectly control offshore special purpose vehicles, or SPVs, for the purpose of seeking offshore investment and financing and conducting round trip investment in China, to register with the SAFE or its local branch in connection with their ownership in the SPVs, and to amend the SAFE registrations to reflect any subsequent changes thereof.

To our knowledge, 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.

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***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, VIEs and a VIE's subsidiary. We may make loans to our PRC entities, or we may make additional capital contributions to our PRC subsidiaries, or we may establish new PRC subsidiaries and make capital contributions to these new PRC subsidiaries, or we may acquire offshore entities with business operations in China in an offshore transaction.

Most of these financing means are subject to PRC regulations and approvals. For example, loans by us to our wholly-owned PRC subsidiaries to finance their activities cannot exceed statutory limits and must be registered with the local counterpart of the SAFE. 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 or a VIE's subsidiary, which are PRC domestic companies. Further, we are not likely to finance the activities of our VIEs or a VIE's subsidiary 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.

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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 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 April 8, 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.

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.

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***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.

***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. 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. In addition, the People's Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rates and achieve policy goals.

Our revenues and costs are partly denominated in Renminbi and partly denominated in foreign currencies, primarily U.S. dollars. 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.

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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.

***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.





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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.

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.

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***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 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.

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.



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**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.

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.

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***We are an emerging growth company within the meaning of the Securities Act and may take advantage of certain reduced reporting requirements.***

We are an emerging growth company, as defined in the JOBS Act, and we may take advantage of certain exemptions from various requirements applicable to other public companies that are not emerging growth companies including, most significantly, not being required to comply with the auditor attestation requirements of Section 404 for so long as we remain as an emerging growth company. We have voluntarily complied with the requirements of Section 404 and our independent auditor has provided a report that attests to the effectiveness of our internal control over financial reporting as of December 31, 2015. However, if we elect not to comply with such auditor attestation requirements in the future, our investors may not have access to certain information they may deem important. We would cease to be an emerging growth company upon the earliest to occur of (1) the last day of the fiscal year in which we have more than US\$1.0 billion in annual revenue; (2) the date we qualify as a large accelerated filer, with at least US\$700 million of equity securities held by non-affiliates; (3) the issuance, in any three-year period, by us of more than US\$1.0 billion in non-convertible debt securities; and (4) the last day of the fiscal year ending after the fifth anniversary of our initial public offering in May 2014.

The JOBS Act also provides that an emerging growth company does not need to comply with any new or revised financial accounting standards until such date that a private company is otherwise required to comply with such new or revised accounting standards. We have elected to opt out of this provision and, as a result, we will comply with new or revised accounting standards as required when they are adopted for public companies. This decision to opt out of the extended transition period under the JOBS Act is irrevocable.

***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.





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

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

***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 (2013 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.



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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.

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

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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.

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*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.

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 58.8% of our total outstanding shares, representing 72.6% of our total voting power as of March 31, 2016, 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 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.

As a company with less than US\$1.0 billion in revenues for our last fiscal year, we qualify as an emerging growth company pursuant to the JOBS Act, and may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. See We are an emerging growth company within the meaning of the Securities Act and may take advantage of certain reduced reporting requirements for details. After we are no longer an emerging growth company, we expect 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.

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 current and expected income and assets, we do not presently expect to be a PFIC for the current taxable year or the foreseeable future.



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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.

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, Beike Internet, an entity previously consolidated in Kingsoft Corporation's group, became our VIE. Beike Internet was renamed as Beijing Cheetah Mobile Technology Co., Ltd., or Beijing Mobile, in August 2015. 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 Conew offered internet security services starting in May 2010 but has been dormant since our acquisition of Conew.com Corporation.



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Beijing Kingsoft Network Technology Co., Ltd., or Beijing Network, Beijing Antutu Technology Co., Ltd., or Beijing Antutu, and Guangzhou Kingsoft Network Technology Co., Ltd., or Guangzhou Network, were incorporated in China in July 2012, June 2013 and September 2013, respectively, as our VIEs and had been consolidated in our financial statements since their incorporation. In October 2015, Beijing Network was renamed as Beijing Cheetah Network Technology Co., Ltd. In the same month, we terminated our VIE contractual arrangements with Beijing Antutu and Guangzhou Network, which these two entities became the wholly-owned subsidiaries of Beijing Security. We exercise effective control over our current VIEs, including Beijing Mobile, Beijing Network and Beijing Conew 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., in China in January 2014. In April 2014, we acquired certain assets relating to an online lottery sales business. In April 2014, we started to conduct online lottery sales. In March 2015, we suspended the online lottery sales in response to the PRC government's regulatory measures. See Item 3. Key Information on the Company D. Risk Factors 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 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 Regulations on Online Lottery Sales.

In May 2014, we completed our initial public offering, in which we offered and sold 138,000,000 Class A ordinary shares represented by ADSs. The ADSs are listed on the NYSE under the symbol CMCM.

In 2015, we established several wholly-owned subsidiaries, including Hongkong Cheetah Mobile Technology Limited in Hong Kong, for investment and holding purposes.

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 (Beijing) Co., Ltd., a provider of mobile launchers, upon acquisition of an aggregate 52.1% equity interest.

Our principal executive offices are located at Hui Tong Times Square, No. 8 Yaojiayuan South Road, Chaoyang District, 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, Umland House, Grand Cayman, KY1-1104, Cayman Islands. Our agent for service of process in the United States is Law Debenture Corporate Services Inc., of 4th Floor, 400 Madison Avenue, New York, New York 10017.

**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 make the mobile and PC internet experience speedier, simpler and safer for users worldwide.



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For our users, our diversified suite of applications optimizes mobile and PC internet system performance and provides real time protection against known and unknown security threats. The number of monthly active users of our mobile applications increased from 166.2 million in 2013 to 395.4 million in 2014, and further to 635.5 million in 2015. Our applications had been installed on 346.6 million, 1,089.1 million and 2,340.8 million mobile devices as of December 31, 2013, 2014 and 2015, respectively.

For our 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 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 our users, 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. Data analytics also help us present more personalized content and information to our users that is aimed to increase user engagement. 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.

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 81.7%, 75.0% and 88.0% of our revenues from online marketing services in 2013, 2014 and 2015, respectively. We also generate revenues by providing internet value-added services, or IVAS, primarily from online game publishing.

By platform, our revenues generated from our mobile business, or mobile revenues, increased by 741.3% from RMB55.3 million in 2013 to RMB465.0 million in 2014, and further increased by 423.2% to RMB2,433.2 million (US\$375.6 million) in 2015. Mobile revenues accounted for 66.0% of our total revenues in 2015, compared to 26.4% and 7.4% in 2014 and 2013, respectively. Since we began our overseas monetization efforts in the second quarter of 2014, revenues from overseas markets, primarily the United States, Europe and certain emerging markets (other than China), have increased significantly. For the years ended December 31, 2014 and 2015, overseas revenues accounted for 12.6% and 50.0% of our total revenues, respectively, and 47.7% and 75.7% of mobile revenues, respectively.

**Our Core Applications for Users**

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, 2015	Number of Languages Available as of December 31, 2015
Clean Master	Android	September 2012(L)	4.7	32
CM Security	Android	January 2014(L)	4.7	20

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Battery Doctor	Android iOS	September 2011(L) July 2011(L)	4.5	28
Cheetah Browser / CM Browser*	Windows Android iOS	June 2012(L) June 2013(L) June 2013(L)	4.6	26
CM Launcher	Android	December 2014(L)	4.6	33
Photo Grid	Android iOS	May 2013(A) May 2013(A)	4.5	33
CM Locker	Android	December 2014(L)	4.7	40
Duba Anti-virus	Windows	November 2000(L)	N/A	1

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

\* CM Browser was officially launched in June 2014.

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***Clean Master***

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

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

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

***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

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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.



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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***

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 apps 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 apps to load quicker. Its anti-virus engine protects users' personal info and app data and block viruses and malware. CM Launcher automatically classifies users' apps into intelligent folders based on their habits, and recommends apps 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.

***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 for both PC and mobile devices. The PC edition of Duba Anti-virus was initially introduced as a paid subscription service, which we changed to a free service in November 2010. 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.

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*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.

**Products and Services for Our Customers**

***Mobile advertising platform***

Cheetah Ad Platform is a platform through which customers primarily purchase advertisements across multiple locations of our mobile applications, and to a lesser extent, on third-party advertising publishers' mobile applications. This mobile advertising platform helps customers reach their target audience through our advertising products. Ads of our customers are integrated into our mobile products in a manner designed to enhance returns for customers while optimizing user experience. As of December 31, 2015, we aggregated ads from Facebook, Yahoo, Google, Tencent, Baidu and more than 20 global mobile advertising networks on our mobile advertising platform. In addition, we have direct sales forces in China and overseas markets. 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.

***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 per 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 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 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.

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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 online shopping, gaming and frequently used applications. 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.

**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 their advertisements on our mobile applications, such as Facebook, Yahoo, Google 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 2013, 2014 and 2015, our five largest customers in aggregate contributed approximately 65.0%, 55.5% and 59.1% of our revenues, respectively. See Item 3. Key Information D. Risk Factors Risks Relating to Our Business and Industry Because a small 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**

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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.

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 an event called *Connect: Cross-Pacific Mobile Internet Conference* in San Francisco featuring former U.S. vice-president Al Gore as a keynote speaker, which attracted over 900 attendees. We also held an international roadshow featuring our Cheetah ad platform to introduce our advertising services to potential advertisers in some of our most important markets.



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**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 core applications, such as Clean Master, CM Security, Battery Doctor, CM Launcher and Cheetah Browser. 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, 2016, we had 770 patents in China and three patents outside China relating to our software and other proprietary technology. Of such 773 patents, 430 patents were either independently or jointly held by Zhuhai Juntian, Beijing Security, Conew Network, Beijing Antutu and Guangzhou Network, our wholly-owned PRC subsidiaries, 211 patents were either independently or jointly held by Beijing Mobile, Beijing Network, Suzhou Jiangduoduo, our VIEs and a VIE's subsidiary, and 12 patents were jointly owned by our wholly-owned PRC subsidiaries and VIEs. The 773 patents will expire between April 2024 and September 2033. In addition, as of March 31, 2016, we had a total of 1,673 patent applications in China and 148 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 1,430 patent applications, and Beijing Mobile, Beijing Network and Suzhou Jiangduoduo, our VIEs and a VIE's subsidiary, had independently or jointly filed 243 patent applications and had jointly filed an additional 122 patent applications together with Zhuhai Juntian, Beijing Security, Conew Network, Beijing Antutu or Guangzhou Network. The patents that are in the process of application by our VIEs and a VIE's subsidiary will expire between May 2024 and March 2036, or 20 years after the date of application.

*Copyrights.* As of March 31, 2016, we had registered 230 copyrights, including 210 software copyrights and 20 artwork copyrights. In relation to our core proprietary technologies, Beijing Mobile, Beijing Network and Suzhou Jiangduoduo, our VIEs and a VIE's subsidiary, independently or jointly owned 30 software copyrights, and jointly owned an additional 41 software copyrights together with Cheetah Technology Corporation Limited, Zhuhai Juntian, Beijing Security, Conew Network or Guangzhou Network. All the software copyrights owned by our VIEs (excluding Beijing Conew) have been published between September 2009 and June 2015. Software copyrights are protected until the end of the 50th calendar year starting from the date of first publication.



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**Trademarks.** As of March 31, 2016, we had registered 781 trademarks in China. In addition, we had filed 543 trademark applications. We had 526 registered trademarks and had filed a total of 999 trademark applications outside China.

**Domain names.** As of March 31, 2016, we had registered 162 domain names, including *www.cmcm.com*, *www.duba.com*, *www.ijinshan.com*, *liebao.cn* and *9724.com*.

As our VIEs and a VIE's subsidiary 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 and a VIE's subsidiary if such entities 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**

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, online lottery and advertising agency, as well as foreign currency exchange and dividend distributions.

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

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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.

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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.

To comply with such foreign ownership restrictions, we operate our businesses in China through Beijing Mobile and Beijing Network, our VIEs, and Suzhou Jiangduoduo, a subsidiary of Beijing Mobile. 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.



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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 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.

In February 2016, the SARFT and the MIIT jointly promulgated the Administrative Measures on Internet Publication, which took effect in March 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 Internet Publishing Licenses for the publication of online games on mobile and PC internet.

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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.

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.



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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.

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. In addition, according to the Tentative Administrative Measures on Internet Lottery Sale promulgated by the PRC Ministry of Finance, or MOF, on September 26, 2010, individuals who purchase lotteries through online systems must open an online account with their real names and identity card

numbers.

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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.

***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. 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 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;

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- Administrative Regulations for Advertising, promulgated by the State Council on October 26, 1987 and effective since December 1, 1987; and
- 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.

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. 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.

***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.

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**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.

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.





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**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 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.

***Regulation of Internet Content***

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

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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.

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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.

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.

***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 Kingsoft 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 April 8, 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 the Implementation Rules of the Foreign Invested Enterprise Law, promulgated in 1990 and amended in 2001, 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. It 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.



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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.

*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. 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, 2015, 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.

*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

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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.

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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.

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.

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*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.

*Regulations on Online Lottery Sales*

The major rules and regulations currently in effect and applicable to online lottery sales include Regulation on Administration of Lottery, promulgated by the State Council on May 4, 2009 and effective as of July 1, 2009, or the Lottery Regulation, and the Tentative Administration Measures on Internet Lottery Sale, promulgated by the Ministry of Finance, or the MOF, on September 26, 2010, or the Lottery Measures, and effective upon the promulgation. Moreover, on January 18, 2012, the Implementation Rules of the Lottery Administration Regulations, or the Lottery Implementation Rules, were jointly issued by the MOF, the PRC Ministry of Civil Affairs and the State General Administration of Sports and became effective as of March 1, 2012. Pursuant to the Tentative Administration Measures on Internet Lottery Sale, lottery sales agents conducting sales online are required to obtain an approval from the MOF and meet certain criteria, including, among others (i) having a minimum registered capital of RMB50 million, (ii) adequate organizational, internal control and risk management systems, (iii) together with the senior management, have no criminal or bad credit record within past five years, and (iv) having obtained an ICP license. Pursuant to the Lottery Regulation and the Lottery Implementation Rules, welfare lotteries and sports lotteries sold in China must be issued by lottery issuance authorities and sold through lottery sales offices established by provincial governments. The lottery issuance authorities and lottery sales offices may authorize other entities or individuals as their lottery sales agents. The Lottery Implementation Rules explicitly stipulate that the welfare lotteries and sports lotteries sold without the MOF's approval and an authorization from a lottery issuance authority or lottery sales office may be categorized as illegal lotteries. Therefore, in addition to MOF's approval, the Lottery Implementation Rules further request online lottery sales agents to obtain proper authorization from a lottery issuance authority or lottery sales office to conduct lottery business. In December 2012, the MOF issued the Lottery Distribution and Sale Administration Measures, which became effective on January 1, 2013. These new measures expressly allow qualified lottery sales agents service providers cooperating with lottery issuance authorities or lottery sales offices that meet the eligibility criteria mentioned above to engage in online lottery sales as approved by the MOF. However, there are no associated implementation rules. Lottery sales agents and service providers will act as agents or cooperating entities for the relevant lottery issuance authorities and/or authorized lottery sales offices and must enter into lottery agency agreements or cooperation agreements with the competent lottery issuance

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authorities and/or authorized lottery sales offices before engaging in lottery sales on their behalf. On January 15, 2015, the MOF, the State General Administration of Sports and the Ministry of Civil Affairs jointly issued the Notice on Issues Related to Self-Inspection and Self-Remedy of Unauthorized Online Lottery Sales to order their provincial and municipal branches to conduct inspection and take remedial measures for unauthorized online lottery sales within their respective jurisdictions. The scope of inspection includes, among other things, commercial contract arrangements, online lottery products, lottery sales data exchange, online lottery sales channels, and sales commission fees in connection with unauthorized engagements of online sales agents by lottery administration centers. The Notice is aimed at sanctioning unauthorized online lottery sales. The provincial and municipal branches are required to submit a formal report on the result of self-inspection and self-remedy by March 1, 2015 to the authorities for further review. Furthermore, on April 3, 2015, eight competent government authorities, namely, the MOF, the Ministry of Public Security, the SAIC, the MIIT, Ministry of Civil Affairs, People's Bank of China, the General Administration of Sports of China and China Banking Regulatory Commission, jointly released a public bulletin with regard to online lottery sales in China, or Bulletin 18. The Bulletin 18 mandates, among other things, that (i) all institutions, online entities, or individuals which provide unauthorized online lottery sales services, either directly or through agents, shall immediately cease such services and all provincial governmental authorities of finance, civil affairs and sports shall investigate and sanction unauthorized online lottery sales in their respective jurisdictions according to relevant laws and regulations; and (iii) lottery issuance authorities that plans to sell lottery products online shall obtain a consent from the Ministry of Civil Affairs or the General Administration of Sports of China in order to submit an application for written approval by the MOF.

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**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, distribution and operation of online games and online lottery services 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 our operations in China primarily through our VIEs including Beijing Mobile and Beijing Network and a subsidiary of Beijing Mobile. 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 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 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:

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

The following diagram illustrates our corporate structure, including our significant subsidiaries, VIEs and a VIE's subsidiary as of the date of this annual report.

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Notes:

- (1) See Item 7. Major Shareholders and Related Party Transactions A. Major Shareholders for the other 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. Beijing Network was previously named as Beijing Kingsoft Network Technology Co., Ltd.
  
- (3) 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. Beijing Conew has remained dormant since October 2010.
  
- (4) 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. Beijing Mobile was previously named as Beike Internet (Beijing) Security Technology Co., Ltd.

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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 a VIE's subsidiary in our consolidated financial statements in accordance with U.S. GAAP. The VIEs and a VIE's subsidiary together contributed 91.0%, 87.1% and 49.3% of our revenues for the years ended December 31, 2013, 2014 and 2015, respectively.

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

- the corporate structure of our PRC subsidiaries, VIEs and a VIE's subsidiary 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, VIEs and a VIE's subsidiary 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, VIEs and a VIE's subsidiary are in full force and effect. Each of our PRC subsidiaries, VIEs and a VIE's subsidiary 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, VIEs and a VIE's subsidiary 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, 2016, our principal executive offices were located on leased premises comprising approximately 30,000 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, Guangzhou, Zhengzhou, Suzhou, Chongqing and Hangzhou of China, and offices in Mexico, India, Indonesia, Russia, Hong Kong, Singapore, Brazil, Taiwan, Japan and the United States.

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, Australia 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 will 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 of our financial condition and results of operations is based upon, and should be read in conjunction with, our audited consolidated financial statements and the related notes included in this annual report. This report contains forward-looking statements. See

Forward-Looking Statements. In evaluating our business, you should carefully consider the information provided under the caption Item 3. Key Information D. Risk Factors in this annual report. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

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. Our mission critical applications, including Clean Master, CM Security, Battery Doctor and Duba Anti-virus, help make the internet and mobile experience speedier, simpler and safer for users worldwide.

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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 81.7%, 75.0% and 88.0% of our revenues from online marketing services in 2013, 2014 and 2015, respectively. We also generate revenues by providing internet value-added services, currently mainly from online games.

We have achieved significant growth in recent years. Our revenues increased from RMB749.9 million in 2013 to RMB1,763.6 million in 2014, representing a 135.2% growth, and further to RMB3,684.4 million (US\$568.8 million) in 2015, representing a 108.9% growth. Our net income attributable to Cheetah Mobile shareholders increased from RMB62.0 million in 2013 to RMB67.9 million in 2014, representing a 9.6% growth, and further to RMB176.6 million (US\$27.3 million) in 2015, representing a 159.9% growth.

We believe mobile presents massive opportunities and we have made significant investments in mobile internet to capitalize on these opportunities. We had 635.5 million monthly active users in December 2015. Our mobile strategy has been focusing on the development of applications for the Android platform. As of December 31, 2015, we had 26 core mobile applications for Android, compared to 7 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. Although we are still in the early stage of monetizing our mobile applications, our revenues generated from our mobile applications have increased significantly, accounting for 7.4%, 26.4% and 66.0% of our total revenues in 2013, 2014 and 2015, respectively.

Our business has rapidly expanded internationally since we released our Clean Master overseas version in September 2012. As of December 31, 2015, approximately 78.6% of our mobile monthly active users were from overseas markets, mostly the United States, Europe and certain emerging markets, compared to 68.8% and 53.2% as of December 31, 2014 and 2013, respectively. Since we began to monetize our overseas operations in the second quarter of 2014, overseas revenues have increased significantly, accounting for 12.6% and 50.0% of our total revenues, and 47.7% and 75.7% of our mobile revenues for the years ended December 31, 2014 and 2015, respectively. As we continue to deepen our global penetration and increase the level of monetization in overseas markets, we expect that our overseas revenues will continue to increase and remain a major growth driver for both our mobile and total revenues.

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 68.9%, 72.4% and 69.0% in 2013, 2014 and 2015, respectively. In 2016, we expect to further increase our marketing spending to grow our user base and enhance user engagement. In addition, we expect to make further investments in expanding our mobile business team to develop mobile applications, improving our data analytics capabilities and expanding our mobile advertising business in the global market. Although we expect our operating expenses will continue to increase in absolute amount in 2016, we expect to take a more balanced approach towards user acquisition and revenue growth, building a profitable and sustainable growth model for the long term.

Table of Contents**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.

	2013		Year Ended December 31, 2014			2015	
	RMB	% of Revenues	RMB	% of Revenues	RMB	US\$	% of Revenues
	(in thousands, except percentages)						
Online marketing services	612,565	81.7	1,322,612	75.0	3,244,130	500,807	88.0
IVAS	83,155	11.1	400,671	22.7	395,312	61,026	10.7
Internet security services and others	54,191	7.2	40,296	2.3	44,987	6,945	1.3
<b>Revenues</b>	<b>749,911</b>	<b>100.0</b>	<b>1,763,579</b>	<b>100.0</b>	<b>3,684,429</b>	<b>568,778</b>	<b>100.0</b>

*Online Marketing Services*

Revenues from our online marketing services accounted for 81.7%, 75.0%, and 88.0% of our revenues in 2013, 2014 and 2015, 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. The fee arrangements generally include cost per click, cost per installation, cost per activation and cost per sale that originate from our platform, and cost per period. We believe that the most significant factors affecting revenues from online marketing include:

- *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, sales 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 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 rate we receive per click or per sale may affect our online marketing services revenues.

Although changes in the revenue sharing and fee arrangements with our individual customer 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, Yahoo, Tencent and Google.



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- *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.

IVAS

Revenues from IVAS accounted for 11.1%, 22.7% and 10.7% of our revenues in 2013, 2014 and 2015, respectively. IVAS in these periods mainly include publishing online games.

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 for games.* Games published on our platform are free to play and we generate revenues from users' purchase of in-game virtual items. Revenues from online game publishing are affected by the number of paying users.

*Internet Security Services and Others*

Revenues from internet security services and others accounted for 7.2%, 2.3% and 1.3% of our revenues in 2013, 2014 and 2015, respectively. Internet security services and others revenues mainly include subscription services such as game acceleration and instant data recovery for our paying members, and license fees from Kingsoft Japan, which was one of Kingsoft Corporation's subsidiaries until it became our subsidiary in February 2016. In 2013, this revenue item also included revenues from enterprise security services that were subsequently transferred from our company to an equity investee. We expect revenues from internet security services to continue to decline as we continue to remodel our business into a mobile-oriented platform.

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*Cost of Revenues*

Cost of revenues primarily consist of bandwidth costs, server custody fees and depreciation of servers and other equipment (collectively, bandwidth and IDC costs), traffic acquisition costs associated with our Cheetah ad platform, personnel costs, content and channel costs, amortization of acquired intangible assets, cost of air purifiers and VAT, business tax, and related surcharges.

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 and purchasing bandwidth as well as depreciation of our servers and other equipment 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 and as we continue our efforts in improving data analytics.

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.

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 the fees shared by the third-party game developers, 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 advertising services, especially mobile advertising services, we expect that content and channel costs associated with game publishing business will become a less significant component of cost of revenues.

Amortization of acquired intangible assets primarily represents amortization of intangible assets through acquisitions or business combinations. As we 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 and (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.

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	2013		Year Ended December 31, 2014			2015	
	RMB	% of Revenues	RMB	% of Revenues	RMB	US\$	% of Revenues
(in thousands, except percentages)							
<b>Operating income and expenses</b>							
Research and development	(217,846)	(29.0)	(436,840)	(24.8)	(687,235)	(106,091)	(18.7)
Selling and marketing	(201,504)	(26.9)	(580,610)	(32.9)	(1,479,441)	(228,386)	(40.2)
General and administrative	(97,817)	(13.0)	(251,743)	(14.3)	(423,248)	(65,338)	(11.5)
Impairment of goodwill and intangible assets			(8,304)	(0.4)	(49,882)	(7,700)	(1.4)
Other operating income					97,468	15,046	2.6
<b>Total operating income and expenses</b>	(517,167)	(68.9)	(1,277,497)	(72.4)	(2,542,338)	(392,469)	(69.0)

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*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 better applications for our users and a sophisticated mobile advertising platform.

