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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, 2020.

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: 001-35224

Xunlei Limited

(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)

21-23/F, Block B, Building No. 12
No.18 Shenzhen Bay ECO-Technology Park
Keji South Road, Yuehai Street,
Nanshan District, Shenzhen, 518057
The People's Republic of China
(Address of principal executive offices)

Naijiang (Eric) Zhou, Chief Financial Officer
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21-23/F, Block B, Building No. 12
No.18 Shenzhen Bay ECO-Technology Park
Keji South Road, Yuehai Street,
Nanshan District, Shenzhen, 518057
The People's Republic of China
(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	Ticker symbol
American depositary shares, each representing five common shares	The NASDAQ Stock Market LLC (The NASDAQ Global Select Market)	XNET
Common shares, par value US$0.00025 per share*	The NASDAQ Stock Market LLC (The NASDAQ Global Select Market)	

* Not for trading, but only in connection with the listing on The NASDAQ Global Select Market of American depositary shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act.
NONE
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.
NONE

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 334,401,981 common shares (excluding (i) 24,956,080 common shares that are (a) issued to our depositary bank for the purpose of bulk issuance and (b) repurchased by the company, and (ii) 9,519,144 common shares held by Leading Advice Holdings Limited, a share incentive awards holding platform) as of December 31, 2020.

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

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

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

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

Yes ☐ No ☐

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

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

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

Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes ☐ No ☐

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INTRODUCTION

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

- "we," "us," "our company," "our," or "Xunlei" refers to Xunlei Limited, a Cayman Islands company, its subsidiaries, its variable interest entity, or VIE, and the VIE's subsidiaries;
- "China" or "PRC" refers to the People's Republic of China, excluding, for the purpose of this annual report only, Hong Kong, Macau and Taiwan;
- "daily active user", refers to a user who accessed to Mobile Xunlei through a mobile device, on a given day;
- "digital media content" refers to videos, music, games, software and documents transmitted in digital form;
- "monthly unique visitors," in relation to our platform, refers to the number of different individual visitors who accessed Xunlei products (including websites and software) on our platform from the same computer at least once within a month; under this method, a user who accessed Xunlei products from two different computers would count as two unique visitors;
- "shares" or "common shares" refers to our common shares, par value US$0.00025 per share;
- "subscriber," refers to users who can access our premium acceleration services, including accounts temporarily suspended, but excluding sub-accounts and accounts on a trial basis.
- "ADSs" refers to our American depositary shares, each representing five common shares, and "ADRs" refers to any American depositary receipts that evidence our ADSs;
- "RMB" or "Renminbi" refers to the legal currency of China; and
- "US$," "dollars" or "U.S. dollars" refers to the legal currency of the United States.

We use U.S. dollar as reporting currency in our financial statements and in this annual report. Transactions in Renminbi are recorded at the rates of exchange prevailing when the transactions occur. Solely for the convenience of the reader, the translations of Renminbi amounts into U.S. dollars contained in this annual report were made at RMB6.5249 to US$1.00, the rate released by the State Administration of Foreign Exchange of the People's Republic of China on December 31, 2020. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated below, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade.

FORWARD-LOOKING INFORMATION

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

- our business strategies, including the strategies to streamline our business and continue moving toward mobile internet;
- our future business development, results of operations and financial condition;
- our ability to maintain and strengthen our market position in China;
- our ability to retain subscribers for our premium acceleration and other services;
- our ability to develop new products and services and attract, maintain and monetize user traffic;
- trends and competition in the internet industry in China;
- rules and regulations governing the internet industry in China;
- our ability to handle intellectual property rights-related matters; and
- general economic and business conditions in China.

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

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 selected consolidated statements of operations data and the selected consolidated statements of cash flows data for the years ended December 31, 2018, 2019 and 2020 and the selected consolidated balance sheets data as of December 31, 2019 and 2020 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 operations data and the selected consolidated statements of cash flows data for the years ended December 31, 2016 and 2017 and the selected consolidated balance sheets data as of December 31, 2016, 2017 and 2018 have been derived from our audited consolidated financial statements not included in this annual report.