*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 significantly as we plan to expand our mobile business and deepen our global penetration.

*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 service fees, and other administrative expenses. We expect our general and administrative expenses to increase as our business grows and as we incur increased expenses related to complying with our reporting obligations under the U.S. securities laws as a public company.

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

*Other Operating Income.* Other operating income consist primarily of government grants, subsidies and financial incentives that we received in connection with our operations not related to research and development projects.

**Taxation**

*Taxation in Different Jurisdictions*

*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.

*British Virgin Islands.* We are not subject to income or capital gain tax under the current laws of the British Virgin Islands. Additionally, the British Virgin Islands do not impose a withholding tax on dividends.

*United States.* Our subsidiaries incorporated in the United States were subject to federal income tax rate of 35% for the years ended December 31, 2013, 2014 and 2015.

*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, 2013, 2014 and 2015.

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

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*France.* Our subsidiary incorporated in France is subject to corporate tax rate of 33.33%.

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

*PRC.*

*Enterprise income tax.* Our subsidiaries, VIEs and a VIE's subsidiary are subject to the statutory rate of 25% in accordance with the EIT Law, with exceptions for certain preferential tax treatments. Under relevant 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%. A PRC subsidiary and two of our VIEs, including Beijing Mobile, Beijing Network and Conew Network, 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 Conew Network, have obtained high and new technology enterprise certificates. Zhuhai Juntian was eligible for a preferential tax rate of 12.5%, 15% and 15% for the years ended December 31, 2013, 2014 and 2015, respectively. Beijing Security was eligible for a preferential tax rate of 12.5%, 12.5% and 15% for the years ended December 31, 2013, 2014 and 2015, respectively. Each of Beijing Mobile and Conew Network was eligible for a preferential tax rate of 0%, 0% and 12.5% for the years ended December 31, 2013, 2014 and 2015, respectively. Beijing Network was still in a loss position for the years ended December 31, 2013, 2014 and 2015, and will be eligible for a preferential tax rate of 0% commencing from its first profit-making year. Our remaining subsidiaries, a VIE and a VIE's subsidiary were subject to enterprise income tax at a rate of 25% for the years ended December 31, 2013, 2014 and 2015.

*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.

*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. 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 and 2015, 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.



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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, 2013, 2014 and 2015.

		2013	Year Ended December 31,		2015
		RMB	2014 RMB	RMB	
				(in thousands)	
Cayman Islands	Income (loss) before income tax	(13,903)	(30,183)	52,834	8,156
	Income tax expenses computed at the PRC statutory tax rate of 25%	(3,476)	(7,546)	13,209	2,039
	Income tax expenses computed at Cayman Islands statutory tax rate of 0%				
	Effect of differing tax rates in different jurisdictions	3,476	7,546	(13,209)	(2,039)
USA	Income (loss) before income tax	(5,897)	918(1)	(8,393)	(1,296)
	Income tax expenses computed at the PRC statutory tax rate of 25%	(1,474)	230	(2,098)	(324)
	Income tax expenses computed at the U.S. statutory tax rate of 35%	(2,064)	322	(2,937)	(453)
	Effect of differing tax rates in different jurisdictions	(590)	92	(839)	(129)
Hong Kong	Income (loss) before income tax	6,346	(98,381)	75,040	11,584
	Income tax expenses computed at the PRC statutory tax rate of 25%	1,586	(24,595)	18,760	2,896
	Income tax expenses computed at the Hong Kong statutory tax rate of 16.5%	1,047	(16,233)	12,382	1,911
	Effect of differing tax rates in different jurisdictions	(539)	8,362	(6,378)	(985)
PRC	Income before income tax	124,154	218,060	154,095	23,788
	Income tax expenses computed at the PRC statutory tax rate of 25%	31,039	54,515	38,524	5,947
	Income tax expenses computed at the PRC statutory tax rate of 25%	31,039	54,515	38,524	5,947
	Effect of differing tax rates in different jurisdictions				

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France	Loss before income tax			(38,114)	(5,884)
	Income tax expenses computed at the PRC statutory tax rate of 25%			(9,529)	(1,471)
	Income tax expenses computed at the French statutory tax rate of 33.33%			(12,703)	(1,961)
	Effect of differing tax rates in different jurisdictions			(3,174)	(490)
Others	Loss before income tax	(12)	490	(4,087)	(631)
	Income tax expenses computed at the PRC statutory tax rate of 25%	(3)	123	(1,022)	(158)
	Income tax expenses computed at the statutory tax rates of such other jurisdictions			(706)	(109)
	Effect of differing tax rates in different jurisdictions	3	(123)	316	49
Total	Income before income tax	110,688	90,904	231,375	35,717
	Income tax expenses computed at the PRC statutory tax rate of 25%	27,672	22,727	57,844	8,929
	Income tax expenses computed at the statutory tax rate of different jurisdictions	30,022	38,604	34,560	5,335
	Effect of differing tax rates in different jurisdictions	2,350	15,877	(23,284)	(3,594)

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Notes:

(1) Our U.S. subsidiary, Cheetah Mobile America, Inc., recorded an income before tax for the year ended December 31, 2014 but did not have assessable profit for the same year due to losses carried forward from previous years.

The comparatives were revised to conform with the current year presentation. The revised presentation in prior years had no impact on any line items within the consolidated balance sheet as of December 31, 2014, and the related consolidated statements of comprehensive income, cash flows and shareholders' equity for the years ended December 31, 2013 and 2014.

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, 2013, 2014 and 2015.

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	Year Ended December 31,			2015	US\$
	2013 RMB	2014 RMB	RMB		
			(In thousands)		
Cayman Islands					
USA					
Hong Kong					
PRC(1)	(4,885)	(54,944)	(35,434)		(5,470)
France					
Others					
<b>Total</b>	<b>(4,885)</b>	<b>(54,944)</b>	<b>(35,434)</b>		<b>(5,470)</b>

Note:

(1) 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.

	Year Ended December 31,			2015	US\$
	2013 RMB	2014 RMB	RMB		
			(In thousands except for shares, per share and per ADS data)		
<b>Consolidated Statements of Comprehensive Income (Loss) Data:</b>					
<b>Revenues</b>	749,911	1,763,579	3,684,429		568,778
Online marketing services	612,565	1,322,612	3,244,130		500,807
Internet value-added services	83,155	400,671	395,312		61,026
Internet security services and others	54,191	40,296	44,987		6,945
Cost of revenues(1)	(140,526)	(403,412)	(935,154)		(144,363)
<b>Gross profit</b>	<b>609,385</b>	<b>1,360,167</b>	<b>2,749,275</b>		<b>424,415</b>
Operating income and expenses					
Research and development(1)	(217,846)	(436,840)	(687,235)		(106,091)
Selling and marketing(1)	(201,504)	(580,610)	(1,479,441)		(228,386)
General and administrative(1)	(97,817)	(251,743)	(423,248)		(65,338)
Impairment of goodwill and intangible assets		(8,304)	(49,882)		(7,700)
Other operating income			97,468		15,046
	(517,167)	(1,277,497)	(2,542,338)		(392,469)
<b>Operating profit</b>	<b>92,218</b>	<b>82,670</b>	<b>206,937</b>		<b>31,946</b>
Other income (expenses)					

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Interest income, net	7,077	28,216	14,545	2,245
Changes in fair value of redemption right and put options granted	11,146	4,375	22	3
Settlement and changes in fair value of contingent consideration	(1,067)	(13,749)	7,010	1,082
Foreign exchange gain (loss), net	920	16	(250)	(39)
Impairment of investments		(9,136)	(34,728)	(5,361)
Losses from equity method investments	(1,849)	(5,447)	(9,334)	(1,441)
Other income, net	2,243	3,959	47,173	7,282
Income before taxes	110,688	90,904	231,375	35,717
Income tax expenses	(48,670)	(23,993)	(60,097)	(9,277)
<b>Net income</b>	<b>62,018</b>	<b>66,911</b>	<b>171,278</b>	<b>26,440</b>
Less: net loss attributable to noncontrolling interests		(1,030)	(5,318)	(821)
Net income attributable to Cheetah Mobile Inc.	62,018	67,941	176,596	27,261

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

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	2013 RMB	Year Ended December 31,		2015 US\$
		2014 RMB	RMB	
	(In thousands)			
Cost of revenues	10	1,393	1,523	235
Research and development	14,520	51,176	142,682	22,026
Selling and marketing	2,835	7,407	18,068	2,789
General and administrative	20,031	113,298	153,134	23,640
<b>Total</b>	<b>37,396</b>	<b>173,274</b>	<b>315,407</b>	<b>48,690</b>

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

**Revenues.** Our revenues increased by 108.9% from RMB1,763.6 million in 2014 to RMB3,684.4 million (US\$568.8 million) in 2015. This increase was primarily due to increases in revenues from online marketing services and internet security services and others, partially offset by a decrease in revenues from IVAS. Our mobile revenues increased from RMB465.0 million in 2014 to RMB2,433.2 million (US\$375.6 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 145.3% from RMB1,322.6 million in 2014 to RMB3,244.1 million (US\$500.8 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 621.5% from RMB313.0 million in 2014 to RMB2,243.1 million (US\$346.3 million) in 2015. Mobile advertising revenues represented 69.1% of online marketing revenues in 2015, compared to 23.7% in 2014.

*IVAS.* Revenues from IVAS was RMB395.3 million (US\$61.0 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.

*Internet security services and others.* Revenues from internet security services and others increased by 11.6% from RMB40.3 million in 2014 to RMB45.0 million (US\$6.9 million) in 2015. This increase was primarily due to an increase in revenues from the sale of the Company's air purifier product.

**Cost of revenues.** Our cost of revenues increased by 131.8% from RMB403.4 million in 2014 to RMB935.2 million (US\$144.4 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 internet data center (IDC) costs associated with increased

user traffic worldwide and data analytics, and an increase in amortization costs associated with acquired intangible assets.

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**Gross profit.** As a result of the foregoing, our gross profit increased by 102.1% from RMB1,360.2 million in 2014 to RMB2,749.3 million (US\$424.4 million) in 2015.

**Gross margin.** Our gross margin decreased from 77.1% for the year ended December 31, 2014 to 74.6% for the year ended December 31, 2015, primarily due to the 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 99.0% from RMB1,277.5 million in 2014 to RMB2,542.3 million (US\$392.5 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 57.3% from RMB436.8 million in 2014 to RMB687.2 million (US\$106.1 million) in 2015. This increase was primarily due to an increase in the number of research and development personnel from 1,268 as of December 31, 2014 to 1,405 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 RMB51.2 million in 2014 to RMB142.7 million (US\$22.0 million) in 2015.

**Selling and marketing expenses.** Our selling and marketing expenses increased by 154.8% from RMB580.6 million in 2014 to RMB1,479.4 million (US\$228.4 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 211 as of December 31, 2014 to 446 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 68.1% from RMB251.7 million in 2014 to RMB423.2 million (US\$65.3 million) in 2015. This increase was primarily due to an increase in share-based compensation expenses from RMB113.3 million in 2014 to RMB153.1 million (US\$23.6 million) in 2015, an increase in the number of general and administrative personnel from 153 as of December 31, 2014 to 201 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 (US\$7.7 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. We recognized an impairment loss of goodwill and intangible assets of RMB8.3 million in 2014, which was primarily due to impairment



of licensed games.

*Other operating income.* Other operating income was RMB97.5 million (US\$15.0 million) in 2015, which primarily consisted of government grants, subsidies and financial incentives that we received in connection with our operations not related to research and development projects.

*Operating profit.* As a result of the foregoing, our operating profit increased 150.3% from RMB82.7 million in 2014 to RMB206.9 million (US\$31.9 million) in 2015.

*Operating margin.* Our operating margin increased from 4.7% in 2014 to 5.6% in 2015.

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**Income tax expense.** Our income tax expense increased from RMB24.0 million in 2014 to RMB60.1 million (US\$9.3 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 RMB67.9 million in 2014 to RMB176.6 million (US\$27.3 million) in 2015.

**Year Ended December 31, 2014 Compared to Year Ended December 31, 2013**

**Revenues.** Our revenues increased by 135.2% from RMB749.9 million in 2013 to RMB1,763.6 million in 2014. This increase was primarily due to the increase in revenues from online marketing services and IVAS, partially offset by decrease in internet security services and others. Our mobile revenues increased from RMB55.3 million in 2013 to RMB465.0 million in 2014, resulting from the increased demand for our mobile advertising services in China and overseas markets, our expanded mobile user base and the growth of our mobile game publishing business.

**Online marketing services.** Revenues from online marketing services increased by 115.9% from RMB612.6 million in 2013 to RMB1,322.6 million in 2014. This increase was primarily due to the growth of our user traffic and increased monetization of our PC platform. The increase in revenues from online marketing services was also due to a significant growth of our mobile advertising revenues from RMB40.0 million in 2013 to RMB313.0 million in 2014, driven by the increased acceptance of our mobile advertising services in China and overseas markets, and increased mobile monetization.

**IVAS.** Revenues from IVAS was RMB400.7 million in 2014, a 381.8% increase from RMB83.2 million in 2013. The increase was primarily due to an increase in the number of mobile and PC games that we published, and an increase in the number of monthly paying users from 2013 to 2014.

**Internet security services and others.** Revenues from internet security services and others decreased by 25.6% from RMB54.2 million in 2013 to RMB40.3 million in 2014. This decrease was primarily due to our ceasing to promote subscriptions services to paying users in a strategic reorientation, resulting in a decrease in the number of paying customers.

**Cost of revenues.** Our cost of revenues increased by 187.1% from RMB140.5 million in 2013 to RMB403.4 million in 2014. The increase in our cost of revenues was mainly due to increased content and channel costs associated with the

growth of our mobile game business, higher costs of value-added tax associated with the growth of our revenues, higher bandwidth and IDC costs due to increased user traffic, and higher amortization costs due to newly acquired intangible assets related to business acquisitions.

**Gross profit.** As a result of the foregoing, our gross profit increased by 123.2% from RMB609.4 million in 2013 to RMB1,360.2 million in 2014.

**Gross margin.** Our gross margin decreased from 81.3% for the year ended December 31, 2013 to 77.1% for the year ended December 31, 2014, primarily due to increased revenue contribution from mobile games publishing, which has a lower margin, as well as an increase in amortization of acquired intangible assets.

**Operating expenses.** Our operating expenses increased by 147.0% from RMB517.2 million for the year ended December 31, 2013 to RMB1,277.5 million for the year ended December 31, 2014, primarily due to increases in research and development expenses, selling and marketing expenses and general and administrative expenses.

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*Research and development expenses.* Our research and development expenses increased by 100.5% from RMB217.8 million in 2013 to RMB436.8 million in 2014. This increase was primarily due to our expanded team of research and development personnel, increasing from 842 as of December 31, 2013 to 1,268 as of December 31, 2014 mainly to further develop our mobile applications. The increase was also due to an increase in share-based compensation expenses included in our research and development expenses from RMB14.5 million in 2013 to RMB51.2 million in 2014.

*Selling and marketing expenses.* Our selling and marketing expenses increased by 188.1% from RMB201.5 million in 2013 to RMB580.6 million in 2014. 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 our expanded team of sales and marketing personnel, which increased from 81 as of December 31, 2013 to 221 as of December 31, 2014 mainly to further enhance our mobile monetization capabilities and global sales efforts.

*General and administrative expenses.* Our general and administrative expenses increased by 165.9% from RMB97.8 million in 2013 to RMB251.7 million in 2014. This increase was primarily due to an increase in share-based compensation expenses from RMB20.0 million in 2013 to RMB113.3 million in 2014, an increase in professional service fees, and an increase in the headcount of general and administrative personnel from 79 as of December 31, 2013 to 153 as of December 31, 2014.

*Impairment of goodwill and intangible assets.* We recognized an impairment loss of intangible assets of RMB8.3 million for 2014, which was related to impairment of licensed games.

*Operating profit.* As a result of the foregoing, our operating profit decreased from RMB92.2 million in 2013 to RMB82.7 million in 2014.

*Operating margin.* Our operating margin decreased from 12.3% in 2013 to 4.7% in 2014 primarily due to increases in share-based compensation expenses, selling and marketing expenses and headcount increase.

*Income tax expense.* Our income tax expense decreased from RMB48.7 million in 2013 to RMB24.0 million in 2014, primarily due to preferential tax treatment to a number of our PRC subsidiaries and VIEs, and a slowdown in the increase of the unremitted retained earnings and reserves of our VIEs in 2014, resulting in a decrease in outside basis difference on investment in our VIEs.

*Net income attributable to Cheetah Mobile shareholders.* Primarily as a result of the foregoing, our net income attributable to Cheetah Mobile shareholders increased from RMB62.0 million in 2013 to RMB67.9 million in 2014.

**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 2.5%, 1.5% and 1.6% in 2013, 2014 and 2015, 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.

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**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 81.7%, 75.0% and 88.0% of our revenues in 2013, 2014 and 2015, 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 receiving monthly statements from our customers either in the current month or in the following month in which the service is provided. 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.

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*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.

Historically, we received online lottery purchase orders from the end users through our website or mobile application and processed the orders either with other entities or individuals who were authorized agents of lottery sales offices established by provincial governments, or Authorized Distributors. We received service fees from the Authorized Distributors based on the pre-determined rate and the total amount of the processed orders. Upon fulfilling our service obligations to the Authorized Distributors, we recorded the revenue on a net basis because we acted as an agent of the Authorized Distributors in the distribution and administration of the lottery products. The online lottery business was suspended in early 2015.

*Internet security services and others*

We market and distribute our off-the-shelf anti-virus security solutions to enterprise and individual users. The enterprise solutions are distributed through re-sellers. The individual solutions are directly sold to the individual end-users.



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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.

The software, including unspecified upgrades, for the individual solutions are provided to users free of charge via downloads from our online platform at any time. 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 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.

*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. 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.

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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. 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.

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. 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***

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.

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.

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***Impairment of Investments***

Our investments mainly consist of cost method investments and equity method investments in privately held companies, fixed-rate 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.

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 and 2015, 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-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.





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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.

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>2014</b>	<b>2015</b>
Risk-free interest rates(1)	2.65%~3.22%	2.68%~2.97%
Expected volatility range(2)	64.5%~66.2%	53.1%~63.3%
Expected dividend yield(3)	0%	0%
Expected exercise multiple(4)	2.2~2.8	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.

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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.

**Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board, or the FASB, issued ASU No. 2014-09, *Revenue from Contracts with Customers*, or ASU 2014-09, 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*, or 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. We are in the process of evaluating our contracts with customers under the new standard and cannot currently estimate the impact of adopting this standard on our consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15 *Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, or ASU 2014-15. The guidance requires an entity to evaluate whether there are conditions or events, in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued and to provide related footnote disclosures in certain circumstances. The guidance is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early application is permitted. The adoption of this guidance is not expected to have a significant impact on our consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, *Consolidation (Topic 810) - Amendments to the Consolidation Analysis*. The amendments in Topic 810 respond to stakeholders' concerns about the current accounting for consolidation of variable interest entities, by changing aspects of the analysis that a reporting entity must perform to determine whether it should consolidate such entities. Under the amendments, all reporting entities are within the scope of Subtopic 810-10, *Consolidation - Overall*, including limited partnerships and similar legal entities, unless a scope exception applies. The amendments are intended to be an improvement to current U.S. GAAP, as they simplify the codification of FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*, with changes including reducing the number of consolidation models through the elimination of the indefinite deferral of Statement 167 and placing more emphasis on risk of loss when determining a controlling financial interest. The amendments are effective for publicly-traded companies for fiscal years beginning after December 15, 2015, and for interim periods within those fiscal years. Earlier adoption is permitted. We are currently evaluating the impact of adopting this guidance on our consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments*, which eliminates the requirement for acquirers in a business combination to account for measurement-period adjustments retrospectively. Instead, acquirers must recognize measurement-period adjustments during the period in which they determine the amounts, including the effect on earnings of any amounts that would have been recorded in previous periods if the accounting had been completed at the acquisition date. This update is effective for interim and annual periods beginning after December 15, 2015, with early adoption permitted. The implementation of this update is not expected to have any material impact on our condensed consolidated financial statements.



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In November 2015, the FASB issued ASU No. 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. All short-term deferred tax assets and liabilities will be reclassified to long-term assets and liabilities upon adoption of this update. We are currently evaluating the impact of adopting this guidance on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, or ASU 2016-02. 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. We are currently evaluating the impact of adopting this standard on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 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. We are currently evaluating the impact of adopting this guidance on our consolidated financial statements.

**B. Liquidity and Capital Resources**

**Cash Flows and Working Capital**

To date, we have financed our operations from our operating profit, private issuances and sales of preferred and ordinary shares and the net proceeds from our initial public offering. As of December 31, 2015, we had RMB1,809.3 million (US\$279.3 million) in cash and cash equivalents. 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 equity-linked securities, debt securities or borrow 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, 2013, 2014 and 2015:

	2013	As of December 31, 2014 (In thousands of RMB)	2015
<b>Cash located outside of the PRC</b>			
- in US dollars	287,698	713,716	1,118,752
- in RMB	4,795	8,970	5,175
- in HK dollars	965	12,914	56,955
- in Euro		61	4,830
- in other currencies		392	2,466
<b>Cash located in the PRC</b>			
- held by subsidiaries, in RMB	95,293	287,531	463,894
- held by subsidiaries, in US dollars			9,055
- held by VIEs in RMB	140,474	67,434	130,195
- held by VIEs in US dollars	1,311	2,267	17,966
Total cash and cash equivalents	530,536	1,093,285	1,809,288

The table below sets forth a breakdown of our short-term investments by location as of December 31, 2013, 2014 and 2015:

	2013	As of December 31, 2014 (In thousands of RMB)	2015
<b>Short-term investments located outside of the PRC</b>			
- Fixed-rate time deposits located outside the PRC		428,330	18,831
- Available-for-sale equity securities located outside the PRC	55,780	6,913	
- Available-for-sale debt securities located outside the PRC		78,378	
<b>Short-term investments located in the PRC</b>			
- Fixed-rate time deposits located in the PRC			10,403
Total short-term investments	55,780	513,621	29,234

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

	2013 RMB	Year Ended December 31, 2014		2015
		RMB	RMB	US\$
		(In thousands)		
Net cash provided by operating activities	198,181	361,442	936,976	144,644
Net cash used for investing activities	(100,787)	(1,175,295)	(340,629)	(52,585)
Net cash provided by financing activities	304,272	1,380,889	81,627	12,602
Effect of exchange rate changes on cash	(5,506)	(4,287)	38,029	5,871
Cash and cash equivalents at the beginning of year	134,376	530,536	1,093,285	168,774
Net increase in cash and cash equivalents	396,160	562,749	716,003	110,532
Cash and cash equivalents at the end of year	530,536	1,093,285	1,809,288	279,306





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Net cash provided by operating activities for the year ended December 31, 2015 was RMB937.0 million (US\$144.6 million). This amount was primarily attributable to net income of RMB171.3 million (US\$26.4 million), (i) adjusted for certain non-cash expenses, primarily share-based compensation expenses of RMB315.4 million (US\$48.7 million), amortization of intangible assets of RMB120.5 million (US\$18.6 million), impairment of goodwill and intangible assets of RMB49.9 million (US\$7.7 million) and impairment of investments of RMB34.7 million (US\$5.4 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 RMB636.7 million (US\$98.3 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 RMB316.2 million (US\$48.8 million) and an increase in prepayments and other current assets of RMB162.1 million (US\$25.0 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 labor and welfare 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.

Net cash provided by operating activities for the year ended December 31, 2014 was RMB361.4 million. This amount was primarily attributable to net income of RMB66.9 million, (i) adjusted for certain non-cash expenses, primarily share-based compensation expenses of RMB173.3 million, amortization of intangible assets of RMB57.1 million, depreciation of property and equipment of RMB21.7 million 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 RMB225.4 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 RMB152.0 million and an increase in prepayments and other current assets of RMB85.5 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 labor and welfare 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.

Net cash provided by operating activities for the year ended December 31, 2013 was RMB198.2 million. This amount was primarily attributable to net income of RMB62.0 million, (i) adjusted for certain non-cash expenses, primarily share-based compensation expenses of RMB37.4 million, deferred income tax expense of RMB33.9 million, deemed employee compensation attributable to redemption right granted to a noncontrolling shareholder of RMB14.7 million and amortization of intangible assets of RMB14.2 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 RMB97.1 million, and (iii) partially offset by changes in operating assets and liabilities that negatively affected operating cash flow, primarily an increase in prepayments and other current assets of RMB45.4 million. The deferred income tax expenses mainly resulted from the outside basis difference arising from the retained earnings in Beijing Mobile, our VIE, and the deferred tax liability related to the non-deductible share-based compensation expense, which primarily resulted from the difference between PRC tax regulations and their practical implementation by PRC tax authorities. 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) increase in labor and welfare payable relating to our increased headcount and increased salary levels. The increase in prepayments and other current assets was mainly attributable to receivable from employees related to the individual income tax arising from the vested restricted shares of our company.

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*Investing Activities*

Net cash used in investing activities was RMB340.6 million (US\$52.6 million) for the year ended December 31, 2015, primarily attributable to purchase of fixed-rate time deposits of RMB481.2 million (US\$74.3 million), purchase of cost method investments of RMB399.5 million (US\$61.7 million), acquisition of business (net of cash acquired) of RMB249.4 million (US\$38.5 million), purchase of equity method investments of RMB107.1 million (US\$16.5 million), purchase of property and equipment of RMB61.1 million (US\$9.4 million), purchase of intangible assets of RMB34.6 million (US\$5.3 million), partially offset by sales and maturity of fixed-rate time deposits of RMB901.4 million (US\$139.1 million) and proceeds from maturity of available-for-sale investments of RMB68.2 million (US\$10.5 million).

Net cash used in investing activities was RMB1,175.3 million for the year ended December 31, 2014, primarily attributable to fixed-rate time deposits of RMB1,388.2 million, acquisition of business (net of cash acquired) of RMB195.2 million, purchase of cost method investments of RMB151.3 million, purchase of equity method investments of RMB125.7 million, purchase of intangible assets of RMB120.4 million and purchase of available-for-sale securities of RMB110.8 million, partially offset by maturity of fixed-rate time deposits of RMB959.8 million.

Net cash used in investing activities was RMB100.8 million for the year ended December 31, 2013, primarily attributable to payments to purchase short-term investments of RMB141.6 million, payments for acquisition of business (net of cash acquired) RMB52.8 million, purchase of property and equipment of RMB27.6 million, entrusted loan to investors of an investee of RMB14.0 million, partially offset by sales and maturity of short-term investments of RMB145.4 million.

*Financing Activities*

Net cash generated from financing activities was RMB81.6 million (US\$12.6 million) in 2015, primarily due to proceeds from bank loans of RMB101.9 million (US\$15.7 million), partially offset by settlement of contingent consideration of RMB27.7 million (US\$4.3 million) in connection with the acquisition of Suzhou Jiangduoduo, Hongkong Zoom, Photo Grid and MobPartner.

Net cash generated from financing activities was RMB1,380.9 million in 2014, compared to net cash of RMB304.3 million generated from financing activities in 2013. This increase was primarily due to the net proceeds of RMB1,409.2 million from our initial public offering and the concurrent private placement completed in May 2014.

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Net cash provided by financing activities was RMB304.3 million for the year ended December 31, 2013, primarily attributable to proceeds from issuance of series B preferred shares (net of issuance costs) of RMB322.0 million, partially offset by payment of dividend of RMB17.7 million.

**Holding Company Structure**

Cheetah Mobile Inc. is a holding company. We conduct our operations through our subsidiaries incorporated in and outside China, as well as our VIEs and a VIE's subsidiary 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 RMB30.0 million, RMB156.6 million, and RMB95.7 million (US\$14.8 million) in 2013, 2014 and 2015, respectively. Our capital expenditures were primarily attributable to purchase of intangible assets, including intellectual property, game copyrights and tools applications, computers and servers, 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.

**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.

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As of December 31, 2015, our engineering team consisted of 1,405 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, 2015 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, 2015.

	Total	Payment Due by Period			More Than 5 Years
		Less Than 1 Year	1-3 Years (In RMB thousands)	3-5 Years	
Operating lease obligations(1)	373,434	163,683	118,912	89,009	1,830
Long-term debt obligation(2)	11,860	678	4,907	4,418	1,857
License fees commitments(3)	2,222	2,222			
Total	387,516	166,583	123,819	93,427	3,687

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

(2) Long-term debt obligation represents the long-term loans of MobPartner from Bpifrance Financement and Hongkong and Shanghai Banking Corporation Limited (France branch). The total interest to be paid for these loans is RMB960,000 (US\$148,000). Please see loans payable under Note 10 to our audited consolidated financial statements.

(3) Represent contractual obligation with a third party that was signed in 2013 with terms of three years, and contractual obligation with a third party that was signed in 2015 with terms of two years.

**G. Safe Harbor**

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.

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Directors and Executive Officers	Age	Position/Title
Jun Lei	46	Chairman of Board of Directors
Sheng Fu	38	Chief Executive Officer and Director
Hongjiang Zhang	55	Director
Yuk Keung Ng	52	Director
David Ying Zhang	42	Independent Director
Ke Ding	43	Director
Jeffrey Zhaohui Li	40	Director
Wei Liu	39	Director
Richard Weidong Ji	48	Independent Director
Ming Xu	37	President
Ka Wai Andy Yeung	43	Chief Financial Officer
Charles Chenggong Fan	44	Chief Technology Officer
Xinhua Liu	42	Chief Marketing Officer
Jie Xiao	41	Senior Vice President
Yong Chen	37	Senior Vice President

*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. Mr. Lei also serves as the chairman of YY Inc. (NASDAQ: YY), which is a rich communication social platform. 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.

*Hongjiang Zhang* has been our director since December 2011. Dr. Zhang was appointed to be our director by Kingsoft Corporation, at which Dr. Zhang currently serves as an executive director and the chief executive officer. Dr. Zhang also serves as an executive director and the chief executive officer of Kingsoft Cloud Holdings Limited, a subsidiary of Kingsoft Corporation. Dr. Zhang is also a director of 21Vianet Group, Inc. (NASDAQ: VNET) and Xunlei Limited (NASDAQ: XNET). Prior to joining Kingsoft Corporation in October 2011, since January 2004, Dr. Zhang was the chief technology officer of Microsoft Asia-Pacific Research and Development Group and the managing director of the Microsoft Advanced Technology Center and a Distinguished Scientist. In his dual role, Dr. Zhang led Microsoft's research and development initiatives in China, including strategy and planning, research and development, as well as



incubation of products, services and solutions. Dr. Zhang was also a member of the executive management committee of Microsoft (China) Limited. Dr. Zhang was the deputy managing director and a founding member of Microsoft Research Asia. Dr. Zhang has authored four books, over 400 scientific papers and holds nearly 200 US and international patents. Dr. Zhang received a Ph.D. in electrical engineering from the Technical University of Denmark in 1991, and a bachelor of science degree from Zhengzhou University, China, in 1982.

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*Yuk Keung Ng* has been our director since July 2012. 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), Beijing Capital Land Limited (Stock Code: 2868), 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 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.

*Ka Wai Andy Yeung* has been our chief financial officer since January 2014. Prior to joining us, from 2009 to 2013, Mr. Yeung worked at Oppenheimer & Co. Inc. as director, executive director, and then managing director, responsible for research coverage of China's internet and media sectors. Between 2004 and 2009, Mr. Yeung was an associate in equity research at Thomas Weisel Partners. Prior to that position, Mr. Yeung was a senior consultant at Wells Fargo Bank. From 1999 to 2002, he was an associate and then senior associate at Mitchell Madison Group and Silver Oak Partners. Mr. Yeung has been a Chartered Financial Analyst charterholder since 2001. He received his MBA degree from Yale University in 1999 and his bachelor's degrees in mechanical engineering and applied mathematics from the University of California, Berkeley, in 1995.

*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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*Xinhua Liu* has been our chief marketing officer since November 2011. Mr. Liu is currently in charge of our global sales and marketing, business operation, strategic business development, as well as legal and public affairs. Mr. Liu has over 16 years of working in marketing and public relations. Prior to joining us, between October 2007 and October 2011, Mr. Liu served as the chief strategy officer of Shunya Communications Group, where he was responsible for strategic account management, business development, partner sourcing, as well as strengthening the group's digital capabilities in branding strategy, among others. Between 2005 to 2007, Mr. Liu was a national technology practice leader at Burson-Marsteller, where he was in charge of clientele sourcing in the technology industry in greater China. Mr. Liu received an MBA degree from the Beijing International MBA program of Peking University, China, in 2003 and a bachelor's degree in international economics from the University of International Relations, China, in 1996.

*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, 2015, we paid an aggregate of approximately RMB10.4 million (US\$1.6 million) in cash to our executive officers, including our executive director, and an aggregate of approximately RMB680,000 (US\$105,000) 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, 2015, we contributed an aggregate of approximately RMB691,000 (US\$107,000) 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, 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, 2016, 97,893,660 restricted shares (excluding those that have been forfeited) had been granted under the 2011 Plan.

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

**Types of Awards.** The 2011 Plan provides for the award of our ordinary shares subject to certain terms and conditions that our board of directors may determine in its absolute discretion.

**Plan Administration.** Our board or a committee of our board duly authorized for the purpose of the 2011 Plan shall administer the 2011 Plan. The plan administrator will determine in its absolute discretion the employees to receive the awards, the number of awards to be granted to each selected grantee, and the terms and conditions of each award grant. We have set up a trust pursuant to a trust deed to facilitate the administration of the 2011 Plan.

**Award Notice.** Share awards granted under the 2011 Plan are evidenced by an award notice that sets forth the terms and conditions for each grant, which relate to vesting, forfeiture or lapse of unvested awarded shares, and repurchase of vested awarded shares.

**Eligibility.** We may grant awards to any employee of our company, including without limitation an employee who is also a director of our company or subsidiaries.

**Lapse of the Awards.** An award will lapse if (i) the grantee of an award ceases to be an employee of our company or subsidiaries, (ii) the company which employs the selected employee ceases to be a subsidiary of our company, or (iii) there is an ordinary or involuntary wind-up of our company or a resolution is passed for the voluntary wind-up of our company, save for the purposes of an amalgamation, reconstruction or scheme of arrangement.

**Vesting Schedule.** The plan administrator determines the vesting schedule, which is set forth in the award notice.

**Transfer Restrictions.** Each award granted under the 2011 Plan are personal to respective grantees and may not be sold, transferred, assigned, charged, mortgaged, or encumbered with any interests in favor of any other third party.

**Termination.** The 2011 Plan will terminate in May 2021, unless terminated at an earlier date by our board of directors.

*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, 2016, 62,603,131 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.

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**Award Agreement.** Awards under the 2013 Plan are evidenced by an award agreement that sets forth the terms and conditions for each grant.

**Exercise Price.** The exercise price, grant price, or purchase price of any award shall be determined by the plan administrator at its sole discretion.

**Eligibility.** We may grant awards to the employees, director or consultant of our company, Kingsoft Corporation or its affiliates.

**Term of Awards.** The term of options and share appreciation rights awarded under the 2013 Plan shall be determined by the plan administrator, subject to a maximum term of ten years after the date of grant. The term of other share-based awards shall be determined by the plan administrator.

**Lapse of Option Awards.** An option award will lapse if (i) the option has expired, (ii) the participant's relationship or employment with our company and/or affiliates has been terminated with or without cause pursuant to any applicable laws or under the participant's service contract with our company and/or affiliates, (ii) winding-up of our company has been commenced, or (iii) otherwise provided for in the award agreement.

**Vesting Schedule.** The plan administrator determines the vesting schedule, which is set forth in the award agreement.

**Transfer Restrictions.** An award may not be transferred or assigned by the participant in any manner other than by will or by the laws of descent and distribution, unless otherwise determined by the plan administrator.

**Termination.** The 2013 Plan will terminate automatically in January 2024, unless terminated at an earlier date by a resolution of our shareholders.

*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, 2016, 34,282,530 restricted shares with a purchase price (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.

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**Acceleration of Awards upon Change in Control.** If a change in control of our company occurs, the plan administrator may, in its sole discretion, provide for (i) all awards outstanding to terminate at a specific time in the future and give each participant the right to exercise the vested portion of such awards during a specific period of time, or (ii) the purchase of any award for an amount of cash equal to the amount that could have been attained upon the exercise of such award, or (iii) the replacement of such award with other rights or property selected by the plan administrator in its sole discretion, or (iv) payment of award in cash based on the value of ordinary shares on the date of the change-in-control transaction plus reasonable interest.

**Vesting Schedule.** In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

**Transfer Restrictions.** Awards may not be transferred in any manner by the recipient other than by will or the laws of descent and distribution, except as otherwise provided by the plan administrator.

**Termination of the 2014 Plan.** Unless terminated earlier, the 2014 Plan will terminate automatically in 2024. Our board of directors has the authority to amend or terminate the plan subject to shareholder approval or home country practice.

The following table summarizes, as of March 31, 2016, 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	2,929,000	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
Ka Wai Andy Yeung	*	N/A	January 1, 2014	May 25, 2021
	*	0.34	January 2, 2014	January 1, 2024
	*	0.34	July 1, 2015	April 22, 2024
Charles Chenggong Fan	*	0.34	April 1, 2016	April 24, 2024
Xinhua Liu	*	N/A	January 1, 2012	May 25, 2021
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	60,562,350	N/A		
<b>Total</b>	<b>105,273,964</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, in 2015, we granted an aggregate of 4,627,940 restricted shares 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.

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Moxiu Technology, our 52.1%-owned subsidiary, has granted certain options to purchase its ordinary shares to certain of its employees.

**Employment Agreements**

We have entered into employment agreements with our senior executive officers. We may terminate a senior executive officer's employment for cause at any time without remuneration for certain acts of the officer, such as being convicted of or pleads guilty to a felony or to an act of fraud, misappropriation or embezzlement, any negligence or dishonest acts to the detriment of our company, or any misconduct or failure to perform his/her duties after afforded a reasonable opportunity to cure such failure. We may also terminate a senior executive officer's employment without cause at any time by giving one month's prior written notice, and we shall provide severance payments to the officer as expressly required by the applicable law of the jurisdiction where the officer is based. A senior executive officer may terminate his or her employment at any time by giving one month's prior written notice.

In connection with the employment agreement, each senior executive officer has agreed to hold all proprietary or confidential information of our company and our affiliates or the respective clients, customers or partners, including, without limitation, all software and computer formulae, designs, specifications, drawings, data, manuals and instructions and all customer and supplier lists, sales and financial information, business plans and forecasts, all technical solutions and the trade secrets of our company, in strict confidence perpetually. Each officer also agrees that we shall own all the intellectual property developed by such officer during his or her employment.

**C. Board Practices**

**Board of Directors**

Our board of directors currently consists of 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:

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- selecting the independent registered public accounting firm and pre-approving all auditing and non-auditing services permitted to be performed by the independent registered public accounting firm;
- reviewing with the independent registered public accounting firm any audit problems or difficulties and management's response;
- reviewing and approving all proposed related party transactions, as defined in Item 404 of Regulation S-K under the Securities Act;
- discussing the annual audited financial statements with management and the independent registered public accounting firm;
- reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of any material control deficiencies;
- annually reviewing and reassessing the adequacy of our audit committee charter;
- meeting separately and periodically with management and the independent registered public accounting firm; and
- reporting regularly to the board.

***Compensation Committee***

Our compensation committee consists of 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:

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- recommending nominees to the board for election or re-election to the board, or for appointment to fill any vacancy on the board;
- reviewing annually with the board the current composition of the board with regard to characteristics such as independence, skills, experience, expertise, diversity, and availability of service to us;
- selecting and recommending to the board the directors to serve as members of each standing committee of the board; and
- developing and reviewing periodically the corporate governance principles adopted by the board to ensure appropriateness and compliance with the requirements of the NYSE, and to recommend any desirable changes to the board.

**Duties of Directors**

Under Cayman Islands law, our directors have a fiduciary duty to act honestly, in good faith and with a view to our best interests. Our directors also owe to our company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and restated from time to time.

**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**

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We had 1,178, 1,809 and 2,151 employees as of December 31, 2013, 2014 and 2015, respectively. The following table sets forth the number of our employees, categorized by function, as of December 31, 2015:

<b>Function</b>	<b>Number of Employees</b>
Operations	99
Research and development	1,405
Sales and marketing	446
General and administrative	201
Total	2,151

### **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.

Table of Contents**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, 2016 by:

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

Percentage of beneficial ownership is based on 1,424,588,645 total outstanding ordinary shares as of March 31, 2016, representing the sum of 369,074,493 Class A ordinary shares and 1,055,514,152 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.

Directors and Executive Officers**:	Shares Beneficially Owned		Ordinary Shares	Voting Power
	Class A Ordinary Shares	Class B Ordinary Shares	Beneficially Owned %(1)	
Jun Lei(3)	17,660,294		1.2	0.2
Sheng Fu(4)	38,867,334	78,119,634	8.2	7.5
Hongjiang Zhang(5)				
Yuk Keung Ng(6)	*		*	*
David Ying Zhang(7)	4,621,396	22,168,675	1.9	2.1
Ke Ding(8)				
Jeffrey Zhaohui Li(9)				
Wei Liu(10)				
Richard Weidong Ji(11)	*		*	*
Ming Xu(12)	13,183,666	46,309,800	4.2	4.4
Ka Wai Andy Yeung	*	*	*	*
Charles Chenggong Fan				
Xinhua Liu		*	*	*
Jie Xiao		*	*	*
Yong Chen	*	*	*	*

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All directors and executive officers as a group	77,786,226	168,127,649	17.1	16.1
<b>Principal Shareholders:</b>				
Kingsoft Corporation Limited(13)	11,800,547	662,806,049	47.4	60.8
Tencent Holdings Limited(14)	15,031,120	220,481,928	16.5	20.3
Sheng Global Limited(15)	38,867,334	70,581,063	7.7	6.8

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\* Less than 1% of our total outstanding Class A and Class B ordinary shares.

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\*\* Unless otherwise indicated in the footnotes, the business address for our directors and officers is Hui Tong Times Square, No.1 Yaojiayuan South Road,Chaoyang District, 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) 1,424,588,645 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, 2016.

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

(4) Represents (i) 32,500,000 Class A ordinary shares represented by restricted ADSs and 48,281,063 Class B ordinary shares held by Sheng Global Limited, a British Virgin Islands company wholly owned by Mr. Fu, (ii) 6,367,334 Class A ordinary shares and 22,300,000 Class B ordinary shares, or 66.7% of the 9,551,000 Class A ordinary shares (represented by restricted ADSs) and 33,450,000 Class B ordinary shares, respectively, held by FaX Vision Corporation, a BVI company 66.7%-owned by Sheng Global Limited, (iii) 781,073 Class B ordinary shares that have vested to Mr. Fu under our 2011 Share Award Scheme, and (iii) 6,757,498 Class B ordinary shares that Mr. Fu may purchase upon vesting of restricted shares granted to him under our 2013 Equity Incentive Plan within 60 days after March 31, 2016.

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

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

(7) 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) 34,653 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, where applicable, upon vesting of restricted shares under our share incentive plans within 60 days after March 31, 2016. 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.

(8) 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.

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

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

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

(12) Represents (i) 10,000,000 Class A ordinary shares represented by restricted ADSs and 30,390,531 Class B ordinary shares held by XaDvision Global Limited, a BVI company wholly owned by Mr. Xu, (ii) 3,183,666 Class A ordinary shares and 11,150,000 Class B ordinary shares, or 33.3% of the 9,551,000 Class A ordinary shares (represented by restricted ADSs) and 33,450,000 Class B ordinary shares, respectively, held by FaX Vision Corporation, a BVI company 33.3%-owned by XaDvision Global Limited, (iii) 585,869 Class B ordinary shares that have vested to Mr. Xu under our 2011 Share Award Scheme, and (iv) 4,183,400 Class B ordinary shares that Mr. Xu may purchase upon vesting of restricted shares granted to him under our 2013 Equity Incentive Plan within 60 days after March 31, 2016.

(13) 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 Limited. Kingsoft Corporation Limited is a company incorporated in Cayman Islands listed on the Hong Kong Stock Exchange (Stock Code: 3888). Its business address is Kingsoft Tower, No. 33, Xiaoying West Road, Haidian District, Beijing 100085, People's Republic of China.

(14) 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.

(15) Represents (i) 32,500,000 Class A ordinary shares represented by restricted ADSs and 48,281,063 Class B ordinary shares held by Sheng Global Limited and (ii) 6,367,334 Class A ordinary shares and 22,300,000 Class B ordinary shares, or 66.7% of the 9,551,000 Class A ordinary shares (represented by restricted ADSs) and 33,450,000 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.



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As of March 31, 2016, to our knowledge, on the same basis of calculation as above, 343,558,690 Class A ordinary shares represented by ADSs, or approximately 24.1% of our total outstanding ordinary shares were held by one record shareholder in the United States, namely The Bank of New York Mellon, the depository of our ADS program. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to ten votes per share. 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 47.4% and 60.8%, respectively, of our outstanding Class A and Class B ordinary shares on an as-converted basis as of March 31, 2016. 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. Hongjiang Zhang, one of our directors, is also the chief executive officer and director of Kingsoft Corporation. Mr. Yuk Keung Ng, one of our directors, 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, our VIEs, or a VIE's subsidiary, on the one hand, and Kingsoft Corporation or any of its subsidiaries (excluding us and our subsidiaries, VIEs and a VIE's subsidiary), 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:

- 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.

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- 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 (other than an opportunity relating to such business in Japan) 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, which became effective from January 1, 2014 and will expire on December 31, 2016. The agreement was amended on April 1, 2014. Until its expiration date, this framework 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

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- *Miscellaneous services.* Kingsoft Corporation will provide miscellaneous services to our company, including but not limited to, administration assistance services and technology support services.

We and Kingsoft Corporation may enter into individual contracts from time to time when necessary according to the principles and scope provided for under the framework agreement. Pursuant to the framework agreement, the transactions between us and Kingsoft Corporation will be priced based on: (i) the prevailing fair market pricing rules adopted in the same industry; (ii) a price calculated based on costs plus reasonable profit margin; or (iii) a price with reference to the price or reasonable profit margin of an independent third party.

For the years ended December 31, 2014 and 2015, we recognized aggregate fees of RMB6.1 million and RMB5.6 million (US\$0.9 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 and 2015, we recognized aggregate revenue of RMB1.7 million and RMB8.1 million (US\$1.2 million), respectively, from Kingsoft Corporation and its subsidiaries for promotion services and online marketing services that we provided to Kingsoft Corporation and its subsidiaries, in addition to the licensing revenues recognized pursuant to separate licensing agreements. See Exclusive technologies licensing agreement and framework licensing agreement.

*Exclusive technologies licensing agreement and framework licensing agreement*

On December 1, 2009, Beijing Security entered into an exclusive licensing agreement with Kingsoft Japan Inc., or Kingsoft Japan, which was one of Kingsoft Corporation's subsidiaries until it became our subsidiary in February 2016. Pursuant to this agreement, Beijing Security granted Kingsoft Japan the exclusive right to use certain internet security 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 March 2012, Beijing Security will charge 12% of the revenues (net of cost of sales such as agents' and distributors' commission) derived from the sale and manufacture of products and services. This agreement, as amended, will expire on December 31, 2016.

On November 12, 2013, our company, in our own capacity and on behalf of Beijing Security, entered into a framework licensing agreement with Kingsoft Japan, which supplies detailed provisions to the exclusive licensing agreement dated December 1, 2009. Pursuant to this framework agreement, with regard to software on mobile products, our company will develop and provide continuous technology upgrade services. As a consideration, Kingsoft Japan agreed to raise the share of revenue by our company from 12% to 33%, unless otherwise agreed based on fair and customary commercial terms. The increased share of revenue is retroactively effective from January 1, 2013. With respect to Duba Anti-virus on PCs, our company will provide upgrade and service maintenance to Kingsoft Japan effective from January 1, 2014. As a consideration, Kingsoft Japan agreed to raise the share of revenue by our company from 12% to 20%, and to 33% of revenue derived from Duba Anti-virus on PCs that surpasses a stipulated threshold.

For the years ended December 31, 2014 and 2015, we recognized aggregate revenue of RMB4.0 million and RMB5.8 million (US\$0.6 million), respectively, from Kingsoft Japan pursuant to the exclusive licensing agreement dated December 1, 2009, as amended, and the framework licensing agreement.



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*Intellectual property licensing arrangements*

On January 14, 2011, Beijing Security, Zhuhai Juntian and Conew Network, or collectively, the Licensees, entered into an authorization and licensing agreement with Beijing Kingsoft Digital Entertainment Technology Co., Ltd., Beijing Kingsoft Software Co., Ltd., and Zhuhai Kingsoft Software Co., Ltd., or collectively, the Licensors, which are subsidiaries of Kingsoft Corporation. The agreement was further amended on February 14, 2011 and December 3, 2012 and took effect retroactively from October 1, 2010. According to the agreement, as amended, the Licensors grants to the Licensees, for a consideration of RMB42.0 million, a global license (except in Japan) to use for a duration of five years certain approved or pending software copyrights, patents and trademarks, or collectively, the Products, a right to redevelop the Products, and a right to sub-license all those Products to its affiliates without additional consideration. Any rights and interests redeveloped by the Licensees based on the Products belong to the Licensees. This authorization and licensing agreement has been terminated and superseded by the intellectual property transfer and license framework agreement, or the Transfer and License Agreement, effective from April 1, 2014. The total licensing fee payable in 2014 under the authorization and licensing agreement shall be calculated pro-rata based on the actual term performed.