The selected consolidated statements of operations data and cash flows data for the years ended December 31, 2016, 2017 and 2018 and the selected consolidated balance sheets data as of December 31, 2016, 2017 and 2018 have reflected the impact of retrospective adjustments for our divestiture of web game business in January 2018. The web game business has been classified as discontinued operations. In 2019, we started to operate web game business again under a different business model by cooperating with third parties. Revenues from new web game business have been included in the continuing operations.

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.

The following table presents our selected consolidated statements of comprehensive income/(loss) data for the years ended December 31, 2016, 2017, 2018, 2019 and 2020.

	For the Year Ended December 31,				
	2016	2017	2018	2019	2020
	(in thousands of US$, except for share, per share and per ADS data)				
Selected Consolidated Statements of Operations Data:					
Revenues, net of rebates and discounts	140,985	201,911	232,132	181,267	186,683
Business tax and surcharges	(779)	(1,328)	(1,528)	(602)	(312)
Net revenues	140,206	200,583	230,604	180,665	186,371
Cost of revenues	(79,928)	(117,876)	(115,667)	(99,913)	(92,637)
Gross profit	60,278	82,707	114,937	80,752	93,734
Operating expenses(1)					
Research and development expenses	(61,169)	(66,947)	(76,763)	(68,571)	(55,463)
Sales and marketing expenses	(14,601)	(19,888)	(35,322)	(31,820)	(18,064)
General and administrative expenses	(26,010)	(36,517)	(40,833)	(38,930)	(33,910)
Asset impairment loss, net of recoveries	—	(13,556)	(6,348)	2,147	(5,090)
Total operating expenses	(101,780)	(136,908)	(159,266)	(137,174)	(112,527)
Operating loss	(41,502)	(54,201)	(44,329)	(56,422)	(18,793)
Interest income	2,158	1,967	1,183	1,897	1,471
Interest expense	(239)	(239)	(239)	(75)	(406)
Other income, net	6,503	7,880	2,810	5,861	4,737
Shares of loss from equity investees	(195)	(1,875)	(307)	—	0
Loss from continuing operations before income tax	(33,275)	(46,468)	(40,882)	(48,739)	(12,991)
Income tax benefit	2,469	2,252	89	(4,676)	(1,149)
Loss from continuing operations	(30,806)	(44,216)	(40,793)	(53,415)	(14,140)
Discontinued operations:					
Income from discontinued operations	7,791	7,538	1,533	—	—
Income tax expenses	(1,168)	(1,131)	(230)	—	—
Net income from discontinued operations	6,623	6,407	1,303	—	—
Net loss	(24,183)	(37,809)	(39,490)	(53,415)	(14,140)
Less: net loss attributable to the non-controlling interest	(72)	13	(212)	(246)	(300)
Net loss attributable to Xunlei Limited's common shareholders	(24,111)	(37,822)	(39,278)	(53,169)	(13,840)
Weighted average number of common shares outstanding					
Basic	334,155,668	331,731,963	334,965,987	337,845,675	337,429,601
Diluted	334,155,668	331,731,963	334,965,987	337,845,675	337,429,601
Net loss per share attributable to Xunlei Limited from continuing operations					
Basic	(0.09)	(0.13)	(0.12)	(0.16)	(0.04)
Diluted	(0.09)	(0.13)	(0.12)	(0.16)	(0.04)
Net income per share attributable to Xunlei Limited from discontinued operations					
Basic	0.02	0.02	0.00	—	—
Diluted	0.02	0.02	0.00	—	—
Net loss attributable to holders of common shares of Xunlei Limited per ADS[(2)]					
Basic	(0.36)	(0.57)	(0.59)	(0.79)	(0.21)
Diluted	(0.36)	(0.57)	(0.59)	(0.79)	(0.21)

Notes: We sold our web game business in January 2018. As a result, web game business is accounted for as discontinued operations and our consolidated statements of operations data in this annual report separate the discontinued operations from our remaining business operations for all years presented. In 2019, we started to operate web game business again under a different business model by cooperating with third parties. Revenues from web game business have been included in the continuing operations.