Pursuant to the Transfer and License Agreement, 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\$2.2 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 use such patents and trademarks in Japan or 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 and 2015, we incurred an aggregate license fee of RMB2.1 million (US\$0.3 million) and nil, respectively, pursuant to the authorization and licensing agreement and the Transfer and License Agreement.

*Corporation Promotion Agreement*

We entered into corporation promotion agreements with Zhuhai Kingsoft Office Software, a subsidiary of Kingsoft Corporation in 2014 and 2015. Under the agreements, Zhuhai Kingsoft Office Software agreed to promote our products on its platforms. The promotion fee was priced based on effective IP click. For the years ended December 31, 2014 and 2015, we incurred an aggregate promotion fee of RMB24.5 million and RMB28.2 million (US\$4.4 million), respectively.

*Non-exclusive game operation framework agreements*

We entered into a joint game operation framework agreement with Kingsoft Corporation on October 15, 2014. Pursuant to the agreement, Kingsoft Corporation and its remaining subsidiaries grant us the license to, among others, distribute, operate and promote certain games, and we provide the platforms, including but not limited to the website, software, PC products and mobile platform, together with ancillary services, for operating such licensed games. We will share with Kingsoft Corporation and its remaining subsidiaries the revenues generated from users under

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the joint game operation based on the prevailing fair market price in the same industry. We will pay Kingsoft Corporation and its remaining subsidiaries (i) 20% to 50% of the revenue generated, and (ii) licensing fees ranging from RMB2 million to RMB15 million depending on the game quality, licensing scope and mobile platform operating the licensed game. Transactions under the framework agreement are subject to annual caps of RMB42 million and RMB78 million in total for 2014 and 2015, respectively. The agreement has expired on December 31, 2015.



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For the years ended December 31, 2014, we recognized licensing fees of RMB13.9 million pursuant to the framework agreement and we paid a total of RMB2.3 million and RMB1.8 million (US\$0.3 million) for the years ended December 31, 2014 and 2015, respectively, to the subsidiaries of Kingsoft Corporation as their share of revenues.

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 Beijing Starsinhand Technology Company Limited*

In December 2014, we acquired an additional 22.2% equity interest in Moxiu Technology from Beijing Starsinhand Technology Company Limited, for a consideration of RMB30 million in cash, resulting in a total of 50.5% equity interest in Moxiu Technology. In May 2015, we acquired an additional 1.6% equity interest in Moxiu Technology from Beijing Starsinhand Technology Company Limited for a cash consideration of RMB25.0 million (US\$3.9 million). Upon completion of this acquisition, Moxiu Technology became our subsidiary and we started to consolidate Moxiu Technology in our financial statements. Beijing Starsinhand Technology Company Limited is a subsidiary of Tencent Holdings Limited, one of our major beneficial shareholders.

*Transactions with Tencent Shenzhen*

We entered into a strategic cooperation agreement dated December 27, 2013, as amended on July 31, 2014, 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 further amended on June 30, 2015 and November 5, 2015, was RMB100 million (US\$15.4 million) and RMB340 million (US\$52.5 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\$15.4 million) for the year ended

December 31, 2015.

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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\$76.4 million) and RMB587 (US\$90.6 million) million, respectively, for our services provided to Tencent Group, and RMB30 million (US\$4.6 million) and RMB45 million (US\$6.9 million), respectively, for services provided by the Tencent Group to us.

Pursuant to the strategic cooperation agreements, as amended, for the years ended December 31, 2014 and 2015, we recognized total revenue from the Tencent Group in the amount of RMB78.4 million and RMB293.5 million (US\$45.3 million), respectively, and recognized aggregate fees of nil and RMB41.6 million (US\$6.4 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 and 2015, we recognized a total revenue of RMB4.1 million and RMB117,000 (US\$18,000), respectively, from Xiaomi, and we paid a total of RMB2.9 million and RMB47.8 million (US\$7.4 million), respectively, to Xiaomi.

On February 1, 2014, we entered into a non-exclusive game operation agreement with Beijing Wali Network Technology Co., Ltd., or Beijing Wali, pursuant to which we agreed to allocate 50% of the revenue generated from jointly operated games to Beijing Wali. For the years ended December 31, 2014 and 2015, we paid a total of RMB3.1 million and RMB3.1 million (US\$0.5 million), respectively, to Beijing Wali as their share of revenues. On July 25, 2014, we entered into a second non-exclusive game operation agreement with Beijing Wali. Pursuant to the agreement, we and Beijing Wali jointly operate games and share revenues generated from the game operation at an agreed rate. For the years ended December 31, 2014 and 2015, we recognized a total of RMB1.5 million and RMB2.5 million (US\$0.4 million), respectively, as our share of revenues from the joint game operation. Beijing Wali is an affiliate of Xiaomi Corporation.

**Transactions with Wuhan Antian**

On each of January 1, 2014 and 2015, we entered into an authorization and licensing agreement with Wuhan Antian Information Technology Co., Ltd., or Wuhan Antian, to purchase a license to use certain technology. We paid RMB4.0 million and RMB4.5 million (US\$0.7 million) to Wuhan Antian for the years ended December 31, 2014 and 2015, respectively, for such a license. We owned 40% and 20% equity interest in Wuhan Antian as of December 31, 2014 and 2015, respectively.

**Registration Rights Agreement**

Pursuant to the registration rights agreement dated April 25, 2014 with Kingsoft Corporation, Xiaomi Ventures Limited and Baidu Holdings Limited, we agreed to grant each of the parties Form F-3 registration rights and the piggyback registration rights. In addition, we agreed to pay expenses relating to their exercise of Form F-3 registration rights and piggyback registration rights, except for underwriting discounts and

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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.

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**Employment Agreements**

See Item 6. Directors, Senior Management and Employees B. Compensation Employment Agreements.

**Share Incentive Plans**

Item 6. Directors, Senior Management and Employees B. Compensation Share Incentive Awards Share Incentive Plans.

**Other Transactions with Certain Directors and Affiliates**

See Item 6. Directors, Senior Management and Employees B. Compensation Compensation of Directors and Officers.

C. **Interests of Experts and Counsel**

Not applicable.

**Item 8. Financial Information**

A. **Consolidated Statements and Other Financial Information**

We have appended consolidated financial statements filed as part of this annual report.

**Legal Proceedings**

We are subject to legal proceedings and claims in our ordinary course of business from time to time. 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 are seeking an injunction, monetary damages for the harm to our business, reputation, and consumer goodwill, account of profits, punitive damages, and attorneys' fees and costs.

Other than the above, 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, 2013, 2014 and 2015 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.

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 PRC subsidiaries to fund any cash and financing requirements we may have. Any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business and to pay dividends to 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.



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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 CCMC. 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
<b>Quarterly Highs and Lows</b>			
Second Quarter 2014 (since May 8, 2014)	25.00		12.50
Third Quarter 2014	30.77		18.03
Fourth Quarter 2014	21.67		14.76
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
<b>Monthly Highs and Lows</b>			
October 2015	20.39		13.80
November 2015	21.37		17.11
December 2015	19.37		15.88
January 2016	16.25		13.62
February 2016	17.18		13.71
March 2016	18.19		14.20
April 2016 (through April 21, 2016)	17.13		15.62

**B. Plan of Distribution**

Not applicable.

**C. Markets**

Our ADSs have been listed on the NYSE since May 8, 2014 under the symbol CCMC.

**D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

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**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.

**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 Regulations on 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 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.

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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.

**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.

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*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.

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 current and expected income and assets and the market price of the ADSs, we do not presently expect to be a PFIC for the current taxable year or the foreseeable future.

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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.



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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 and the cash raised in our initial public offering. 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 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.

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.

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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.

***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:

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- such excess distribution and/or gain will be allocated ratably over the U.S. holder's holding period for the ADSs or Class A ordinary shares;
- such amount allocated to the current taxable year and any taxable years in the U.S. holder's holding period prior to the first taxable year in which we are a PFIC, or pre-PFIC year, will be taxable as ordinary income;
- such amount allocated to each prior taxable year, other than a pre-PFIC year, will be subject to tax at the highest tax rate in effect applicable to the U.S. holder for that year; and
- an interest charge generally applicable to underpayments of tax will be imposed on the tax attributable to each prior taxable year, other than a pre-PFIC year.

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

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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.

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***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.

**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.

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We will furnish The Bank of New York Mellon, the depositary 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 depositary 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 depositary from us.

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In accordance with NYSE Rule 203.01, we will post this annual report on Form 20-F on our website at <http://ir.cmcm.com>. In addition, we will provide hardcopies of our annual report free of charge to shareholders and ADS holders upon request.

**I. Subsidiary Information**

Not applicable.

**Item 11. Quantitative and Qualitative Disclosures about Market Risk**

**Quantitative and Qualitative Disclosure about Market Risk**

***Foreign Exchange Risk***

Our revenues and costs are partly denominated in Renminbi and partly denominated in foreign currencies, primarily U.S. dollars. 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.

As of December 31, 2015, we had RMB-denominated cash and cash equivalents and short-term investments of RMB599.3 million, and U.S. dollar denominated cash and cash equivalents and short-term investments of US\$180.9 million. Assuming we had converted RMB599.3 million into U.S. dollars at the exchange rate of RMB6.4778 for US\$1.00 as of December 31, 2015, our U.S. dollar cash and cash equivalents and short-term investments would have been US\$273.5 million. If the RMB had depreciated by 10% against the U.S. dollar, our U.S. dollar cash balance would have been US\$264.2 million instead. Assuming we had converted US\$180.9 million into RMB at the exchange rate of RMB6.4778 for US\$1.00 as of December 31, 2015, our RMB cash balance would have been RMB1,771.4 million. If the RMB had depreciated by 10% against the U.S. dollar, our RMB cash balance would have been RMB1,888.6 million instead.

*Interest Risk*

Our exposure to interest rate risk primarily relates to the interest income generated by excess cash, which is mostly held in interest-bearing bank deposits. We generated interest income of RMB7.1 million, RMB28.2 million, and RMB15.1 million (US\$2.3 million) for the years ended December 31, 2013, 2014 and 2015, 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.



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*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.

**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

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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> </ul>
	<ul style="list-style-type: none"> <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> <li>• converting foreign currency to U.S. dollars</li> </ul>
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	<ul style="list-style-type: none"> <li>• As necessary</li> </ul>
Any charges incurred by the depositary or its agents for servicing the deposited securities	<ul style="list-style-type: none"> <li>• As necessary</li> </ul>

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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, 2015, 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**

The following Use of Proceeds information relates to the registration statement on Form F-1, as amended (File Number: 333-194996) in relation to our initial public offering of 12,000,000 ADSs representing 120,000,000 of our Class A ordinary shares, and the underwriters' full exercise of their option to purchase from us an additional 1,800,000 ADSs representing 18,000,000 Class A ordinary shares, at an initial offering price of US\$14.00 per ADS. Our initial public offering closed in May 2014.

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Concurrently with the initial public offering, we completed a private placement of an aggregate of 35,714,285 Class A ordinary shares, or the Concurrent Private Placement, and received an additional US\$50.0 million.

After deducting the total expenses, we received net proceeds of approximately US\$226.4 million from our initial public offering and the Concurrent Private Placement. For the period from May 7, 2014, the date that the F-1 Registration Statement was declared effective by the SEC, to December 31, 2015, the net proceeds received from our initial public offering and the Concurrent Private Placement were used to:

- Approximately US\$101 million to penetrate selected international markets;
- Approximately US\$61 million to invest in technology, infrastructure and research and development capabilities; and
- Approximately US\$64 million to expand and strengthen our sales and marketing efforts.

None of the net proceeds from our initial public offering were directly or indirectly paid to the directors, officers, general partners of our company or their associates, persons owning 10% or more of our ordinary shares, or our affiliates.

**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 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, 2015.

Our management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of MobPartner S.A.S., which is consolidated in our 2015 consolidated financial statements included in this annual report, and constituted RMB404.8 million (US\$62.5 million) and RMB299.1 million (US\$46.2 million) of our total and net assets, respectively, as of December 31, 2015 and RMB155.1 million (US\$23.9 million) and RMB40.3 million (US\$6.2 million) of our revenues and net loss, respectively, for the year ended December 31, 2015.

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, 2015, as stated in its report, which appears on page F-3 of this Form 20-F.

**Changes in Internal Control over Financial Reporting**

In preparing our consolidated financial statements for the three years ended December 31, 2013, we and Ernst & Young Hua Ming LLP, an independent registered public accounting firm, noted a material weakness in our internal control over financial reporting. The material weakness identified was lack of financial reporting personnel with the requisite U.S. GAAP and the SEC financial reporting expertise. Since the second half of 2013, we have implemented several measures to remediate the material weakness, including the following measures that were implemented in 2015:

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- We have hired one reporting director with more than 7 years of extensive experience in U.S. GAAP, SEC regulations and internal control over financial reporting;
- strengthening our reporting team and internal audit function by hiring additional professionals with experience in U.S. GAAP, SEC reporting and compliance with the requirement of Section 404 of the Sarbanes-Oxley Act;
- further increasing the accounting, internal control, and SEC reporting acumen and accountability of its finance organization employees through training programs designed to enhance these employees' competency with respect to U.S. GAAP and internal control over financial reporting;
- enhancing our monitoring control over financial reporting, including additional review by our chief financial officer, vice president of finance and senior finance staff over the application of U.S. GAAP accounting knowledge and the selection and evaluation of U.S. GAAP accounting policies, critical accounting judgments and estimates, reporting and disclosures; and
- establishing related policies and procedures such as accounting manual operation protocol to support the operation of internal controls over financial statements at the entity level, transaction level as well as IT level.

In connection with the preparation of our consolidated financial statements included in this annual report, our management has concluded that the above material weakness has been remediated, and our internal control over financial reporting was effective as of December 31, 2015.

Other than as described above, there were no significant changes in our internal controls over financial reporting 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 controls 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, 2015, our disclosure controls and procedures were effective.



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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.

		2014	(in thousands)		2015
Audit fees(1)	US\$	1,115		US\$	2,159
Audit-related fees(2)	US\$	15		US\$	313
Tax fees(3)	US\$	146		US\$	297
All other fees(4)	US\$			US\$	112

(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 2014, the audit refers to financial audit. In 2015, 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 2014, the professional services are assurance services. In 2015, 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 means the aggregate fees billed in 2015 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, 2015.



**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.

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

Not applicable.

**Item 16G. Corporate Governance**

As of March 31, 2016, Kingsoft Corporation owned 60.8% 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:

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- 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 and its VIEs and a VIE's subsidiary are included at the end of this annual report.

**Item 19.**

**Exhibits**

**Exhibit  
Number**

**Description of Document**

- |     |  |
|-----|--|
| 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)   |
| 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 an amendment thereto (incorporated by reference to Exhibit 10.1 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 2, 2014)  |
| 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)  |

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<b>Exhibit Number</b>	<b>Description of Document</b>
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)
4.13	Spousal consent, signed by Xinchun 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)

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<b>Exhibit Number</b>	<b>Description of Document</b>
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	Strategic cooperation agreement between the Registrant and Shenzhen Tencent Computer Systems Company Limited, dated December 27, 2013 (incorporated by reference to Exhibit 10.39 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 2, 2014)
4.24	Cooperation agreement between Beike Internet (currently Beijing Mobile) and Baidu Online Network Technology (Beijing) Co., Ltd., dated June 1, 2012 (incorporated by reference to Exhibit 10.40 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on May 5, 2014)
4.25	Cooperation agreement between Beike Internet (currently Beijing Mobile) and Baidu Online Network Technology (Beijing) Co., Ltd., dated June 1, 2012 (incorporated by reference to Exhibit 10.41 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on May 5, 2014)

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<b>Exhibit Number</b>	<b>Description of Document</b>
4.26	Cooperation agreement between Beike Internet (currently Beijing Mobile) and Baidu Online Network Technology (Beijing) Co., Ltd., dated March 1, 2013 (incorporated by reference to Exhibit 10.42 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on May 5, 2014)
4.27	Cooperation agreement between Beike Internet (currently Beijing Mobile) and Baidu Online Network Technology (Beijing) Co., Ltd., dated May 1, 2013 (incorporated by reference to Exhibit 10.43 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on May 5, 2014)
4.28	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)
4.29	Authorization and licensing agreement dated January 14, 2011 by and among Beijing Security, Zhuhai Juntian, Conew Network, Beijing Kingsoft Digital Entertainment Technology Co., Ltd., Beijing Kingsoft Software Co., Ltd. and Zhuhai Kingsoft Software Co., Ltd., as amended on February 14, 2011 and December 3, 2012 (incorporated by reference to Exhibit 10.45 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 2, 2014)
4.30	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)
4.31	Share transfer agreement between the Cheetah Technology Corporation Limited and Kingsoft Corporation, dated March 18, 2014 (incorporated by reference to Exhibit 10.47 to our Registration Statement on Form F-1 (file no. 333-194996) filed with the Securities and Exchange Commission on April 2, 2014)
4.32	Framework cooperation agreement on online game operation between the Registrant and Kingsoft Corporation Limited, dated October 15, 2014 (incorporated by reference to Exhibit 4.50 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 21, 2015)
4.33	Supplemental agreements to strategic cooperation agreement between the Registrant and Shenzhen Tencent Computer Systems Company Limited, dated July 31, 2014 and January 30, 2015 (incorporated by reference to Exhibit 4.51 to our Annual Report on Form 20-F (file no. 001-36427) filed with the Securities and Exchange Commission on April 21, 2015)
4.34	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)
4.35	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)
4.36	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)

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<b>Exhibit Number</b>	<b>Description of Document</b>
4.37*	Share transfer agreement among Beijing Security, Weiqin Qiu and Ming Xu, dated October 19, 2015, with respect to Guangzhou Network
4.38*	VIE termination agreement among Beijing Security, Guangzhou Network, Weiqin Qiu and Ming Xu, dated October 19, 2015
4.39*	Share transfer agreement between Beijing Security and each of Ming Xu and Wei Liu, dated October 13, 2015, with respect to Beijing Antutu
4.40*	VIE termination agreement among Beijing Security, Beijing Antutu, Ming Xu and Wei Liu, dated October 13, 2015
4.41*	Supplemental agreements to strategic cooperation agreement between the Registrant and Shenzhen Tencent Computer Systems Company Limited, dated June 30, 2015 and November 5, 2015
4.42*	Strategic cooperation agreement between the Registrant and Shenzhen Tencent Computer Systems Company Limited, dated December 30, 2015
4.43*	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
4.44*	Amendment to stock purchase agreement among Hongkong Cheetah Mobile Technology Limited, MobPartner S.A.S. and other parties thereto, dated December 15, 2015
8.1*	List of subsidiaries, VIEs and a VIE's subsidiary
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.

Confidential treatment has been granted by the Securities and Exchange Commission with respect to portions of these exhibits that have been redacted pursuant to Rule 406 under the Securities Act of 1933, as amended.

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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 22, 2016



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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, 2015 and 2014, and the related consolidated statements of comprehensive income, cash flows and shareholders' equity for each of the three years in the period ended December 31, 2015. 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cheetah Mobile Inc. at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Cheetah Mobile Inc.'s internal control over financial reporting as of December 31, 2015, 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 22, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young Hua Ming LLP

Beijing, the People's Republic of China

April 22, 2016

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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, 2015, 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 MobPartner S.A.S., which is included in the 2015 consolidated financial statements of Cheetah Mobile Inc. and constituted RMB404.8 million and RMB299.1 million of total and net assets, respectively, as of December 31, 2015 and RMB155.1 million and RMB40.3 million of revenues and net loss, respectively, for the year then ended. Our audit of internal control over financial reporting of Cheetah Mobile Inc. also did not include an evaluation of the internal control over financial reporting of MobPartner S.A.S..

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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, 2015, 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, 2015 and 2014, and the related consolidated statements of comprehensive income, cash flows and shareholders' equity for each of the three years in the period ended December 31, 2015 of Cheetah Mobile Inc. and our report dated April 22, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young Hua Ming LLP

Beijing, the People's Republic of China

April 22, 2016

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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	2014 RMB	As of December 31, 2015 RMB	US\$
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		1,093,285	1,809,288	279,306
Restricted cash			156,161	24,107
Short-term investments	4	513,621	29,234	4,513
Accounts receivable (net of allowance for doubtful accounts of RMB3,230 and RMB17,592 (US\$2,716) as of December 31, 2014 and 2015, respectively)	5	260,347	620,556	95,797
Prepayments and other current assets	6	180,029	358,631	55,363
Due from related parties	16	43,570	63,762	9,843
Deferred tax assets	15	2,693	3,954	610
<b>Total current assets</b>		<b>2,093,545</b>	<b>3,041,586</b>	<b>469,539</b>
<b>Non-current assets</b>				
Property and equipment, net	7	45,905	119,329	18,421
Intangible assets, net	8	199,616	232,029	35,819
Goodwill	9	261,686	613,220	94,665
Investment in equity investees	4	131,707	199,723	30,832
Other long-term investments	4	207,135	698,497	107,829
Deferred tax assets	15	6,384	12,843	1,983
Other non-current assets	6	55,197	25,422	3,924
<b>Total non-current assets</b>		<b>907,630</b>	<b>1,901,063</b>	<b>293,473</b>
<b>Total assets</b>		<b>3,001,175</b>	<b>4,942,649</b>	<b>763,012</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 RMB179,313 and RMB277,364 (US\$42,818) as of December 31, 2014 and 2015, respectively) (note 1)				
Short-term loan	10		130,273	20,111
Accounts payable		61,793	136,997	21,149
Accrued expenses and other current liabilities	11	481,694	1,297,288	200,266
Redemption right liabilities		520	474	73
Deferred revenue	12	44,180	54,155	8,360
Due to related parties	16	29,885	62,580	9,661
Income tax payable		3,584	26,506	4,092

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Deferred tax liabilities	15		414	64
<b>Total current liabilities</b>		<b>621,656</b>	<b>1,708,687</b>	<b>263,776</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 RMB2,828 and RMB2,160 (US\$333) as of December 31, 2014 and 2015, respectively) (note 1)				
Long-term loans	10		10,523	1,624
Deferred revenue	12	1,134	2,477	382
Deferred tax liabilities	15	65,991	99,006	15,284
Other non-current liabilities	11	29,525	73,826	11,397
<b>Total non-current liabilities</b>		<b>96,650</b>	<b>185,832</b>	<b>28,687</b>
<b>Total liabilities</b>		<b>718,306</b>	<b>1,894,519</b>	<b>292,463</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	2014 RMB	As of December 31, 2015 RMB	US\$
<b>Shareholders equity</b>				
Class A ordinary shares (par value of US\$0.000025 per share; 7,600,000,000 shares authorized; 288,988,560 and 365,961,759 shares issued as of December 31, 2014 and 2015, respectively; 260,045,912 and 350,398,737 shares outstanding as of December 31, 2014 and 2015, respectively)	19	42	56	9
Class B ordinary shares (par value of US\$0.000025 per share; 1,400,000,000 shares authorized; 1,127,614,152 and 1,058,514,152 shares issued as of December 31, 2014 and 2015, respectively; 1,095,456,652 and 1,035,037,339 shares outstanding as of December 31, 2014 and 2015, respectively)	19	180	170	26
Additional paid-in capital		2,059,983	2,468,562	381,080
Accumulated other comprehensive income	19	3,373	123,795	19,111
Retained earnings	19	142,760	319,356	49,299
<b>Total Cheetah Mobile Inc. shareholders equity</b>		<b>2,206,338</b>	<b>2,911,939</b>	<b>449,525</b>
<b>Noncontrolling interests</b>		<b>76,531</b>	<b>136,191</b>	<b>21,024</b>
<b>Total equity</b>		<b>2,282,869</b>	<b>3,048,130</b>	<b>470,549</b>
<b>Total liabilities, noncontrolling interests and shareholders equity</b>		<b>3,001,175</b>	<b>4,942,649</b>	<b>763,012</b>

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

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## CHEETAH MOBILE INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(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,			
		2013 RMB	2014 RMB	2015 RMB	2015 US\$
Revenues(1)	13	749,911	1,763,579	3,684,429	568,778
Cost of revenues(1)		(140,526)	(403,412)	(935,154)	(144,363)
<b>Gross profit</b>		<b>609,385</b>	<b>1,360,167</b>	<b>2,749,275</b>	<b>424,415</b>
<b>Operating income and expenses (1)</b>					
Research and development		(217,846)	(436,840)	(687,235)	(106,091)
Selling and marketing		(201,504)	(580,610)	(1,479,441)	(228,386)
General and administrative		(97,817)	(251,743)	(423,248)	(65,338)
Impairment of goodwill and intangible assets			(8,304)	(49,882)	(7,700)
Other operating income				97,468	15,046
		<b>(517,167)</b>	<b>(1,277,497)</b>	<b>(2,542,338)</b>	<b>(392,469)</b>
<b>Operating profit</b>		<b>92,218</b>	<b>82,670</b>	<b>206,937</b>	<b>31,946</b>
<b>Other income (expenses)</b>					
Interest income, net		7,077	28,216	14,545	2,245
Changes in fair value of redemption right and put options granted		11,146	4,375	22	3
Settlement and changes in fair value of contingent considerations	3	(1,067)	(13,749)	7,010	1,082
Foreign exchange gain (loss), net		920	16	(250)	(39)
Impairment of investments	4		(9,136)	(34,728)	(5,361)
Other income, net		2,243	3,959	47,173	7,282
Losses from equity method investments		(1,849)	(5,447)	(9,334)	(1,441)
<b>Income before taxes</b>		<b>110,688</b>	<b>90,904</b>	<b>231,375</b>	<b>35,717</b>
Income tax expenses	15	(48,670)	(23,993)	(60,097)	(9,277)
<b>Net income</b>		<b>62,018</b>	<b>66,911</b>	<b>171,278</b>	<b>26,440</b>
<b>Less: net loss attributable to noncontrolling interests</b>			(1,030)	(5,318)	(821)
<b>Net income attributable to Cheetah Mobile Inc.</b>		<b>62,018</b>	<b>67,941</b>	<b>176,596</b>	<b>27,261</b>



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## CHEETAH MOBILE INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (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,			
		2013	2014	2015	
		RMB	RMB	RMB	US\$
<b>Earnings per share</b>	20				
Basic		0.0567	0.0527	0.1286	0.0199
Diluted		0.0538	0.0506	0.1238	0.0191
<b>Earnings per ADS (1 ADS represents 10 Class A ordinary share)</b>	20				
Basic		0.5671	0.5272	1.2863	0.1986
Diluted		0.5381	0.5064	1.2377	0.1911
<b>Weighted average number of shares used in computation of ordinary shares:</b>					
Basic		929,119,153			
Diluted		1,135,982,953			
<b>Class A ordinary shares</b>					
Basic			124,564,984	314,229,617	314,229,617
Diluted			1,341,732,457	1,426,810,939	1,426,810,939
<b>Class B ordinary shares</b>					
Basic			1,085,936,036	1,058,633,704	1,058,633,704
Diluted			1,208,004,257	1,079,059,263	1,079,059,263
<b>Other comprehensive income (loss), net of tax of nil</b>	19				
Foreign currency translation adjustments		(6,087)	(6,960)	117,977	18,213
Unrealized gains on available-for-sale securities, net		20,929	18,119	9,729	1,502
Reclassification adjustments for gains included in net income			(21,121)	(6,814)	(1,052)
<b>Other comprehensive (loss) income</b>		<b>14,842</b>	<b>(9,962)</b>	<b>120,892</b>	<b>18,663</b>
<b>Total comprehensive income</b>		<b>76,860</b>	<b>56,949</b>	<b>292,170</b>	<b>45,103</b>
<b>Less: Total comprehensive loss attributable to noncontrolling interests</b>			<b>(1,126)</b>	<b>(4,848)</b>	<b>(748)</b>
<b>Total comprehensive income attributable to Cheetah Mobile Inc.</b>		<b>76,860</b>	<b>58,075</b>	<b>297,018</b>	<b>45,851</b>

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

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	Year ended December 31,			
	2013	2014	2015	US\$
	RMB	RMB	RMB	
Revenues	111,218	86,708	321,881	49,690
Cost of revenues	(9,296)	(4,767)	(31,316)	(4,834)
Research and development	(4,174)	(4,212)	(4,500)	(695)
Selling and marketing	(256)	(27,931)	(108,422)	(16,737)
General and administrative	(2,021)	(5,158)	(5,072)	(783)

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,			
	2013	2014	2015	
	RMB	RMB	RMB	US\$
<b>Cash flows from operating activities</b>				
<b>Net income</b>	62,018	66,911	171,278	26,440
<b>Adjustments to reconcile net income to net cash from operating activities</b>				
Depreciation of property and equipment	11,702	21,684	25,636	3,958
Amortization of intangible assets	14,178	57,066	120,521	18,605
Provision for doubtful accounts	11,232	5,441	12,842	1,982
Impairment of goodwill and intangible assets		8,304	49,882	7,700
Impairment of investments		9,136	34,728	5,361
Loss on disposal of property and equipment			955	147
(Gain) loss on disposal of intangible assets	(3,600)		3,539	547
Gain on disposal/deemed disposal of equity method investments			(44,483)	(6,866)
Settlement and changes in fair value of contingent consideration	1,067	13,749	(7,010)	(1,082)
Changes in fair value of redemption right and put options granted	(11,146)	(4,375)	(22)	(3)
Deemed employee compensation attributable to redemption right granted to a noncontrolling shareholder	14,697			
Losses from equity method investments	1,849	5,447	9,334	1,441
(Gain) loss on disposal of an available-for-sale security		(1,967)	202	31
Deferred income tax expenses (benefits)	33,910	12,906	(6,962)	(1,075)
Share-based compensation expenses	37,396	173,274	315,407	48,690
	173,303	367,576	685,847	105,876
<b>Changes in operating assets and liabilities</b>				
Restricted cash			(378)	(58)
Accounts receivable	(55,867)	(151,979)	(316,152)	(48,805)
Prepayments and other current assets	(45,433)	(85,484)	(162,139)	(25,030)
Due from related parties	4,630	(30,702)	(19,508)	(3,012)
Other long-term assets	(1,665)	(15,917)	408	63
Accounts payable	12,487	38,354	29,705	4,586
Accrued expenses and other payables	97,115	225,374	636,738	98,295
Deferred revenue	(4,258)	29,608	14,958	2,309
Due to related parties	5,023	(2,008)	35,405	5,466
Income tax payable	11,974	(8,995)	21,183	3,270
Other non-current liabilities	872	(4,385)	10,909	1,684
<b>Net cash provided by operating activities</b>	198,181	361,442	936,976	144,644
<b>Cash flows from investing activities</b>				

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Purchase of property and equipment	(27,641)	(36,169)	(61,090)	(9,431)
Purchase of intangible assets	(2,359)	(144,896)	(34,590)	(5,340)
Purchase of cost method investments		(157,304)	(399,522)	(61,676)
Purchase of available-for-sale securities	(36,582)	(110,774)		
Purchase of equity method investments	(4,400)	(125,739)	(107,131)	(16,538)
Purchase of fixed-rate time deposits	(105,000)	(1,388,167)	(481,207)	(74,286)
Acquisition of business, net of cash acquired	(52,785)	(195,199)	(249,425)	(38,505)
Proceeds from sales of property and equipment	74	100	490	76
Proceeds from sales of intangible assets			3,320	513
Proceeds from sales of available-for-sale securities		17,076		
Proceeds from maturity of available-for-sale securities			68,162	10,522
Proceeds from sales of equity method investments			13,000	2,007
Maturity of fixed-rate time deposits	145,376	959,837	901,364	139,147
Entrusted loan to an investor of an equity investee	(14,000)			
Entrusted loan to a third party			(3,000)	(463)
Repayment of entrusted loans from a third party		1,000		
Repayment of entrusted loans from an investor of an equity investee	5,060	4,940	9,000	1,389
Repayment of loans to investors of an equity investee	(5,530)			
Settlement of contingent consideration	(3,000)			
<b>Net cash used for investing activities</b>	<b>(100,787)</b>	<b>(1,175,295)</b>	<b>(340,629)</b>	<b>(52,585)</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,			
	2013 RMB	2014 RMB	RMB	2015 US\$
<b>Cash flows from financing activities</b>				
Proceeds from issuance of Series B Preferred Shares, net of issuance costs	321,965			
Net proceeds from the initial public offering ( IPO ) and concurrent private placement		1,409,177		
Proceeds from exercise of restricted shares with an option feature		2	4,092	632
Proceeds from bank loans			101,866	15,726
Cash received from noncontrolling shareholder		6,750	3,375	521
Distribution to a shareholder due to common control acquisition	(17,693)	(30,775)		
Settlement of contingent consideration		(4,265)	(27,706)	(4,277)
<b>Net cash provided by financing activities</b>	<b>304,272</b>	<b>1,380,889</b>	<b>81,627</b>	<b>12,602</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(5,506)</b>	<b>(4,287)</b>	<b>38,029</b>	<b>5,871</b>
<b>Net increase in cash and cash equivalents</b>	<b>396,160</b>	<b>562,749</b>	<b>716,003</b>	<b>110,532</b>
Cash and cash equivalents at beginning of year	134,376	530,536	1,093,285	168,774
Cash and cash equivalents at end of year	530,536	1,093,285	1,809,288	279,306
<b>Supplemental disclosures</b>				
Income taxes paid	(3,329)	(20,410)	(22,105)	(3,412)
Interest expense paid			(547)	(84)
<b>Non-cash investing and financing activities:</b>				
Capital injection to an equity investee by intangible assets	3,600			
Acquisition of property and equipment included in accrued expenses and other liabilities		755	43,740	6,752
Acquisition of an cost method investment included in accrued expenses and other liabilities			5,104	788
Acquisition of an equity method investment included in accrued expenses and other liabilities			3,247	501
Contingent consideration payable for business acquisitions	11,974	53,592	23,338	3,603
Non-cash acquisition of an equity method investment		5,000		
Non-cash acquisition of an cost method investment			64,110	9,897
Non-cash acquisition of business			23,309	3,598

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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	Accumulated other comprehensive income/(loss) RMB	Retained earnings RMB	Total shareholders' equity RMB	Noncontro interes RMB
<b>Balance at January 1, 2013</b>	900,551,482*	150					28,802	(1,603)	12,801	40,150	
Net income									62,018	62,018	
Other comprehensive income								14,842		14,842	
Share-based compensation							35,117			35,117	
<b>Balance at December 31, 2013</b>	900,551,482*	150					63,919	13,239	74,819	152,127	
Net income									67,941	67,941	
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							129,171			129,171	
Exercise and vesting of share-based awards			41,331,627	8	15,000,000	2	44,939			44,949	
Distribution to a shareholder (note 4)							(30,775)			(30,775)	
Other comprehensive loss								(9,866)		(9,866)	
Share of reserves of an equity investee							1,013			1,013	
Noncontrolling interest in connection with business											7

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combination (note 3)									
Capital contribution from a noncontrolling interest shareholder (note 3)						660		660	6
<b>Balance at December 31, 2014</b>	260,045,912#	42	1,095,456,652#	180	2,059,983	3,373	142,760	2,206,338	7
Net income							176,596	176,596	(3)
Conversion of Class B ordinary shares to Class A ordinary shares by shareholders	69,100,000	11	(69,100,000)	(11)					
Share-based compensation						314,945		314,945	
Exercise and vesting of share-based awards	14,527,696	2	8,680,687	1	3,954			3,957	
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			64,110	
Other comprehensive income							120,422	120,422	
Share of reserves of an equity investee					576			576	
Noncontrolling interest in connection with business combination (note 3)									6
Capital contribution from a noncontrolling interest shareholder (note 3)						1,686		1,686	1
<b>Balance at December 31, 2015</b>	350,398,737**	56	1,035,037,339**	170	2,468,562	123,795	319,356	2,911,939	13
<b>Balance at December 31, 2015, in US\$</b>	350,398,737	9	1,035,037,339	26	381,080	19,111	49,299	449,525	2

\* As at January 1, 2013 and December 31, 2013, 100,000,000 ordinary shares under the 2011 Share Award Scheme not yet transferred to the grantees were deemed issued but not outstanding and excluded.

# 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.



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**CHEETAH MOBILE INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015**

**(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, variable interest entities ( VIEs ) and a VIE s subsidiary (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 does not conduct any substantive operations of its own, but conducts its primary business operations through its subsidiaries, VIEs and a VIE s subsidiary. 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, VIEs, a VIE s subsidiary as of December 31, 2015 are as follows:

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## CHEETAH MOBILE INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015

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

Company	Date of incorporation/ registration	Place of incorporation/ registration	Percentage of ownership	Principal activities
<b>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 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 internet security services and research and development of online applications
Conew.com Corporation ( Conew )	October 6, 2008	British Virgin Islands ( BVI )	100%	Investment holding
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 and value-added 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. ( Calendar )	December 3, 2014	The PRC	100%	Provision of online marketing services
Hongkong Cheetah Mobile Technology Limited ( Hongkong )	March 9, 2015	Hong Kong	100%	Investment holding
Cheetah Information Technology Company Limited ( Cheetah Information )	March 9, 2015	Hong Kong	100%	Investment holding
Beijing Kingsoft Cheetah Technology Co., Ltd. ( Kingsoft Cheetah )	April 30, 2015	The PRC	100%	Research and development of mobile applications and provision of online marketing services
MobPartner S.A.S. ( MobPartner )	February 23, 2010	France	100%	Provision of online marketing services
MobPartner Inc.	September 20, 2013	United States	100%	

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				Provision of online marketing services
MobPartner UK Limited	July 8, 2014	United Kingdom	100%	Provision of online marketing services
Moxiu Technology (Beijing) Co., Ltd ( Moxiu Technology )	June 12, 2008	The PRC	52.10%	Provision of mobile application development
Beijing Antutu Technology Co., Ltd. (iii)	June 14,2013	The PRC	100%	Research and development of mobile applications
Guangzhou Kingsoft Network Technology Co., Ltd. (iii)	September 1, 2013	The PRC	100%	Research and development of mobile applications
<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 ) (i)	April 15, 2009	The PRC	Nil	Provision of online marketing services
Beijing Cheetah Network Technology Co., Ltd. ( Beijing Network(ii))	July 18, 2012	The PRC	Nil	Provision of internet value-added services
<b>Subsidiary of VIE</b>				
Suzhou Jiangduoduo Technology Co., Ltd. ( Suzhou JDD )	January 8, 2014	The PRC	75%	Provision of online lottery sales services

(i) On August 10, 2015, Beike (Beijing) Security Technology Co., Ltd. was renamed as Beijing Mobile.

(ii) On August 10, 2015, Beijing Kingsoft Network Technology Co., Ltd. was renamed as Beijing Network.

(iii) On October 13, 2015 and October 19, 2015, respectively, the VIE contractual arrangements with respect of Beijing Antutu and Guangzhou Network were terminated. As a result, Beijing Antutu and Guangzhou Network became the wholly-owned subsidiaries of Beijing Security. The termination of VIE contractual arrangements had no impact on the Company's operations and consolidated financial statements as both Beijing Antutu and Guangzhou Network were consolidated by the Company prior to and after the termination.

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**CHEETAH MOBILE INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015**

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

*VIE arrangements*

In order to comply with the PRC laws and regulations which prohibit foreign control of companies involved in online marketing and internet value-added business, the Group operates its website and conducts substantially the majority of its online marketing and the distribution and operation of its internet value-added services and internet security services businesses 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 VIEs' 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\$2,593) 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 loan 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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**CHEETAH MOBILE INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015**

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

*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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**CHEETAH MOBILE INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015**

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

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, VIEs and a VIE's subsidiary 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 Group's PRC subsidiaries, VIEs and a VIE's subsidiary 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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## CHEETAH MOBILE INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015

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

The carrying amounts and classifications of the assets and liabilities of the VIEs and a VIE's subsidiary are as follows:

	2014 RMB	As of December 31,	
		2015 RMB	US\$
Cash and cash equivalents	69,702	148,161	22,872
Accounts receivable	125,909	204,798	31,615
Prepayments and other current assets	40,702	148,896	22,986
Due from related parties	224,776	134,349	20,740
Total current assets	461,089	636,204	98,213
Property and equipment, net	35,026	52,114	8,045
Intangible assets, net	32,323	5,864	905
Goodwill	24,708	962	149
Investment in equity investees	52,778	49,442	7,633
Other long term investments	120,000	125,265	19,338
Other non-current assets	5,932	4,396	677
Total non-current assets	270,767	238,043	36,747
Total assets	731,856	874,247	134,960
Accounts payable	37,818	62,745	9,686
Accrued expenses and other current liabilities	95,809	139,927	21,601
Deferred revenue	34,225	29,296	4,523
Due to related parties (i)	422,673	523,781	80,858
Total current liabilities	590,525	755,749	116,668
Other non-current liabilities	2,828	2,160	333
Total non-current liabilities	2,828	2,160	333
Total liabilities	593,353	757,909	117,001

(i) As of December 31, 2014 and 2015, the balances due to related parties of the VIEs and a VIE's subsidiary mainly represented amounts due to subsidiaries of the Group of RMB411,212 and RMB478,385 (US\$73,850), respectively, which were eliminated upon consolidation by the Company.



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

The financial performance and cash flows of the VIEs and a VIE s subsidiary as follows:

	Year ended December 31,			
	2013 RMB	2014 RMB	2015 RMB	US\$
Revenues	682,250	1,536,443	1,817,642	280,596
Cost of revenues	167,138	596,371	1,338,932	206,695
Net income(loss)	77,207	13,847	(43,325)	(6,688)
Net cash provided by operating activities	102,861	188,513	110,090	16,995
Net cash used in investing activities	(22,814)	(267,346)	(31,043)	(4,792)
Net cash provided by (used in) financing activities	13,000	6,750	(588)	(91)

The revenue producing assets that are held by the VIEs and a VIE s subsidiary 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 and a VIE s subsidiary 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 and a VIE s subsidiary assets. Creditors of the VIEs and a VIE s subsidiary 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 ).

*Principles of consolidation*

The consolidated financial statements include the financial statements of the Company, its subsidiaries, VIEs and a VIE's subsidiary. All significant intercompany transactions and balances between the Company, its subsidiaries, VIEs and a VIE's subsidiary are eliminated upon consolidation. Results of acquired subsidiaries, businesses and VIEs are consolidated from the date on which control is transferred to the Company.

Certain items reported in the prior year's consolidated financial statements have been reclassified to conform to the current year's presentation.

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

*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, provision for inventories, average paying player lives of exclusive online games, 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, 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.

*Foreign currency translation and transactions*

The functional currency of the Company is the US\$. The Company's subsidiaries, VIEs and VIE's subsidiary 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 in the consolidated statements of comprehensive income as a component of other income.

### *Convenience translation*

Amounts in US\$ are presented for the convenience of the reader and are translated at the noon buying rate of RMB6.4778 to US\$1.00 on December 31, 2015 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***

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.

In a business combination achieved in stages, the Company 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, VIEs and a VIE's subsidiary, 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 on the consolidated statements of comprehensive income 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 Company'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 mainly consists of the cash reserved in escrow accounts for the remaining payments in relation to business acquisition and the cash pledged as collateral for a short-term bank loan.

***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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***Inventories***

Inventories are stated at the lower of cost, computed using the first-in, first-out method, or market value. If the cost of the inventories exceeds their market value, provisions are made currently for the difference between the cost and the market value. No inventory provision was recorded for any of the years presented.

***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 earnings.

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 when the decline in value is determined to be other-than-temporary.

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*Long-term investments*

In accordance with ASC 325-20, *Investments-Other: Cost Method Investments*, for investments in an investee over which the Group does not have significant influence, 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 operations 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. Cost method accounting is also applied to investments that are not considered as in-substance common stock investments, and do not have readily determinable fair values.

The Group accounts for its investments in 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.

*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, amounts due from and due to related parties, other receivables, long-term investments, available-for-sale securities, short-term loan, accounts payable, accrued expense and other current liabilities, payable for contingent consideration, redemption right liabilities and long-term loans. The carrying amounts of these financial instruments, except for long-term equity method investments, long-term available-for-sale securities, payable for contingent consideration, 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 accumulated 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 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***

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	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.

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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The Group adopted Accounting Standards Update ( 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. 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.

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*Intangible assets*

Intangible assets are carried at cost less accumulated amortization and any recorded impairment. Intangible assets acquired in a business combination were recognized initially at fair value at the date of acquisition. Intangible assets with finite useful lives are amortized using a straight-line method of amortization that reflects the estimated pattern in which the economic benefits of the intangible asset are to be consumed. The estimated useful life for the intangible assets is as follows:

	Estimated useful life
Customer relationship	3-6 years
Trademark	3-10 years
Technology	1-10 years
Non-compete agreements	6 years
Online game licenses	1-5 years
User base	1-3 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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*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. 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. Impressions are considered delivered when an advertisement is displayed to users. Online advertising services revenue charged on the cost for performance basis and the cost per impression basis is generally recognized upon receiving monthly statements from its customers either in the current month or in the following month in which the service is provided, as 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 are included in cost of revenues as traffic acquisition costs.

*Advertising agency services*

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

(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 unless there is unused in-game currency at the time a game is discontinued. Typically, a game will only be discontinued when the revenue generated by a game is insignificant. Up to December 31, 2015, the Group has never been required to pay significant cash refunds to game players or game developers as a result of the discontinuation of a game.

*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 42 to 83 days in 2015.

*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.

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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 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 ( PCS ). When vendor-specific objective evidence ( VSOE ) of the fair value of the PCS exists, the Group allocates and defers revenue for the PCS based on its fair value, and recognizes the difference between the total arrangement fee and the amount deferred as software license revenue. When VSOE of the fair value of the PCS does not exist, the entire arrangement fee is recognized ratably over the PCS period. In 2013, 2014 and 2015, the Group concluded that VSOE of the fair value of the PCS does not exist, and recognized the entire arrangement fee ratably over the PCS period starting from the end-users' activation of the software. The arrangement fee of the PCS purchased on a stand-alone basis is recognized into revenue ratably over the PCS period.

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, 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 revenue ratably over the term of such services.

*Others*

Other revenues primarily comprise of the sale of air purifier products and licensing fees from Kingsoft Japan, a related party, for the right to use certain internet security software (note 16). 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 revenue due to attached conditions not being met.

*Cost of revenues*

Cost of revenues primarily consists of cost of products sold, traffic acquisition cost, bandwidth costs, royalty fees, payment collection costs, salaries and benefits, share-based compensation expenses, depreciation of equipment, amortization of licenses and other intangible assets, inventory cost, 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 RMB48,355, RMB105,475 and RMB132,288 (US\$20,422) are presented as cost of revenues on the consolidated statements of comprehensive income for the years ended December 31, 2013, 2014 and 2015, respectively. As of December 31, 2015, the Company's subsidiaries in the PRC, VIEs and a VIE's subsidiary 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 and 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, 2013, 2014 and 2015, advertising and promotional expenses were RMB172,969, RMB512,531 and RMB1,312,752 (US\$202,654), respectively.



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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.

### *Research and development expenses*

Research and development consist primarily of amortization of intangible assets used in research and development and employee costs related to personnel involved in the development and enhancement of the Group's service offerings on its websites and mobile applications. 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. No costs were capitalized during any years presented as the Group has not met all of the necessary capitalization requirements.

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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 Company had no capital leases as of December 31, 2014 and 2015.

***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 expense, in the consolidated statements of comprehensive income.

The Group's estimated liability for unrecognized tax benefits and the related interest and penalties are periodically assessed for adequacy and may be affected by changing interpretations of laws, rulings by tax authorities, changes and/or developments with respect to tax audits, and expiration of the statute of limitations. The actual benefits ultimately realized may differ from the Group's estimates. As each audit is concluded, adjustments, if any, are recorded in the Group's consolidated financial statements. Additionally, in future periods, changes in facts and circumstances, and new information may require the Group to adjust the recognition and measurement estimates with regard to individual tax positions. Changes in recognition and measurement estimates are recognized in the period in which they occur.

***Share-based compensation***

The Group accounts for share-based compensation in accordance with ASC 718, *Compensation-Stock Compensation: Overall*.

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 Company 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 per share***

Earnings per share are calculated in accordance with ASC 260-10, *Earnings per Share: Overall*. Basic earnings per share are computed by dividing net income attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the year using the two-class method. Under the two-class method, net income 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 for the reporting period had been distributed.

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

Diluted earnings per share is calculated by dividing net income attributable to ordinary shareholders by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period. Ordinary equivalent shares consist of 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 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, on a quarterly basis, 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 Company'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, 2015, the Group has RMB1,994,683 (US\$307,926) in cash and cash equivalents, restricted cash and short-term investments, 60.5% and 39.5% 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, 2013, approximately 25%, 14% and 19% of the Group's total revenue were derived from Customer A, Customer B and Customer C, respectively. For the year ended December 31, 2014, approximately 15%, 15% and 12% of the Group's total revenue were derived from Customer A, Customer C and Customer D, respectively. For the year ended December 31, 2015, approximately 29%, 11% and 8% of the Group's total revenue were derived from Customer E, Customer C and Customer B, respectively.

The Group's operations could be adversely affected by significant political, economic and social uncertainties in the PRC. Internet and advertising 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*

The Company's exposure to foreign currency exchange rate risk primarily relates to cash and cash equivalents, restricted cash and short-term investments denominated in the US\$. 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 appreciation of the RMB against US\$ was approximately 3.1% in the year ended December 31, 2013. The depreciation of the RMB against US\$ was 2.4% and 5.8% during the years ended December 31, 2014 and 2015, 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 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 is in the process of evaluating its contracts with customers under the new standard and cannot currently estimate the financial statement impact of adoption.