(1) Share-based compensation expenses were allocated in operating expenses as follows:

	For the Year Ended December 31,				
	2016	2017	2018	2019	2020
	(in thousands of US$)				
Research and development expenses	2,983	2,442	2,645	2,594	916
Sales and marketing expenses	98	88	404	381	185
General and administrative expenses	6,267	5,800	2,245	2,453	1,209
Total share-based compensation expenses	9,348	8,330	5,294	5,428	2,310

(2) Each ADS represents five common shares. Net income/(loss) attributable to holders of common shares of Xunlei Limited per ADS is calculated based on net income/(loss) per share attributable to Xunlei Limited and multiplied by five.

The following table presents our selected consolidated balance sheet data as of December 31, 2016, 2017, 2018, 2019 and 2020.

	As of December 31,				
	2016	2017	2018	2019	2020
	(in thousands of US$)				
Selected Consolidated Balance Sheets Data:					
Cash and cash equivalents	199,504	233,479	122,930	162,465	137,248
Short-term investments	181,960	138,915	196,538	102,847	117,821
Total current assets	412,305	430,783	362,899	316,583	302,282
Total assets	509,795	533,437	455,431	424,687	415,605
Accounts payable	33,376	49,819	22,629	24,213	20,644
Total current liabilities	93,405	141,696	108,035	111,286	103,276
Total liabilities	103,545	150,600	111,251	129,144	125,232
Total shareholders' equity	408,238	384,997	345,296	296,878	292,154
Non-controlling interest	(1,988)	(2,160)	(1,116)	(1,335)	(1,781)
Total liabilities and shareholders' equity	509,795	533,437	455,431	424,687	415,605

The following table presents our selected consolidated statements of cash flows data for the years ended December 31, 2016, 2017, 2018, 2019 and 2020.

	For the Year Ended December 31,				
	2016	2017	2018	2019	2020
	(in thousands of US$)				
Selected Consolidated Statements of Cash Flows Data:					
Net cash generated from/(used in) operating activities	16,970	(14,216)	(35,608)	(45,649)	(13,911)
Net cash (used in)/generated from investing activities	(158,335)	35,208	(69,357)	79,260	(20,756)
Net cash (used in)/generated from financing activities	(11,041)	2,561	929	12,177	2,679
Net (decrease)/increase in cash and cash equivalents and restricted cash	(152,406)	23,553	(104,036)	45,788	(31,988)
Effect of exchange rates on cash, cash equivalents and restricted cash	(9,867)	10,422	(6,513)	(3,270)	5,329
Cash, cash equivalents and restricted cash at beginning of year	361,777	199,504	233,479	122,930	165,448
Cash, cash equivalents and restricted cash at end of year	199,504	233,479	122,930	165,448	138,789

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

An investment in our ADSs involves significant risks. You should carefully consider all of the information in this annual report, including the risks and uncertainties described below, before making an investment in our ADSs. Any of the following risks could have a material adverse effect on our business, financial condition and results of operations. In any such case, the market price of our ADSs could decline, and you may lose all or part of your investment.

Risks Related to Our Business

Our business model is currently undergoing significant innovation and transition, and our historical growth rate may not be indicative of our future performance and our new business may not be successful.

We launched our then core product, Xunlei Accelerator, in 2004 and cloud acceleration subscription services in 2009 to enable users to quickly access and consume digital media content. Coupled with our core products and services, we also provide a range of internet value-added services. Our cloud acceleration products have maintained nationwide popularity in the past few years. Our business model currently is undergoing significant innovation and continued transition to mobile internet. We have launched several new services and products in recent years, such as cloud computing products and products based on blockchain technology. The evolving business model and expansion into the new services involve new risks and challenges. For example, although our mobile acceleration plug-in has been officially adopted by Xiaomi's operating systems and installed on Xiaomi phones, we cannot assure you that we will be able to form significant business partnerships with major smartphone makers other than Xiaomi so as to achieve broader acceptance of the Xunlei mobile products. We may also not be able to maintain the rapid growth of revenues from our mobile advertising, from which we generated revenues for the first time in the fourth quarter of 2015. There are also substantial uncertainties with respect to our cloud computing business and blockchain business. The technologies supporting our cloud computing business and blockchain business are new and rapidly evolving. If we fail to explore these new technologies and apply them innovatively to keep our products and services competitive, we may experience immediate decline in the growth of our business. In addition, the regulatory environment surrounding these businesses may also be evolving and any unfavorable developments may adversely affect our businesses. Furthermore, the profitability of our new initiatives has yet to be proven. For example, although the blockchain technology is said to be of immeasurable potential, its commercial value is yet to be proved. Despite that we have devoted a significant amount of resources to the development of blockchain technology, we may not be able to realize our expected goals or create sufficient commercial values. As a result, our business, operating results, financial conditions may be significantly and adversely affected.