In August 2014, the FASB issued ASU No. 2014-15 ( ASU 2014-15 ), *Presentation of Financial Statements Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* ( ASU 2014-15 ). The guidance requires an entity to evaluate whether there are conditions or events, in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued and to provide related footnote disclosures in certain circumstances. The guidance is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early application is permitted. The adoption of this guidance is not expected to have a significant impact on the Group's consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02 ( ASU 2015-02 ). *Consolidation (Topic 810) Amendments to the Consolidation Analysis*. The amendments in Topic 810 respond to stakeholders' concerns about the current accounting for consolidation of variable interest entities, by changing aspects of the analysis that a reporting entity must perform to determine whether it should consolidate such entities. Under the amendments, all reporting entities are within the scope of Subtopic 810-10, *Consolidation Overall*, including limited partnerships and similar legal entities, unless a scope exception applies. The amendments are intended to be an improvement to current U.S. GAAP, as they simplify the codification of FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*, with changes including reducing the number of consolidation models through the elimination of the indefinite deferral of Statement 167 and placing more emphasis on risk of loss when determining a controlling financial interest. The amendments are effective for publicly-traded companies for fiscal years beginning after December 15, 2015, and for interim periods within those fiscal years. Earlier adoption is permitted. The Group is currently evaluating the impact on its consolidated financial statements of adopting this guidance.

In September 2015, the FASB issued ASU No. 2015-16 ( ASU 2015-16 ), *Simplifying the Accounting for Measurement-Period Adjustments*, which eliminates the requirement for acquirers in a business combination to account for measurement-period adjustments retrospectively. Instead, acquirers must recognize measurement-period adjustments during the period in which they determine the amounts, including the effect on earnings of any amounts that would have been recorded in previous periods if the accounting had been completed at the acquisition date. This update is effective for interim and annual periods beginning after December 15, 2015, with early adoption permitted. The implementation of this update is not expected to have any material impact on the Group's 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 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. All short-term deferred tax assets and liabilities will be reclassified to long-term assets and liabilities upon adoption of this update. The Group is currently evaluating the impact on its consolidated financial statements of adopting this guidance.

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 is currently evaluating the impact on its consolidated financial statements of adopting this guidance.

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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 (US\$48,510). 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.

	RMB	US\$
Total purchase price comprised of:		
-Cash consideration(i)	273,726	42,256
-Equity consideration(ii)	23,309	3,598
-Contingent consideration in cash(iii)	17,202	2,656
Total	314,237	48,510

Details of the purchase consideration are as follows:

(i) RMB150,938 (US\$23,301) of cash consideration was paid in April 2015 and RMB122,788 (US\$18,955) was paid to an unconditional escrowed account, which will be settled on the required payment dates. The first deferred payment of RMB70,124 (US\$10,825) will be settled in March 2016 and was recorded in Accrued expenses and other current liabilities. The second and third deferred payments of RMB 49,592 (US\$7,656) and RMB3,072 (US\$474) will be settled in March 2017 and January 2019, respectively, and were recorded in Other non-current liabilities as of December 31, 2015.

(ii) RMB23,309 (US\$3,598) represented the fair value of 2,173,039 Class A ordinary shares issued by the Company on the acquisition date.

(iii) Part of the acquisition consideration is contingent on the achievement by MobPartner of certain financial targets from January 2015 to December 2016 and capped at RMB56,949 (US\$8,791) in total. The Group estimated and recognized a financial liability for the contingent consideration at its fair value of RMB17,202 (US\$2,656) as of the acquisition date. On December 15, 2015, the Company early settled the contingent consideration with Mobpartner's prior shareholders for RMB9,711 (US\$1,499) and recorded a gain of RMB8,439 (US\$1,303) in settlement and changes in fair value of contingent considerations in the consolidated statements of comprehensive income for the year ended December 31, 2015.

Since the acquisition, MobPartner contributed RMB155,053 (US\$23,936) revenues and RMB40,305 (US\$6,222) losses to the Group for the year ended 2015. Had the acquisition taken place at the beginning of the year, the revenue of the Group and the net income of the Group for the year ended December 31, 2015 would have been RMB3,745,048 (US\$578,136) and RMB172,947 (US\$26,698), respectively. The pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had the acquisition occurred as of January 1, 2015, nor is it indicative of future operating results.

Table of Contents*Acquisition of Moxiu Technology*

On May 28, 2015, the Group acquired an additional 1.6% equity interest of Moxiu Technology for a consideration of RMB25,000 (US\$3,859) 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 of Moxiu Technology. 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	US\$
Total purchase price comprised of:		
- Cash consideration	25,000	3,859
- Fair value of previously held equity interests(i)	63,488	9,801
Total	88,488	13,660

(i) A deemed disposal gain of RMB15,030 (US\$2,320) was recognized and recorded in other income in relation to the revaluation of the Group's previously held equity interest of Moxiu Technology in the consolidated statement of comprehensive income for year ended December 31, 2015. As Moxiu Technology is a private company, the fair value of the Group's previously held equity interest is estimated based on a discounted cash flow model using significant unobservable inputs that market participants would consider, which mainly include revenue growth rate, discount rate and discount for lack of control. The Group recognized a noncontrolling interest of RMB62,224 (US\$9,606) based on the fair value of noncontrolling interests at 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.

*Other acquisitions*

In 2015, the Group also completed other acquisitions for a total consideration of RMB37,581 (US\$5,802). 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	RMB	Total	US\$
Cash and bank balance	60,150	26,732		86,882		13,412
Accounts receivable	37,308	1,043		38,351		5,920

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Prepayments deposits and other current asset	1,091	767	33	1,891	292
Property and equipment, net	1,207	2,270		3,477	537
Other non-current assets	465	5,065		5,530	854
Accounts payable	(41,774)	(259)		(42,033)	(6,489)
Accrued expenses and other current liabilities	(7,633)	(7,361)		(14,994)	(2,315)
Other non-current liabilities	(10,028)			(10,028)	(1,548)
Intangible assets:					
- Trademark	13,515	6,000		19,515	3,013
- Technology		6,200	7,572	13,772	2,126
- User base		430	7,994	8,424	1,300
- Customer relationship	6,266			6,266	967
- Platform	67,579			67,579	10,432
Deferred tax liabilities	(29,117)	(1,895)		(31,012)	(4,787)
Goodwill	215,208	111,720	21,982	348,910	53,862
Total fair value of purchase price consideration	314,237	88,488	37,581	440,306	67,972
Fair value of noncontrolling interests		62,224		62,224	9,606

The Group performed the valuation of tangible assets, intangible assets acquired and liabilities assumed, fair value of noncontrolling interests and the fair value of contingent liabilities for the above business combinations with the assistance of an independent valuation firm. The valuation analysis utilized and considered the generally accepted valuation methodologies such as the income, market and cost approach. The Group has incorporated certain assumptions and inputs which include projected cash flows and replacement costs.

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

Table of Contents**Business combinations in 2014***Acquisition of the online lottery business*

On April 1, 2014, the Group through its wholly owned subsidiary 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 (i)	27,000
Contingent consideration in cash (ii)	3,963
Less: Prepaid employee compensation (iii)	(4,300)
Total fair value of purchase consideration	26,663

Details of the purchase consideration are as follows:

(i) RMB27,000 of cash consideration was paid in 2014.

(ii) The contingent consideration in cash are determined based on the achievement by the Online Lottery Business of certain financial targets from April 2014 to March 2016 and capped at RMB13,500 per assessment year. The Group paid off RMB9,698 (US\$1,497) contingent consideration in 2015 for the achievement of the first year financial targets. The Group recorded a loss of RMB8,342 and a gain of RMB2,606 (US\$402), respectively, resulted from the change in fair value of the contingent consideration liability for the years ended December 31, 2014 and 2015. There was no financial liability associated with the Online Lottery Business contingent consideration as of December 31, 2015, since the key performance indicators would not be achieved in the business suspending period.

(iii) The prepaid employee compensation represented part of consideration paid for post-acquisition services to be provided by two employees of the Online Lottery Business for a four year period pursuant to the acquisition agreement. The Group determined the fair value of the post-acquisition services at the acquisition date amounting to RMB4,300.

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 3,375 (US\$521) representing



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14.3% and 5.7% of equity interests of Suzhou JDD was contributed from this entity. RMB6,090 and RMB1,689 (US\$261) were recognized in noncontrolling interest and RMB660 and RMB1,686 (US\$260) were recognized in the additional paid in capital on the consolidated balance sheets as of December 31, 2014 and 2015, respectively.

During the years ended December 31, 2014 and 2015, the Group recognized an impairment of goodwill and intangible assets amounted to nil and RMB24,748 (US\$3,820) in the consolidated statements of comprehensive income due to its suspension on the online lottery sales in response to the PRC government's regulatory uncertainty.

Table of Contents**CHEETAH MOBILE INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015****(Amounts in thousands of Renminbi ( RMB ) and US dollars ( US\$ ), except for number of shares and per share (or ADS) data)***Acquisition of HK Zoom business*

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 US\$24,703 (equivalent to 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 Company's consolidated statements of comprehensive income. 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 (i)	123,284
Contingent consideration in cash (ii)	28,990
Total fair value of purchase consideration	152,274

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Details of the purchase consideration are as follows:

(i) US\$20,000 (equivalent to RMB123,284), of the above cash consideration was paid in 2014.

(ii) The contingent consideration in cash is determined based on the achievements by the HK Zoom Business of certain performance targets from June 2013 to May 2016 and capped at US\$3,000 per year. The Group recognized the fair value of the contingent consideration of RMB28,990 as a liability at the acquisition date and the loss resulted from the changes in fair value of the contingent consideration liability of RMB3,652 and RMB3,328 (US\$514) for the years ended December 31, 2014 and 2015, respectively. During 2014 and 2015, the Group settled contingent consideration of nil and RMB18,340 (US\$2,831), respectively. As of December 31, 2014 and 2015, the fair value of the contingent consideration liability of RMB32,416 and RMB18,383 (US\$2,838) was recorded in accrued expenses and other current liabilities and other non-current liabilities.

*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 US\$14,211 (equivalent to RMB87,655) in cash. The acquisition allows the Group to enhance the online marketing services and provide synergies with its existing business.

	RMB
Cash consideration (i)	102,390
Less: Prepaid employee compensation (ii)	(14,735)
Total fair value of purchase consideration	87,655

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Details of the purchase consideration are as follows:

(i) US\$16,600 (equivalent to RMB102,390) cash consideration was paid in 2014.

(ii) In accordance with the sale and purchase agreement, share-based compensation, consisting of the noncontrolling interests held by the selling shareholder and an employee of Youloft HK, was granted at acquisition date to be vested over the requisite service period. The noncontrolling interest would be sold at a predetermined exercise price back to the Group if the shareholder or the employee terminates his employment before the requisite service period. The Group, with the assistance of an independent third party valuation firm, determined the fair value of the share-based compensation to be RMB14,735. As of the acquisition date, the Group recorded RMB5,702 in the prepayments and other current assets and RMB9,033 in the other non-current assets. The net purchase consideration of the acquisition excluded such prepaid share-based compensation from the cash consideration paid.

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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	Total RMB
Cash and bank balance		13,768		13,768
Accounts receivable		11,170		11,170
Prepayments deposits and other receivables		39,659	24,672	64,331
Accrued expenses and other current liabilities		(56,408)		(56,408)
Property and equipment, net	817	132		949
Intangible assets:				
Technology	1,700	36,000	15,420	53,120
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	210,152
Total fair value of purchase price consideration	26,663	152,274	87,655	266,592
Fair value of noncontrolling interests			71,550	71,550

The Group performed the valuation of tangible assets, intangible assets acquired and liabilities assumed, fair value of noncontrolling interests and the fair value of contingent liabilities for the above business combinations with the assistance of an independent third party valuation firm. The valuation analysis utilized and considered the generally accepted valuation methodologies such as the income, market and cost approach. The Group has incorporated certain assumptions and inputs which include projected cash flows and replacement costs.

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

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**Business combinations in 2013**

*Acquisition of Antutu business*

On April 17, 2013, the Company acquired certain intellectual properties, customer relationship and key employees of Antutu Business ( Antutu Business ) from a third party for a cash consideration of RMB12,000, which was fully settled as of December 31, 2013. The acquisition is accounted for as a business combination. The acquisition allows the Group to enhance the mobile application and provides synergies with its existing business.

In addition, the Company granted 2,750,000 restricted shares, which was valued at US\$0.39 per share by the Company with the assistance of an independent third party valuation firm, to the seller of Antutu Business who became the Group's key employee after the acquisition. Since the restricted shares are linked to continuing employment of the key employees, they are accounted for as share-based compensation expenses. Any unvested restricted shares would be forfeited if the key employees cease their employment with the Group during the three years' service period commencing from the employment commencement date (note 17).

*Acquisition of Photo Grid business*

On May 20, 2013, the Company acquired certain intellectual properties, customer relationship and key employees of Photo Grid Business ( Photo Grid Business ) from a third party for a cash consideration of US\$6,600, which was fully settled as of December 31, 2013. The acquisition is accounted for as a business combination. The acquisition allows the Group to enhance the mobile application and provides synergies with existing business.

The contingent consideration in cash is determined based on the achievements by the Photo Grid Business of certain performance targets from June 2013 to May 2016 and capped at US\$800 per year. The Group recognized the fair value of the contingent consideration of RMB11,167 as a liability at the acquisition date and the loss resulted from the changes in fair value of the contingent consideration liability of RMB971, RMB1,755 and RMB707 (US\$109) for the years ended December 31, 2013, 2014 and 2015, respectively. During 2014 and 2015, the Group settled contingent consideration of RMB4,923 and RMB4,892 (US\$755), respectively. As of December 31, 2014 and 2015, the fair value of the contingent consideration liability of RMB8,870 and RMB4,955 (US\$765) was recorded in accrued expenses and other current liabilities .

During the year ended December 31, 2014, the Company granted 1,000,000 restricted shares to a selling shareholder who became the Group's key employee after the business combination, at the first anniversary of the employment commencement date at terms to be determined at such time.

The table below summarized the estimated fair values of the assets acquired and liabilities assumed from the 2013 acquisitions as of the respective acquisition dates:

	Antutu Business RMB	Photo Grid Business RMB	Total RMB
<b>Intangible assets:</b>			
Trademark	150		150
Technology	1,000	9,270	10,270
Customer relationship	2,383	11,154	13,537
Goodwill	8,467	31,528	39,995
Total fair value of purchase price consideration	12,000	51,952	63,952
<b>Satisfied by:</b>			
Cash consideration	12,000	40,785	52,785
Fair value of contingent consideration		11,167	11,167
	12,000	51,952	63,952

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 combinations with the assistance of an independent third party valuation firm. The valuation analysis utilized and considered the generally accepted valuation methodologies such as the income, market and cost approach. The Group has incorporated certain assumptions which include projected cash flows and replacement costs.

The goodwill arising from the above business combinations, which is not tax deductible is mainly attributable to (a) the assembled work force and (b) the expected but unidentifiable business growth of the Group as a result of the synergy resulting from the acquisition.

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## 4. INVESTMENTS

*(a) Short-term investments*

As of December 31, 2014 and 2015, short-term investments included fixed-rate time deposits in commercial banks, available-for-sale debt securities with a maturity of less than one year and available-for-sale equity securities that are expected to be sold within one year.

As of December 31, 2014 and 2015, the balance of fixed-rate time deposits was RMB428,330 and RMB29,234 (US\$4,513) , respectively.

For the years ended December 31, 2013, 2014 and 2015, interest income related to the fixed-rate time deposits of RMB2,479, RMB15,901 and RMB9,877 (US\$1,525), respectively, was recognized in the consolidated statements of comprehensive income.

The following is a summary of the available-for-sale securities as of December 31, 2014:

	As of December 31, 2014			
	Amortized Cost	Gross unrealized gains	Gross unrealized Losses	Fair value
	RMB	RMB	RMB	RMB
<b>Short-term investments:</b>				
Available-for-sale equity security	6,913			6,913
Available-for-sale debt securities	67,309	11,069		78,378
<b>Total</b>	<b>74,222</b>	<b>11,069</b>		<b>85,291</b>

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The short-term available-for-sale debt and equity securities were disposed during the year ended December 31, 2015. The balance was nil as of December 31, 2015. For the years ended December 31, 2013, 2014 and 2015, the Group recognized a realized gain on disposal of available-for-sale debt and equity securities of nil, RMB1,967 and RMB4,399 (US\$679), respectively, in other income in the consolidated statements of comprehensive income.

For the years ended December 31, 2013, 2014 and 2015, the Group recognized an impairment loss of available-for-sale equity security of nil, RMB8,664 and nil, respectively in the consolidated statements of comprehensive income.



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*(b) Long-term investments*

As of December 31, 2014 and 2015, long-term investments consisted of the following:

	2014	As of December 31,	
	RMB	RMB	2015 US\$
Cost method investments	151,395	652,124	100,671
Equity method investments	131,707	199,723	30,832
Available-for-sale equity securities	55,740	46,373	7,158
Total	338,842	898,220	138,661

*Cost method investments*

In 2015, the Group acquired: i) 2.8% equity interest of a third party mobile application developer at a cash consideration of RMB171,531 (US\$28,000), ii) 9.6% equity interest of a third-party mobile advertising software provider at a consideration of RMB122,896 (US\$20,000), 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 (US\$17,522), and iv) other equity interests in eleven internet companies for total consideration of RMB72,800 (US\$11,238).

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, nil and RMB6,031 (US\$931) in the consolidated statement of comprehensive income for the years ended December 31, 2013, 2014 and 2015, respectively. The

investment income of nil, nil and RMB700 (US\$108) was recognized in other income in the consolidated statements of comprehensive income for the years ended December 31, 2013, 2014 and 2015, respectively.

*Equity method investments*

On February 9, 2015, the Group acquired 51.73% of the equity interests in Dianjing Fund, L.P. ( Dianjing ) with a consideration of RMB45,000 (US\$6,947). Other than Dianjing, the Group also entered into investment agreements with eight internet companies and three limited partnerships to acquire approximately 5% to 50% of the equity interests in those companies during 2015, with aggregate consideration of RMB65,317 (US\$10,083), on which the Group has ability to exercise significant influence.

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. The acquisition was accounted for as a transaction under common control. The excess of the purchase consideration over the carrying amount of Kingsoft Japan ownership on the books of Kingsoft of RMB6,391 immediately before the transaction was recorded as a deemed distribution to Kingsoft amounting to RMB30,775 on the acquisition date. On October 10, 2014, the Group acquired additional 21.5% ordinary shares of Kingsoft Japan from a shareholder, for a purchase price of US\$9,967. The difference in the cost basis of the investment and the proportional interests in Kingsoft Japan was RMB51,782 as of December 31, 2014. In accordance with ASC 810, *Consolidation*, Kingsoft Japan is a variable interest entity, as it was established with legal structure with non-substantive voting rights. The maximum exposure to loss as a result of its involvement with Kingsoft Japan was RMB75,015 (US\$11,580) as of December 31, 2015 which also equals to the carrying amount of the investment. The Group is not considered as the primary beneficiary, as it does not have power to direct the activities of Kingsoft Japan that most significantly impact the Kingsoft Japan s economic performance.

During 2014, the Group also acquired 34% equity interest of an internet company and 6.7% interest of a limited partnership during 2014, with aggregate consideration of RMB3,000, on which the Group has ability to exercise significant influence.

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On February 11, 2014, the Group acquired 28.3% equity interests of Moxiu Technology with ability to exercise significant influence for a cash consideration of RMB20,000 and promotion resources (including but not limited to the advertisement space on the applications of the Group) with a value of approximately RMB5,000. On December 1, 2014, the Group acquired from a subsidiary of Tencent Holdings Limited ( Tencent ) an additional 22.2% equity interests of Moxiu Technology for a cash consideration of RMB30,000. Upon completion of this acquisition, the Group held 50.5% equity interests of Moxiu Technology. 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 and continued to have significant influence over Moxiu Technology. As disclosed in note 3, on May 28, 2015, the Group acquired an additional 1.6% equity interest of Moxiu Technology 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. The Group obtained the control and consolidate the financial statement of Moxiu Technology since May 28, 2015.

On April 18, 2013, the Group invested RMB3,600 cash and self-developed technologies with fair value of RMB6,000 and carrying value of nil in Beijing Security System Technology for its 40% equity interests. The Group performed the valuation with the assistance of an independent third party valuation firm. A partial deemed disposal gain on intangible asset of RMB3,600 was recognized for the year ended December 31, 2013. In June 2015, Beijing Security System Technology company received RMB44,500 (US\$6,870) capital contribution from a third company. The Group's equity interest percentage was diluted to 32%. Deemed disposal gain amounted to RMB13,798 (US\$2,130) was recognized and recorded in other income in consolidated statements of comprehensive income for the year ended December 31, 2015.

The Group recorded a loss of RMB1,849, RMB5,447 and RMB9,334 (US\$1,441) from equity method investments for the years ended December 31, 2013, 2014 and 2015, respectively. The Group also recognized impairment losses of nil, RMB472 and RMB2,806 (US\$433) for equity method investments in the consolidated statement of comprehensive income for the years ended December 31, 2013, 2014 and 2015, respectively. During the year ended December 31, 2015, the Group recognized disposal gain of RMB 13,626 (US\$2,103) due to the disposals of two equity method investees and a deemed disposal gain of RMB2,029 (US\$313) resulted from the additional capital contribution in an equity method investee from a third-party investor.

*Available-for-sale equity 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.

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The following is a summary of the available-for-sale securities as of December 31, 2014:

	<b>As of December 31, 2014</b>				
	<b>Amortized Cost RMB</b>	<b>Gross unrealized gains RMB</b>	<b>Gross unrealized Losses RMB</b>	<b>Fair value RMB</b>	<b>Fair value US\$</b>
Available-for-sale equity security	48,952	6,788		55,740	8,605

The following is a summary of the available-for-sale securities as of December 31, 2015:

	<b>As of December 31, 2015</b>				
	<b>Amortized Cost RMB</b>	<b>Gross unrealized gains RMB</b>	<b>Gross unrealized Losses RMB</b>	<b>Fair value RMB</b>	<b>Fair value US\$</b>
Available-for-sale equity security	24,555	21,818		46,373	7,158

For the years ended December 31, 2013, 2014 and 2015, the Group recognized an impairment loss on the long-term available-for-sale equity security of nil, nil and RMB25,891 (US\$3,997), respectively, in the consolidated statements of comprehensive income.

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## 5. ACCOUNTS RECEIVABLE, NET

	2014	As of December 31,	
	RMB	RMB	2015 US\$
Accounts receivable	263,577	638,148	98,513
Allowance for doubtful accounts	(3,230)	(17,592)	(2,716)
	<b>260,347</b>	<b>620,556</b>	<b>95,797</b>

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, 2014 and 2015, all accounts receivable were due from third party customers. The following table presents movement of the allowance for doubtful receivables:

	2014	As of December 31,	
	RMB	RMB	2015 US\$
Balance at the beginning of the year	72	3,230	499
Charged to general and administrative expenses	3,230	13,326	2,057
Additions in connection with business acquisition		729	113
Write-off during the year	(72)		
Foreign Exchange effect		307	47
Balance at the end of the year	<b>3,230</b>	<b>17,592</b>	<b>2,716</b>

## 6. PREPAYMENTS AND OTHER ASSETS

Prepayments and other current assets

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	As of December 31,		
	2014 RMB	2015 RMB	2015 US\$
VAT prepayments (i)		122,645	18,933
Other receivables from advertisers and payment service providers	64,905	101,829	15,720
Receivables from employees (ii)	27,899	28,928	4,466
Advances to suppliers (iii)	16,246	25,879	3,995
Prepaid expenses	11,692	24,133	3,725
Advances to employees	14,254	12,246	1,890
Prepaid deposits (iii)	21,179	10,915	1,685
Prepaid employees compensation	6,716	5,292	817
Deferred cost	4,061	4,894	756
Entrusted loan to a third party(iv)		3,000	463
Loans to investors of an equity investee (v)	2,765	2,765	427
Entrusted loan to an investor of an equity investee (vi)	4,000		
Others	6,312	16,105	2,486
<b>Total</b>	<b>180,029</b>	<b>358,631</b>	<b>55,363</b>

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(i) VAT prepayments as of December 31, 2015 represent VAT receivables from relevant PRC tax authorities arising from services which will be used to deduct future tax payable.

(ii) The amount represents receivable from certain employees related to the individual income tax ( IIT ) arising from the vested restricted shares and restricted shares with an option feature of the Company as of the end of the years presented.

(iii) As of December 31, 2014, provision for doubtful debts of RMB5,000 and RMB5,444 were made against the entrusted loan to a third party and advance to suppliers, respectively. As of December 31, 2015, provision of RMB6,481(US1,000) , RMB1,730(US267) and RMB1,759 (US\$272) were made against advance to suppliers, other receivables from advertisers and prepaid deposits , respectively. The following table presents movement of the allowance for doubtful debts:

	2014 RMB	RMB	2015	US\$
Balance at January 1,	11,160	10,444		1,612
Additions charged to general and administrative expenses	1,284	4,516		697
Reversal	(2,000)	(5,000)		(772)
Foreign exchange effect		10		2
Balance at December 31,	10,444	9,970		1,539

(iv) The loan bears an interest rate of 5% and the repayment is due in June 2016.

(v) Loans to investors of an equity investee amounting to RMB5,530 (US\$854) bear interest at rate reference to the market rate with 10% discount. The loans are repayable in four years. As of December 31, 2015, RMB2,765 (US\$427) of the loans were included in Other non-current assets in the consolidated balance sheets.

(vi) Entrusted loan to an investor of an equity investee amounting to RMB4,000 (US\$617) bears interest rate reference to the market rate with 10% discount and has been repaid in June 2015.

Other non-current assets

	2014	As of December 31,	
	RMB	RMB	2015 US\$
Loans to investors of an equity investee	2,765	2,765	427
Staff loan receivables	3,052	1,074	166
Compensation to key employees and other expenses (i)	9,049	4,417	682
Rental deposits	9,855	17,166	2,649
Investment prepayments (ii)	30,476		
	55,197	25,422	3,924

(i) The balance mainly represented non-current portion of compensation to key employees of Suzhou JDD of RMB1,385 (US\$214) and Youloft HK of RMB2,763 (US\$427), respectively.

(ii) Balance represents prepayment for certain investments and intangible assets which had not been completed as of December 31, 2014.



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## 7. PROPERTY AND EQUIPMENT, NET

	As of December 31,		
	2014 RMB	2015 RMB	2015 US\$
Electronic equipment	71,185	94,800	14,635
Leasehold improvements	10,657	55,794	8,613
Office equipment and fixtures	5,980	18,650	2,879
Motor vehicles	761	2,673	413
Construction in progress		1,322	204
Less: Accumulated depreciation	(42,678)	(53,910)	(8,323)
Property and equipment, net	45,905	119,329	18,421

Depreciation expense of property and equipment for the years ended December 31, 2013, 2014 and 2015 were RMB11,702, RMB21,684 and RMB25,636 (US\$3,958), respectively.

## 8. INTANGIBLE ASSETS, NET

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

	As of December 31, 2014			
	Gross carrying value RMB	Accumulated amortization RMB	Impairment RMB	Net carrying value RMB
Indefinite-lived:				
Trade name and domain names	2,161			2,161
Finite-lived:				
Technology	113,116	(36,027)		77,089
Online game licenses	65,726	(14,678)	(8,304)	42,744
Customer relationship	30,739	(3,901)		26,838

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User base	62,563	(23,750)		38,813
Trademark	10,432	(827)		9,605
Domain names	2,533	(239)		2,294
Non-compete agreements	1,610	(1,538)		72
	288,880	(80,960)	(8,304)	199,616

As of December 31, 2015

	Gross carrying value RMB	Accumulated amortization RMB	Impairment RMB	Net carrying value RMB	US\$
<b>Indefinite-lived:</b>					
Trade name and domain names	2,161			2,161	334
<b>Finite-lived:</b>					
Technology	174,851	(89,851)	(213)	84,787	13,088
Online game licenses	62,991	(30,039)	(25,639)	7,313	1,129
Customer relationship	39,385	(13,373)		26,012	4,016
User base	74,811	(50,216)		24,595	3,797
Trademark	30,726	(5,823)		24,903	3,844
Domain names	3,794	(1,471)	(789)	1,534	237
Non-compete agreements	1,610	(1,610)			
Platform	71,439	(10,715)		60,724	9,374
	461,768	(203,098)	(26,641)	232,029	35,819

The Group recognized an impairment loss on intangible assets of nil, RMB8,304 and RMB26,136 (US\$4,035) for the years ended December 31, 2013, 2014 and 2015, respectively .

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Amortization expense of intangible assets for the years ended December 31, 2013, 2014 and 2015 were RMB14,178, RMB57,066 and RMB120,521(US\$18,605), 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\$
2016	103,924	16,043
2017	58,210	8,986
2018	34,481	5,323
2019	20,698	3,195
2020	5,980	923
Thereafter	6,575	1,015

**9. GOODWILL**

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

	2014	2015	
	RMB	RMB	US\$
Balance as of January 1,	52,819	261,686	40,397
Goodwill acquired in business combinations (note 3)	210,152	348,910	53,862
Impairment of Goodwill		(23,746)	(3,665)
Foreign currency translation adjustments	(1,285)	26,370	4,071
Balance as of December 31,	261,686	613,220	94,665

During the year ended December 31, 2015, the Group recognized an impairment loss of RMB23,746 (US\$3,665) for the online lottery business reporting unit as the carrying amount exceeded its fair value due to the suspension of online lottery business in 2015.

**10. LOANS PAYABLE**

*Short-term loan*

On May 18, 2015, the Group entered into a revolving loan facility agreement ended March 31, 2016 with the Hang Seng Bank Limited ( Hang Seng ), pursuant to which the Group is entitled to borrow a US\$ denominated loan of RMB325,000 (US\$50,000) with an interest rate of 1.65% per annum over 1, 2, 3 or 6 months London Inter Bank Offered Rate ( LIBOR ). The loan facility is subject to Hang Seng 's overriding right of repayment on demand and the loan under this facility is intended for the general working capital of the Group. On November 20, 2015, the Group drew down RMB129,872 (US\$20,000) under the loan facility agreement with a revolving term of one month, which was secured by a pledge of bank deposit of RMB25,974 (US\$4,000).

*Long-term loans*

In November 2014, MobPartner entered into two loan agreements with Bpifrance Financement, pursuant to which Mobpartner borrowed two unsecured Euro denominated loans of RMB5,238 (Euro750) with a term of 7 years and RMB5,238 (Euro750) with a term of 6.75 years. The loans will be settled with a fixed annual interest rate of 3.23% and 2.59%, respectively, during the respective term of loans.

In January 2015, Mobpartner entered into a loan agreement with Hongkong and Shanghai Banking Corporation Limited (France branch) ( HSBC ), pursuant to which Mobpartner borrowed an unsecured Euro denominated loan of RMB566 (Euro81) with a term of 4 years. The loan is settled with a fixed annual interest rate of 2.26%. The Company had repaid RMB 118 (Euro16) of principals as of December 31, 2015.

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## 11. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other current liabilities

	As of December 31,		
	2014 RMB	2015 RMB	2015 US\$
Payable to online network providers	127,247	356,647	55,057
Accrued advertising, marketing and promotional expenses	62,522	252,588	38,993
Salary and welfare payable	105,433	168,723	26,046
Accrued operating expenses	30,248	131,471	20,296
Payable for acquisitions		88,054	13,593
Other taxes payable	27,629	73,666	11,372
Accrued data center expenses	23,783	69,482	10,726
Payables for purchase of property and equipment	755	43,740	6,752
Deposits from advertisers	34,358	33,258	5,134
Payable for contingent considerations (note 3)	31,318	23,338	3,603
Advances from customers	18,192	22,769	3,515
Advance from end users	6,980	14,019	2,164
Others	13,229	19,533	3,015
Total	481,694	1,297,288	200,266

Other non-current liabilities

	As of December. 31,		
	2014 RMB	2015 RMB	2015 US\$
Payable for contingent considerations (note 3)	22,274		
Payable for acquisitions		55,665	8,593
FIN48 liabilities (note 15)	7,251	18,161	2,804
Total	29,525	73,826	11,397



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## 12. DEFERRED REVENUE

	2014 RMB	As of December 31,		US\$
		2014 RMB	2015	
<b>Current:</b>				
Deferred revenue from customers	41,780	44,604		6,886
Deferred government subsidies	2,400	9,551		1,474
	44,180	54,155		8,360
<b>Non-current:</b>				
Deferred revenue from customers	1,122	1,477		228
Deferred government subsidies	12	1,000		154
	1,134	2,477		382

## 13. REVENUES

	2013 RMB	Years ended December 31,			US\$
		2013 RMB	2014 RMB	2015	
Online marketing services	612,565	1,322,612	3,244,130		500,807
Internet value-added services	83,155	400,671	395,312		61,026
Internet security services and others	54,191	40,296	44,987		6,945
	749,911	1,763,579	3,684,429		568,778

## 14. GEOGRAPHICAL INFORMATION

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

2013 RMB	For the years ended December 31,			2015	US\$
	2013 RMB	2014 RMB	2014 RMB		

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Revenue				
PRC	739,412	1,541,699	1,842,893	284,494
Non-PRC	10,499	221,880	1,841,536	284,284

	As of December 31,		
	2014	2015	
	RMB	RMB	US\$
Property and equipment, net			
PRC	45,349	116,787	18,029
Non-PRC	556	2,542	392

**15. INCOME TAXES**

The Company is incorporated in the Cayman Islands and conducts its primary business operations through its subsidiaries, VIEs and a VIE s subsidiary in the PRC. It also has subsidiaries in the BVI, the United States, Hong Kong, Singapore, France and UK.

*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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*British Virgin Islands*

Under the current laws of the BVI, the Company's BVI incorporated subsidiary is not subject to tax on income or capital gains arising in BVI. In addition, upon payments of dividends by this entity to its shareholder, no BVI withholding tax will be imposed.

*The United States*

Cheetah Mobile America and Mob Inc. are incorporated in the United States and are subject to federal income tax rate of 35%.

*Hong Kong*

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

*Singapore*

Cheetah Mobile Singapore Pte. Ltd. is incorporated in Singapore and is subject to Singapore corporate income tax rate of 17%.

*France*

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MobPartner is incorporated in France and is subject to French corporate tax rate of 33.33%.

### *The United Kingdom*

MobPartner UK Ltd. ( MobPartner UK ) is incorporated in the United Kingdom and is subject to UK corporate income tax rate of 20%.

### *PRC*

The Company's subsidiaries in the PRC, the VIEs and a VIE's subsidiary 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. Zhuhai Juntian, Beijing Security, Conew Network and Beijing Mobile, being qualified new software development enterprises, started each of their 2+3 tax holidays in 2009, 2010, 2013 and 2013, respectively. Further, Zhuhai Juntian and Beijing Security, being qualified High New Technology Enterprise ( HNTE ) approved in 2013 and 2014, respectively, are entitled to the preferential tax rate of 15% for 2015.

In summary, the following preferential tax rates are noted:

Zhuhai Juntian is subject to income tax at 12.5% for 2013, and at 15% for 2014 and 2015;

Beijing Security is subject to income tax at 12.5% for 2013 and 2014, and at 15% for 2015; and

Conew Network and Beijing Mobile are tax exempted for 2013 and 2014, and are subject to income tax at 12.5% from 2015 to 2017.

Without the tax holidays, the Group's income tax expenses would have increased by RMB4,430, RMB40,509 and RMB 21,301 (US\$3,288) for the years ended December 31, 2013, 2014 and 2015, respectively. The impacts of the tax holidays on the basic earnings per ordinary share were an increase of RMB0.0041 and RMB0.0314 and RMB 0.0155 (US\$0.0024) for the years ended December 31, 2013 and 2014 and 2015, 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 treaty with certain jurisdictions.

Income before income taxes consists of:

	Year ended December 31,			2015	US\$
	2013 RMB	2014 RMB	RMB		
PRC	124,154	218,060	154,095		23,788
Non-PRC	(13,466)	(127,156)	77,280		11,929
Total	110,688	90,904	231,375		35,717

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The current and deferred portions of income tax expense included in the consolidated statements of comprehensive income are as follows:

	Year ended December 31,			
	2013 RMB	2014 RMB	2015 RMB	US\$
Current income tax expenses	14,760	11,087	67,059	10,352
Deferred income tax expenses	33,910	12,906	(6,962)	(1,075)
Income tax expenses for the year	48,670	23,993	60,097	9,277

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,			
	2013 RMB	2014 RMB	2015 RMB	US\$
Income before income tax	110,688	90,904	231,375	35,717
Income tax expense computed at the PRC statutory tax rate of 25%	27,672	22,727	57,844	8,929
Effect of different tax rates in different jurisdictions	2,350	15,877	(23,284)	(3,594)
Effect of tax holiday and preferential tax rates	(4,885)	(54,944)	(35,434)	(5,470)
Research and development super-deduction	(19,140)	(37,483)	(47,179)	(7,283)
Non-deductible expenses(i)	10,354	50,150	82,455	12,729
Effect of change in tax rate		(8,795)	1,464	226
Outside basis difference on investment in a VIE	33,910	15,821	11,378	1,756
Withholding tax and others	191	1,844	7,906	1,220
Changes in valuation allowance	(1,782)	18,796	4,947	764
Income tax expenses	48,670	23,993	60,097	9,277

(i) Non-deductible expenses mainly consist of share-based compensation expenses, entertainments and other expenses that exceed the allowable deduction limits.



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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, 2014 and 2015 are as follows:

	2014 RMB	As of December 31,	
		2014 RMB	2015 US\$
<b>Deferred tax assets, current portion:</b>			
Deferred revenue	656	1,493	230
Provision for doubtful debts	3,866	14,280	2,204
Tax loss carry forward	15,600	96	15
Others	686	1,251	193
Less: Valuation allowance	(18,115)	(13,166)	(2,032)
<b>Current deferred tax assets</b>	<b>2,693</b>	<b>3,954</b>	<b>610</b>
<b>Deferred tax assets, non-current portion:</b>			
Deferred revenue	111		
Intangible assets and prepaid expense	4,403	4,586	708
Foreign tax credit	960	1,222	189
Equity investment loss (gain)	1,402	(908)	(140)
Contingent consideration	2,085	1,434	221
Tax loss carry forward	8,051	27,517	4,248
Others	650	458	71
Less: Valuation allowance	(11,278)	(21,466)	(3,314)
<b>Non-current deferred tax assets</b>	<b>6,384</b>	<b>12,843</b>	<b>1,983</b>
<b>Deferred tax liabilities, current portion:</b>			
Long-lived assets arising from acquisitions		414	64
<b>Current deferred tax liabilities</b>		<b>414</b>	<b>64</b>
<b>Deferred tax liabilities, non-current portion:</b>			
Long-lived assets arising from acquisitions	16,259	37,897	5,850
Outside basis difference on investment in a VIE	49,732	61,109	9,434
<b>Non-current deferred tax liabilities</b>	<b>65,991</b>	<b>99,006</b>	<b>15,284</b>

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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, 2014 and 2015, the Group's total deferred tax assets before valuation allowances were RMB38,470 and RMB51,429 (US\$7,939), respectively. As of December 31, 2014 and 2015, the Group recorded valuation allowances of RMB29,393 and RMB34,632 (US\$5,346), 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 RMB326,199 and RMB 588,704 (US\$90,880) on December 31, 2014 and 2015, 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 Company 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 RMB16,310 to RMB32,620 and RMB 29,435 (US\$4,544) to RMB58,870 (US\$9,088) as of December 31, 2014 and 2015, respectively.

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Taxable outside basis differences are noted in the Company'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 a VIE .

As of December 31, 2015, the Group had net operating losses of approximately RMB102,934 (US\$15,890) deriving from entities in the PRC, Hong Kong, France, UK, USA, and Singapore, which can be carried forward per tax regulation to offset future net profit for income tax purposes. The PRC net operating loss will expire from 2016 to 2021; the USA net operating loss will expire from 2035 to 2036; the Hong Kong, France, UK, and Singapore net operating loss can be carried forward without an expiration date.

As of December 31, 2015, the Group had foreign tax credit of approximately RMB1,222 (US\$189), which can be carried forward to offset tax payable. The foreign tax credit will start to expire from 2016 to 2021, if not utilized.

***Unrecognized tax benefits***

As of December 31, 2014 and 2015, the Group had unrecognized tax benefits of RMB16,046 and RMB46,615 (US\$7,196), respectively, of which RMB8,973 and RMB29,948 (US\$4,623), respectively, were deducted against the deferred tax assets on tax losses carry forward, and the remaining amounts of RMB7,073 and RMB16,667 (US\$2,573), respectively were presented in the other non-current liabilities line item in the consolidated balance sheets. The Group's unrecognized tax benefits for the year ended December 31, 2015 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, 2014 and 2015, there are RMB7,073 and RMB16,667 (US\$2,573) 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:

**As of December 31,**



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	2014 RMB	RMB	2015 US\$
Balance at January 1	3,212	16,046	2,477
Additions based on tax positions related to the current year	12,834	30,569	4,719
Balance at December 31	16,046	46,615	7,196

The Group recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expenses. During the years ended December 31, 2014 and 2015, the Group recognized approximately RMB755 and RMB 638 (US\$98) in interest and nil in penalties. The Group had approximately RMB856 and RMB1,494(US\$231) accrued interest at December 31, 2014 and 2015, respectively.

As of December 31, 2015, the tax years ended December 31, 2010 through 2015 for the Group's subsidiaries in the PRC and the VIEs are generally subject to examination by the PRC tax authorities.

The Company revised the comparatives in the footnote disclosure of its PRC and non-PRC components of income before income taxes, effective tax rate reconciliation and tabular reconciliation of unrecognized tax benefits to conform with the current year presentation. The revised presentation in prior years had no impact on any line items within the consolidated balance sheet as of December 31, 2014, and the related consolidated statements of comprehensive income, cash flows and shareholders' equity for the years ended December 31, 2013 and 2014.

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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 )  
Kingsoft Japan  
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

*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  
Beijing Shangyao World Technology Co., Ltd.  
Wuhan Antian Information Technology Co., Ltd.  
Baomi Information Technology(Shanghai) Co., Ltd.



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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, 2013, 2014 and 2015:

		RMB	RMB	RMB	US\$
<i>Corporate, technical support and leasing services received from:</i>	(i)				
Entities controlled by Kingsoft		5,757	6,097	5,639	871
<i>Licensing fees paid to:</i>	(ii)				
Entities controlled by Kingsoft		8,400	2,100		
<i>Sub-licensing revenue received from:</i>	(iii)				
Entities controlled by Kingsoft		3,381	4,008	5,850	903
<i>Software upgrade services provided to:</i>	(iv)				
An entity controlled by Kingsoft		233			
<i>Transfer of fixed assets, technology know-how, trademarks and other intellectual properties from:</i>	(v)				
An equity investee		1,900			
Entities controlled by Kingsoft		2,000	13,580		
<i>Promotion services received from:</i>	(vi)				
Entities controlled by Kingsoft		257	24,455	47,743	7,370
An entity controlled by a director of the Company			2,924	47,826	7,383
An entity controlled by a shareholder of the Company				41,599	6,422
An equity investee			552	1	
<i>Online marketing services provided to:</i>	(vii)				
Entities controlled by a shareholder of the Company		104,078	78,432	293,510	45,310
An entity controlled by a director of the Company		2,737	4,081	117	18
Entities controlled by Kingsoft		789	1,653	8,087	1,248
Equity investees			532	58	9
<i>Research and development services received from:</i>	(viii)				
An equity investee		1,333	4,000	4,500	695
<i>Purchase of consumables from:</i>	(ix)				
An entity controlled by a director of the Company		1,173	2,398	1,442	223
An equity investee				201	31
<i>Payment of revenue sharing for online games operations:</i>	(x)				
Entities controlled by Kingsoft			2,318	1,786	276
An entity controlled by a director of the Company			3,084	3,089	477
An equity investee			50		
	(xi)				

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<i>Purchase of exclusive online game operating license</i>			
<i>from:</i>			
Entities controlled by Kingsoft		13,944	
<i>Online games operating revenue received from:</i>	(xii)		
An entity controlled by a director of the Company		1,514	2,477
<i>Acquisition of equity method investments from:</i>	(xiii)		382
Kingsoft		36,977	
An entity controlled by a shareholder of the Company		30,000	
<i>Sales of products to:</i>	(xiv)		
An equity investee			12,701
			1,961

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- 
- (i) In 2013, 2014 and 2015, the Group entered into agreements with certain entities controlled by Kingsoft, 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.
- (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. The license fees were recognized in the consolidated statements of comprehensive income.
- (iii) In 2009, the Group entered into an exclusive licensing agreement with an entity controlled by Kingsoft, pursuant to which, the entity is granted the exclusive right to use certain internet security software within Japan until November 30, 2015. In November 2013, the Group entered into a framework licensing agreement with the entity to supplement and amend provisions to the original exclusive licensing agreement which primarily to amend the revenue arrangement between the parties. The legal terms and conditions related to share of revenue from mobile related licensing are retroactively effective from January 1, 2013. . In December 2015, the Group entered into a supplemental licensing agreement with the entity to extended the service to December 31,2016. 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.
- (iv) In 2009, the Group entered into an agreement with an entity controlled by Kingsoft to provide upgrade services to the licensed software during the licensing period. The software upgrade service revenues were recognized in the consolidated statements of comprehensive income.
- (v) In 2013, the Group purchased certain fixed assets and software products from an equity investee and an entity controlled by Kingsoft for a cash consideration of RMB1,900 and RMB2,000, respectively. 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 .
- (vi) In 2013, 2014 and 2015, the Group entered into agreements with entities controlled by Kingsoft, an entity controlled by a director of the Company, an entity controlled by a shareholder of the Company and an equity investee for promotion services ranging from three months to one year. The promotion service fees were recognized in the consolidated statements of comprehensive income.
- (vii) On September 27, 2012, the Group entered into a framework agreement with an entity controlled by a shareholder of the Company to provide various forms of online marketing services to this entity. The term of the framework agreement commenced from January 1, 2011 to October 31, 2013. In 2013, 2014 and 2015, the Group entered into a series of agreements with an entity controlled by a director of the Company, entities controlled by a shareholder of the Company, entities controlled by Kingsoft and equity investees to provide online marketing services. These online marketing revenues were recognized in the consolidated statements of comprehensive income.
- (viii) In 2013, the Group entered into an agreement with an equity investee for research and development services. In January 2014 and January 2015, the Group entered into authorization and licensing agreement with the entity to obtain rights to use certain product technology for an amount of RMB4,000 and RMB4,500(US\$695) for the year 2014 and 2015, respectively. The research and development expenses were recognized in the consolidated statements of comprehensive income.
- (ix) In 2013, 2014 and 2015, the Group purchased smartphones and other consumables from an entity controlled by a director of the Company and an equity investee of the Company and recognized as property and equipment.

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- (x) In 2014 and 2015, the Group entered into agreements and supplemental agreements with entities controlled by Kingsoft, an entity controlled by a director of the Company and an equity investee to obtain the right to operate certain online games developed by these entities. The percentages of revenue sharing to these entities were ranging from 20% to 70% and for a term from one year to two years. The amount incurred arising from the revenue sharing were recognized in the consolidated statements of comprehensive income.
- (xi) 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.
- (xii) In July 2014, the Group entered into non-exclusive games agreements with an entity controlled by a director of the Company and the revenue from the operation of the games is allocated based on a rate agreed in the agreements. In 2015, the Group entered into non-exclusive games agreements and supplemental agreements with an entity controlled by a director of the Company. The revenues allocated to the Group were recognized in the consolidated statements of comprehensive income.
- (xiii) In March 2014, the Group entered into an equity transfer agreement with Kingsoft to purchase 20% ordinary shares of Kingsoft Japan, for an aggregate purchase price of JPY614 million (note 4). 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)
- (xiv) In 2015, the Group entered into a series of agreements with an equity investee to sell air purifier for an amount of RMB12,701(US\$1,961).The sales of the purifiers were recognized in the consolidated statements of comprehensive income.

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c) The balances between the Group and its related parties as of December 31, 2014 and 2015 are listed below:

(1) *Amount due from related parties*

	2014	As of December 31,	
	RMB	RMB	2015 US\$
Kingsoft	9,892	13,977	2,158
Entities controlled by a shareholder of the Company	28,324	36,639	5,656
Entities controlled by Kingsoft	3,789	3,593	555
Entities controlled by a director of the Company	1,519	2,287	353
Equity investees	46	7,266	1,121
Total	43,570	63,762	9,843

(2) *Amount due to related parties*

	2014	As of December 31,	
	RMB	RMB	2015 US\$
Kingsoft	369	589	91
Entities controlled by Kingsoft	27,167	22,494	3,472
Entities controlled by a director of the Company	1,387	23,421	3,616
Entities controlled by a shareholder of the Company	961	16,039	2,476
Equity investees	1	37	6
Total	29,885	62,580	9,661

All the balances with related parties as of December 31, 2014 and 2015 were unsecured, non-interest bearing and repayable on demand.



d) On January 14, 2011, the Group entered into a loan framework contract with Kingsoft, pursuant to which Kingsoft shall provide the Group with the necessary funding in an aggregate amount not exceeding RMB110,000 (US\$16,981). The interest rate payable on the loan is 90% of the interest rate as promulgated by the People's Bank of China for loans of the same class and for the same period or other fair market loan interest rate. As of December 31, 2014 and 2015, the Group has not drawn any loan from Kingsoft.