In addition to uncertainties of our new initiatives, our traditional PC-based download acceleration subscriptions also experienced declines in recent years, partly due to the change of our users' online behaviors and the ongoing and intensified government scrutiny of internet content in China. Although we are continuously improving our existing products and services and rolling out new products and services to attract our subscribers, our efforts may not be successful. Our subscriber base generally declined from 4.4 million as of December 31, 2014 to 3.8 million as of December 31, 2020. See "—We may not be able to retain our large user base, convert our users into subscribers of our premium services or maintain our existing subscribers" and "—Risks Related to Doing Business in China—Regulation and censorship of information disseminated over the internet in China have adversely affected our business and may continue to adversely affect our business, and we may be liable for the digital media content on our platform."

Due to the abovementioned factors, our historical growth rate may not be indicative of our future performance and our new business initiatives may not be successful, and we cannot assure you that we will grow at the same rate as we did in the past, if at all.

The blockchain industry in China is an emerging industry. The laws and regulations governing the operation of blockchain products and services in China are developing and evolving and subject to changes. If we fail to comply with existing and future applicable laws, regulations or requirements of local regulatory authorities, our business, financial condition and results of operations may be materially and adversely affected.

We launched ThunderChain, a blockchain infrastructure platform, in 2018. Currently, our strategic focus in the blockchain sector is on the development of blockchain infrastructure. The blockchain industry in China is an emerging industry. The PRC government has yet to establish a comprehensive regulatory framework. The laws and regulations governing the operation of blockchain products and services in China are also rapidly developing and evolving. On January 10, 2019, the Cyberspace Administration of China, or CAC, issued the *Provisions on the Administration of Blockchain Information Services*, or the Blockchain Provisions, which came into effect on February 15, 2019. Pursuant to the Blockchain Provisions, a blockchain information service provider is required to file particulars of such service provider including its name, service category, service form, application field, and server address with the blockchain information service filing management system managed by the CAC and go through filing procedures within ten business days after it starts to provide services. After completing the filing procedure, the blockchain information service provider should display the filing number in a conspicuous position on the service provider's websites and applications through which it provides services. Our subsidiaries providing blockchain information services have completed these filing procedures with relevant regulatory authorities and obtained the filing numbers. In addition, the operations of our blockchain services are still at an early stage. We may be required to make additional filings if we make further adjustments to our business operations. We cannot assure you that we will always be able to timely obtain or renew relevant permits, approvals or licenses that may be viewed necessary for our blockchain operations. If we fail to maintain any of these required permits, approvals or licenses in a timely manner, or at all, we may be subject to various penalties, including fines and discontinuation of or restriction on our operations. Any such disruptions in our business operations may have a material and adverse effect on our business, results of operations and financial condition.

In addition to filing requirements, the Blockchain Provisions also imposed an array of other requirements on the providers of blockchain information services. See "Item 4. Information on the Company—B. Business Overview—Regulation—Regulation on Blockchain Information Services" for more details. Failure to comply with relevant requirements in the Blockchain Provisions may subject us to administrative penalties such as warning, being ordered to temporarily suspend relevant business operations to rectify within prescribed time period, or fines, or criminal liabilities, depending on which provisions are violated.