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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 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. As of December 31, 2015, the share awards granted under 2014 Restricted Shares Plan had vesting terms of no longer than 5 years from the date of grant. The following table summarizes the Group's restricted shares with an option feature activity under the 2014 Restricted Shares Plan during the year ended December 31, 2015:

	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, 2015					
Granted	20,808,900	0.30	2.21		
Forfeited	(811,000)	0.34	2.30		
Exercised	(200,000)		2.58		
Outstanding at December 31, 2015	19,797,900	0.30	2.20	8.31	25,801
Vested and expected to vest at December 31, 2015	17,358,555	0.29	2.23	8.31	22,692
Exercisable as at December 31, 2015	584,000	0.00	2.58	8.31	934

Total intrinsic value of restricted shares with an option feature exercised for the year ended December 31, 2015 was RMB2,028 (US\$313).

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 2015:

	Year ended December 31, 2015
Fair value of ordinary share (US\$)	1.60~2.58
Risk-free interest rates	2.68%~2.97%
Expected volatility range	53.1%~63.3%
Expected dividend yield	0%
Expected exercise multiple	2.2
Fair value per option granted (US\$)	1.17~2.58

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 RMB71,772 (US\$11,080) for the year ended December 31, 2015.

As of December 31, 2015, 200,000 Class A ordinary shares were issued and outstanding for the exercised share awards under the 2014 Restricted Shares Plan.

As of December 31, 2015, there was RMB177,524 (US\$27,405) 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 2.48 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. 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, 2015, 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, 2015:

	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, 2015	55,292,131	0.34	1.03	9.01	64,802
Granted	11,005,000	0.31	2.16		
Forfeited	(3,087,000)	0.34	1.25		
Exercised	(1,889,800)	0.34	0.93		
Outstanding at December 31, 2015	61,320,331	0.33	1.23	8.01	77,726
Vested and expected to vest at December 31, 2015	59,733,636	0.33	1.22	8.01	75,704
Exercisable as at December 31, 2015	10,023,493	0.33	1.09	8.01	12,752

Total intrinsic value of restricted shares with an option feature exercised for the year ended December 31, 2015 was RMB26,613 (US\$4,108).

The grant date fair value of each restricted shares 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 2015:

	Year ended December 31, 2015
Fair value of ordinary share (US\$)	1.45~2.87
Risk-free interest rates	2.40%~2.99%
Expected volatility range	52.6%~63.8%
Expected dividend yield	0%
Expected exercise multiple	2.2
Fair value per option granted (US\$)	1.16~2.58

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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 2013 Incentive Scheme amounted to nil, RMB126,399 and RMB139,422(US\$21,523) for the years ended December 31, 2013, 2014 and 2015, respectively.

As of December 31, 2014 and 2015, 1,000 and 1,890,800 Class A ordinary shares were issued and outstanding for the exercised share awards under the 2013 Incentive Scheme, respectively.

As of December 31, 2015, there was RMB210,455 (US\$32,489) 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 2.41 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, 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, 2015, 1,273,840 (2014: 5,270,620) 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, 2014 and 2015 were and RMB520 and RMB474(US\$73), 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. The change in the fair value of the

redemption right liability of RMB24 (US\$4) was recorded as share-based compensation expenses and RMB22 (US\$3) 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, 2015:

	Number of ordinary shares	Weighted average grant date fair value (US\$)
Unvested at January 1, 2015	38,398,753	0.55
Granted	6,380,530	1.91
Vested	(20,192,560)	0.36
Forfeited	(2,383,750)	0.63
Unvested at December 31, 2015	22,202,973	1.11

Share-based compensation expenses recorded in respect of the 2011 Share Award Scheme amounted to RMB35,527, RMB41,259 and RMB72,535 (US\$11,197) for the years ended December 31, 2013, 2014 and 2015, respectively.

As of December 31, 2015, the total estimated unrecognized share-based compensation expenses related to restricted shares awarded to employees pursuant to the 2011 Share Award Scheme amounted to RMB68,582 (US\$10,587), net of estimated forfeitures, and is expected to be recognized over a weighted-average period of 1.92 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, 2013, 2014 and 2015 were RMB74,962, RMB243,214 and RMB301,715 (US\$46,577), 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, 2015:

	Number of ordinary shares	Weighted average grant date fair value (US\$)
Unvested at January 1, 2015		
Granted	4,627,940	2.26
Vested	(926,023)	2.17
Forfeited	(11,250)	2.58
Unvested at December 31, 2015	3,690,667	2.28

Share-based compensation expenses recorded in respect of the Other Share Incentive Award amounted to nil, nil and RMB24,926 (US\$3,848) for the years ended December 31, 2013, 2014 and 2015, respectively.

As of December 31, 2015, the total estimated unrecognized share-based compensation expenses related to the Other Share Incentive Award to grantees amounted to RMB25,993 (US\$4,013), net of estimated forfeitures, and is expected to be recognized over a weighted-average period of 1.57 years. Total unrecognized share-based compensation expenses may be adjusted for future changes in estimated forfeitures.

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The total fair value of vested restricted shares on their respective vesting dates during the years ended December 31, 2013, 2014 and 2015 were nil, nil and RMB12,247 (US\$1,891), 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, 2015, is presented below:

	Number of Kingsoft ordinary shares	Weighted average grant date fair value (US\$)
Unvested at January 1, 2015	2,209,000	1.73
Granted	63,000	2.9
Vested	(439,000)	0.5
Forfeited	(496,000)	2.5
Unvested at December 31, 2015	1,337,000	1.9

Share-based compensation expenses recorded in respect of the Kingsoft Share Award Scheme amounted to RMB1,869, RMB5,616 and RMB5,525 (US\$853) for the years ended December 31, 2013, 2014 and 2015, respectively.

As of December 31, 2015, 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 RMB3,755 (US\$580), net of estimated forfeitures, and is expected to be recognized over a weighted-average period of 0.88 years.

The total fair value of vested awarded shares on their respective vesting dates during the years ended December 31, 2013, 2014 and 2015 were RMB11,240, RMB18,560 and RMB28,991 (US\$4,475), respectively.

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*A Subsidiary s incentive compensation*

Moxiu Technology, a subsidiary acquired by the Group in 2015, adopted its own equity incentive awards plan. The share-based compensation expenses recognized since the acquisition and the unrecognized share-based compensation as of December 31, 2015 were insignificant.

Total share-based compensation expenses recorded by the Group are as follows:

	Years ended December 31,			
	2013 RMB	2014 RMB	2015 RMB	2015 US\$
Cost of revenues	10	1,393	1,523	235
Research and development	14,520	51,176	142,682	22,026
Selling and marketing	2,835	7,407	18,068	2,789
General and administrative	20,031	113,298	153,134	23,640
	37,396	173,274	315,407	48,690

**18. COMMITMENTS AND CONTINGENCIES***Operating lease commitments*

The Group leases facilities in the PRC 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 RMB78,386 (US\$12, 101) for the year ended December 31, 2015. Total other operating lease expenses were RMB220,770 (US\$34,081) for the year ended December 31, 2015.

The Group s lease arrangements have no renewal options, rent escalation clauses and restriction or contingent rents.

Future minimum payments under non-cancelable operating leases with initial terms of one-year or more consist of the following as of December 31, 2015:

	RMB	US\$
2016	163,683	25,268
2017	62,023	9,575
2018	56,889	8,782
2019	52,405	8,090
2020	36,604	5,651
Thereafter	1,830	283
	373,434	57,649

*Licensing fee commitments:*

The Group entered into authorization and licensing agreements to substantiate its research and developing activities with terms of three years in 2013. The Group entered into authorization and licensing agreements of an online game with terms of two years in 2015. As of December 31, 2015, total licensing fee commitments were as follows:

	RMB	US\$
2016	2,222	342
2017 and thereafter	2,222	342

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*Provision of loan facility*

On March 13, 2013, Beijing Security entered into a loan facility of RMB10,000 at an interest rate with reference to the market rate with 10% discount to an equity method investee, Beijing Security System Technology, to provide financial support to Beijing Security System Technology should it be required for its operations. As of December 31, 2015, the credit facility was not drawn by Beijing Security System Technology.

*Litigation*

The Group is involved in several other proceeding as of December 31, 2014 and 2015 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 not reasonably likely to have a material adverse effect on the Group's consolidated results of operations, financial position and cash flows.

**19. SHAREHOLDERS' EQUITY**

*Ordinary shares*

Upon completion of the Company's initial public offering ( IPO ) in May 2014, 224,905,170 Class B ordinary shares were issued upon conversion of all convertible preferred shares. In addition, 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 86,330,627 and 691,000,000 Class B ordinary shares transferred to Class A ordinary shares in the year ended December 31, 2014 and 2015, respectively.

As of December 31, 2014, there were 260,045,912 and 1,095,456,652 Class A and Class B ordinary shares outstanding and no preferred shares issued and outstanding. As of December 31, 2015, there were 350,398,737 and 1,035,037,339 Class A and Class B ordinary shares outstanding and no preferred shares issued and 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. Zhuhai Juntian, Conew Network and Chongqing Calendar were established as a foreign invested enterprise and therefore are subject to the above mandated restrictions on distributable profits.

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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 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. Beijing Security, Beijing Conew, Beike Internet, Beijing Network, Beijing Antutu, Suzhou JDD and Guangzhou Kingsoft were established as domestic invested enterprises and therefore are subject to the above mandated restrictions on distributable profits.

	2014	As of December 31,		
	RMB	RMB	2015	US\$
PRC statutory reserve funds	25,762	27,121		4,187
Unreserved retained earnings	116,998	292,235		45,112
Total retained earnings	142,760	319,356		49,299

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. Amounts of net assets restricted included paid-in capital and statutory reserve funds of the Company's subsidiaries in the PRC and the net assets of the VIEs in which the Company has no legal ownership, which amounted to RMB432,351 and RMB1,027,423 (US\$158,607), as of December 31, 2014 and 2015, respectively.

Furthermore, cash transfers from the Company's subsidiaries in the PRC to its subsidiaries outside of China are subject to PRC government control of currency conversion. Shortages in the availability of foreign currency may restrict the ability of the subsidiaries in the PRC and VIEs to remit sufficient foreign currency to pay dividends or other payments to the Company, or otherwise satisfy their foreign currency denominated obligations.

***Accumulated other comprehensive income***

The components of accumulated other comprehensive income is as follows:

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	Foreign currency translation adjustment RMB	Unrealized gains on available-for sale investments RMB	Total RMB
Balance at January 1, 2013	(1,603)		(1,603)
Other comprehensive income (loss) before reclassification	(6,087)	20,929	14,842
Balance at December 31, 2013	(7,690)	20,929	13,239
Other comprehensive income (loss) before reclassification	(6,960)	(24,125)	(31,085)
Amounts reclassified from accumulated other comprehensive income		21,121	21,121
Other comprehensive loss attribute to noncontrolling interests	98		98
Balance at December 31, 2014	(14,552)	17,925	3,373
Other comprehensive income (loss) before reclassification	117,977	9,729	127,706
Amounts reclassified from accumulated other comprehensive income		(6,814)	(6,814)
Other comprehensive loss attribute to noncontrolling interests	(470)		(470)
Balance at December 31, 2015	102,955	20,840	123,795
Balance at December 31, 2015, in US\$	15,894	3,217	19,111

There was no tax expense or benefit recognized related to the changes of each component of accumulated other comprehensive income during the years ended December 31, 2014 and 2015.



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## 20. EARNINGS PER SHARE

Basic and diluted earnings per share for each of the years presented are calculated as follows:

	2013	2014	Year ended December 31,		2015	
			Class A ordinary shares RMB	Class A ordinary shares US\$		
<b>Earnings per share-basic</b>						
<b>Numerator:</b>						
Net income attributable to Cheetah Mobile Inc.	62,018	67,941	40,420	6,240	136,176	21,022
Allocation of net income attributable to Series A Preferred Shareholders	(5,807)	(1,879)				
Allocation of net income attributable to Series B Preferred Shareholders	(3,521)	(2,247)				
Allocation of net income attributable to ordinary shareholders	52,690	63,815	40,420	6,240	136,176	21,022
<b>Denominator:</b>						
Weighted average number of ordinary shares outstanding	929,119,153	1,210,501,020	314,229,617	314,229,617	1,058,633,704	1,058,633,704
Earnings per share basic	0.0567	0.0527	0.1286	0.0199	0.1286	0.0199

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	Years ended December 31,					
	2013	2014	2015		2015	2015
	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 per share diluted</b>						
<b>Numerator:</b>						
Allocation of net income attributable to ordinary shareholders	52,690	63,815	43,041	6,644	133,555	20,617
Reallocation of net income attributable to ordinary shareholders as a result of conversion of Series A Preferred Shares to ordinary shares	5,807	1,879				
Reallocation of net income attributable to ordinary shareholders as a result of conversion of Series B Preferred Shares to ordinary shares	3,521	2,247				
Change in share-based compensation expense due to remeasurement of the redemption right granted to employees	(887)					
Reallocation of net income as a result of conversion of Class B into Class A ordinary shares			133,555	20,617		
Net income attributable to ordinary shareholders	61,131	67,941	176,596	27,261	133,555	20,617
<b>Denominator:</b>						
Weighted average ordinary shares outstanding	929,119,153	1,210,501,020	314,229,617	314,229,617	1,058,633,704	1,058,633,704
Conversion of Series A Preferred Shares to ordinary shares	102,409,639	35,632,943				
Conversion of Series B Preferred Shares to ordinary shares	62,086,776	42,621,733				

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Dilutive effect of Restricted Shares	42,367,385	43,813,545	858,757	858,757	20,425,559	20,425,559
Dilutive effect of restricted shares with an option feature		9,163,216	32,663,302	32,663,302		
Conversion of Class B into Class A ordinary shares			1,079,059,263	1,079,059,263		
Denominator used for earnings per share	1,135,982,953	1,341,732,457	1,426,810,939	1,426,810,939	1,079,059,263	1,079,059,263
Earnings per share diluted	0.0538	0.0506	0.1238	0.0191	0.1238	0.0191
<b>Earnings per ADS:</b>						
Denominator used for earnings per ADS basic	92,911,915	121,050,102	31,422,962	31,422,962		
Denominator used for earnings per ADS diluted	113,598,295	134,173,246	142,681,094	142,681,094		
<b>Earnings per ADS basic</b>	0.5671	0.5272	1.2863	0.1986		
<b>Earnings per ADS diluted</b>	0.5381	0.5064	1.2377	0.1911		

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**CHEETAH MOBILE INC.**

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**21. 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 RMB36,814, RMB75,538 and RMB105,554 (US\$ 16,295) for the years ended December 31, 2013, 2014 and 2015, respectively.

**22. 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, payable for contingent consideration 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, 2015, assets and liabilities measured or disclosed at fair value are summarized below:

	Total Fair Value at December 31, 2015	Total Fair Value at December 31, 2015	Fair value measurement or disclosure at December 31, 2015 using			Total losses
			Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB	US\$	RMB	RMB	RMB	
<b>Fair value measurement Recurring:</b>						
Available-for-sale security	46,373	7,158	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>7,158</b>	<b>46,373</b>			<b>(58,719)</b>
<b>Fair value measurement Recurring:</b>						
Payable for contingent considerations	23,338	3,603			23,338	
<b>Total liabilities measured at fair value</b>	<b>23,338</b>	<b>3,603</b>			<b>23,338</b>	

For the year ended December 31, 2014, assets and liabilities measured or disclosed at fair value are summarized below:

Fair value measurement or disclosure  
at December 31, 2014 using

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	Total Fair Value at December 31, 2014 RMB	Total Fair Value at December 31, 2014 US\$	Quoted prices in active markets for identical assets (Level 1) RMB	Significant other observable inputs (Level 2) RMB	Significant unobservable inputs (Level 3) RMB	Total losses
<b>Fair value measurement Recurring:</b>						
Available-for-sale securities	141,031	22,730	62,653		78,378	
<b>Fair value measurement Non-Recurring:</b>						
Intangible assets, net						(8,304)
Investment in equity investees						(472)
<b>Total assets measured at fair value</b>	141,031	22,730	62,653		78,378	(8,776)
<b>Fair value measurement Recurring:</b>						
Payable for contingent considerations	53,592	8,638			53,592	
<b>Total liabilities measured at fair value</b>	53,592	8,638			53,592	

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## CHEETAH MOBILE INC.

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There were no transfers of fair value measurements into or out of Level 3 for the years ended December 31, 2013, 2014 and 2015.

The Company has measured the available-for-sale debt securities and the contingent consideration payable at fair value on a recurring basis using significant unobservable inputs (Level 3) as of the year ended December 31, 2014 and 2015. 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 31,2014	Estimation as of December 31,2015	Change in unobservable inputs	Change in fair value
Available-for-sale debt security - Trustlook	Guideline company method and business enterprise value allocation method	• Discount for lack of marketability	20%	*	Increase / (decrease)	Decrease / (Increase)
		• Volatility	40.5%	*	Increase / (decrease)	Decrease / (Increase)
Available-for-sale debt security - NDP	Probability expected return method	• Discount for lack of marketability	3.81%	*	Increase / (decrease)	Decrease / (increase)
		• Probability of conversion	70%	*	Increase / (decrease)	Increase / (decrease)
Contingent consideration payable	Discount cash flow method	• Performance target	34%-99%	0%-99%	Increase / (decrease)	Increase / (decrease)
		• Discount rate	10.0%-12.3%	10.0%-12.3%	Increase / (decrease)	Decrease / (increase)

\* The available-for-sale debt securities were settled in 2015.





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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, 2013, 2014 and 2015:

	Contingent consideration payable RMB	Available- for-sales debt securities RMB
Balance as of December 31, 2013	11,974	5,903
Recognized during the year	32,953	61,548
Realized or unrealized loss	13,749	11,308
Settlement	(4,923)	
Foreign exchange translation adjustments	(161)	(381)
Balance as of December 31, 2014	53,592	78,378
Recognized during the year	17,202	
Realized or unrealized loss	(7,010)	(11,094)
Settlement	(42,641)	(67,507)
Foreign exchange translation adjustments	2,195	223
Balance as of December 31, 2015	23,338	
Balance as of December 31, 2015 in US\$	3,603	

Realized or unrealized losses in the available-for-sale debt securities, realized or unrealized losses 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.

**23. SUBSEQUENT EVENTS**

a) During from January 1 to April 22, 2016, the Group entered into various agreements to acquire certain investments with an aggregate cash consideration of RMB42,370 (US\$6,541).

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b) On March 16, 2016, the Board of Directors of the Group authorized a 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. The share repurchase plan does not require the Group to acquire a specific number of shares. As of April 22, 2016, no ADS was repurchased by the Group. The ordinary shares representing the repurchased ADS will be recorded as treasury shares at purchase cost at the time of repurchase.

c) On January 19, 2016, the Group entered into equity transfer agreements with three third-parties to obtain additional 4.63% equity interest of Kingsoft Japan for a cash consideration of JPY136 million. On January 29, 2016, the Group entered into an agreement with Kingsoft delegated the voting right of 183,540 ordinary shares (represented 5% of the total shares of Kingsoft Japan) to the Group. As a result, the Group had a total of 51% voting rights, in Kingsoft Japan and accounted for it as a business combination under common control. The Group would make retrospective adjustment for the consolidated financial statements for the periods since the Group and Kingsoft Japan were under common control.

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## 24. CONDENSED FINANCIAL INFORMATION OF THE COMPANY

*Balance Sheets*

	2014	As of December 31,	2015	
	RMB	RMB		US\$
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	534,390	583,374		90,057
Restricted cash		25,974		4,010
Short-term investments	428,330	6,494		1,003
Prepayments and other current assets	2,325	15,162		2,341
Due from related parties	698,888	1,411,418		217,885
<b>Total current assets</b>	<b>1,663,933</b>	<b>2,042,422</b>		<b>315,296</b>
<b>Non-current assets</b>				
Intangible assets, net	36,062	25,022		3,863
Goodwill	39,578	59,404		9,170
Investment in equity investees		5,802		896
Other long-term investment	55,740	46,373		7,158
Investment in subsidiaries	436,286	949,494		146,577
<b>Total non-current assets</b>	<b>567,666</b>	<b>1,086,095</b>		<b>167,664</b>
<b>Total assets</b>	<b>2,231,599</b>	<b>3,128,517</b>		<b>482,960</b>
<b>LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS EQUITY</b>				
<b>Current liabilities</b>				
Bank loans		129,872		20,049
Accrued expenses and other current liabilities	6,919	17,734		2,738
Redemption right liabilities	520	474		73
Due to related parties	12,272	57,933		8,943
Income tax payable	1,188	10,351		1,598
<b>Total current liabilities</b>	<b>20,899</b>	<b>216,364</b>		<b>33,401</b>

**Non-current liabilities**

Other non-current liabilities	4,362	214	34
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<b>Total non-current liabilities</b>	<b>4,362</b>	<b>214</b>	<b>34</b>
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<b>Total liabilities</b>	<b>25,261</b>	<b>216,578</b>	<b>33,435</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 as of December 31, 2014 and 2015, respectively; 288,988,560 and 365,961,759 shares issued as of December 31, 2014 and 2015, respectively; 260,045,912 and 350,398,737 shares outstanding as of December 31, 2014 and 2015, respectively)

	42	56	9
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Class B ordinary shares (par value of US\$0.000025 per share; 1,400,000,000 shares authorized as of December 31, 2014 and 2015, respectively; 1,127,614,152 and 1,058,514,152 shares issued as of December 31, 2014 and 2015, respectively; 1,095,456,652 and 1,035,037,339 shares outstanding as of December 31, 2014 and 2015, respectively)

	180	170	26
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Additional paid-in capital	2,059,983	2,468,562	381,080
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Retained earnings	142,760	319,356	49,299
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Accumulated other comprehensive income	3,373	123,795	19,111
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<b>Total shareholders equity</b>	<b>2,206,338</b>	<b>2,911,939</b>	<b>449,525</b>
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<b>Total liabilities, mezzanine equity and shareholders equity</b>	<b>2,231,599</b>	<b>3,128,517</b>	<b>482,960</b>
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*Statements of Comprehensive Income*

	Years ended December 31,			
	2013 RMB	2014 RMB	2015 RMB	US\$
<b>Revenues</b>	2,070	22,002	196,640	30,356
<b>Cost of revenues</b>	(1,950)	(17,752)	(20,531)	(3,169)
<b>Gross profit</b>	<b>120</b>	<b>4,250</b>	<b>176,109</b>	<b>27,187</b>
<b>Operating expenses</b>				
Research and development	(12,491)	(44,011)	(74,426)	(11,489)
Selling and marketing		(31)	(107)	(17)
General and administrative	(15,146)	(13,103)	(31,279)	(4,829)
<b>Total operating expenses</b>	<b>(27,637)</b>	<b>(57,145)</b>	<b>(105,812)</b>	<b>(16,335)</b>
Equity in profit of subsidiaries	76,031	99,213	133,495	20,608
Interest income, net	2,494	20,908	7,169	1,107
Changes in fair value of redemption right and put options granted	11,146	3,576		
Losses from equity method investments			(42)	(6)
Impairment of investments			(25,891)	(3,997)
Settlement and changes in fair value of contingent considerations	(973)	(1,755)	(707)	(109)
Foreign exchange gain (loss), net	946	(17)	389	60
Other income, net			1,620	250
<b>Income before income taxes</b>	<b>62,127</b>	<b>69,030</b>	<b>186,330</b>	<b>28,765</b>
<b>Income tax expenses</b>	<b>(109)</b>	<b>(1,089)</b>	<b>(9,734)</b>	<b>(1,503)</b>
<b>Net income</b>	<b>62,018</b>	<b>67,941</b>	<b>176,596</b>	<b>27,262</b>
<b>Other comprehensive income (loss), net of tax of nil</b>				
Unrealized gains on available-for-sale securities, net			2,945	455
Foreign currency translation adjustments	(8,807)	(6,918)	117,477	18,135
<b>Other comprehensive income</b>	<b>(8,807)</b>	<b>(6,918)</b>	<b>120,422</b>	<b>18,590</b>

<b>Total comprehensive income</b>	<b>53,211</b>	<b>61,023</b>	<b>297,018</b>	<b>45,852</b>
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## FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015

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*Statements of Cash Flows*

	Years ended December 31,			
	2013 RMB	2014 RMB	2015 RMB	US\$
Net cash provided by (used in) operating activities	1,335	(629,518)	118,281	18,259
Net cash used in investing activities	(57,070)	(516,106)	(202,844)	(31,314)
Net cash provided by financing activities	321,965	1,404,056	102,366	15,803
Effect of exchange rate changes on cash	(5,504)	(6,626)	31,181	4,813
<b>Net increase in cash and cash equivalents</b>	<b>260,726</b>	<b>251,806</b>	<b>48,984</b>	<b>7,561</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>21,858</b>	<b>282,584</b>	<b>534,390</b>	<b>82,496</b>
<b>Cash and cash equivalents at end of the year</b>	<b>282,584</b>	<b>534,390</b>	<b>583,374</b>	<b>90,057</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 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 statements should be read in conjunction with the Group's consolidated financial statements.

*(b) Commitments*

The Company does not have any significant commitments or long-term obligations as of any of the periods presented.