Since the blockchain technology and other related technologies are evolving rapidly, new laws, regulations and governmental policies are expected to be adopted from time to time by relevant PRC authorities to impose additional restrictions or require licenses or permits for operating blockchain related business. We are unable to predict with certainty the impact, if any, that future legislation, judicial interpretations or regulations relating to the blockchain industry will have on our business, financial condition and results of operations. To the extent that we are not able to fully comply with any new laws or regulations when they are promulgated, our business, financial condition and results of operations as well as the price of our ADSs may be materially and adversely affected.

Regulatory uncertainties exist with respect to our historical LinkToken operations, which may have a material adverse effect on our business and results of operations.

LinkToken was developed in 2017. It was essentially a type of digital ticket. The underlying technology of LinkToken was blockchain technology. Users of OneThing Cloud could be rewarded with LinkTokens by voluntarily participating in OneThing Cloud reward program to share idle uplink bandwidth capacities and external storage to us. The amount of LinkTokens awarded depended on a number of factors including, but not limited to, the size of bandwidth and external storage users contribute, the length of time online, and the usage of computing resources. Rewarded LinkTokens could be used to redeem for a variety of products and services offered in the LinkToken Mall. In 2018, we disposed of the LinkToken operations and the related assets and liabilities to an independent third party. Upon the completion of the disposal in April 2019, the independent third party obtained the exclusive right to carry out LinkToken operations inside and outside mainland China, including without limitation, the formulation, amendment and execution of the rules governing the rewarding of LinkToken to users, operations of LinkToken Pocket and the LinkToken Mall. After the disposal, subject to rewarding rules determined by the independent third party, users of OneThing Cloud could still voluntarily participate in OneThing Cloud reward program to share idle uplink bandwidth capacities and external storage and be rewarded with LinkToken. In May 2019, we terminated our technical support to the independent third party with respect to its LinkToken operations. In April 2020, the independent third party terminated OneThing Cloud reward program, as a result of which users can no longer be rewarded with LinkTokens. Meanwhile, we launched our own reward program, which allows users to share idle uplink bandwidth capacities and external storage with us in exchange for a small amount of cash rewards. Although we have no longer been operating OneThing Cloud reward program since our disposal of LinkToken, we periodically receive user complaints regarding LinkToken, including the termination of OneThing Cloud reward program, which could cause reputational harm to our business operations and might also have a negatively impact on our business and results of operations.

Although we have no longer been operating LinkTokens after our disposal of such business to the independent third party, new laws, regulations and governmental policies regarding virtual coins may still be interpreted or even retroactively enforced against us regarding our previous dealings with LinkToken. On September 4, 2017, People's Bank of China, the Office of the Central Leading Group for Cyberspace Affairs, the MIIT, the State Administration for Industry and Commerce, the China Banking Regulatory Commission, the China Securities Regulatory Commission, and the China Insurance Regulatory Commission jointly promulgated the Announcement on Prevention of Token Fundraising Risks to strengthen the administration of the initial coin offerings activities. Pursuant to the announcement, "fundraising through token offerings" is referred to as a type of fundraising activities where an issuer raises "virtual currencies" such as Bitcoin or Ether from investors through the illegal issuance and subsequent circulation of tokens. Pursuant to the announcement, token fundraising activity is essentially an illegal public fundraising activity without obtaining government's approval. It is a suspected illegal offering of tokens, illegal offering of securities, illegal fundraising, financial fraud, pyramid scheme, which are criminal offenses under the PRC law. The announcement prohibits fundraising activities through token issuance. In addition, the announcement also provides that token trading platform should not be engaged in (i) the exchange between any statutory currency with tokens and "virtual currencies," (ii) the trading, either as a central counterparty or not, of the tokens or "virtual currencies," and (iii) token or "virtual currency" pricing, information intermediary services or other services for tokens or "virtual currencies." To date, no governmental financial regulators have imposed any administrative penalties against us relating to LinkTokens on the basis that we engaged in token fundraising activities. However, we cannot assure you that going forward, relevant PRC authorities would have the same view with us and would not impose retroactive regulatory restrictions or penalties on us for our prior dealings with LinkToken. Were that to happen, we might be subject to additional regulatory risks, and our business and results of operations may be adversely affected.

We may not be able to retain our large user base, convert our users into subscribers of our premium services or maintain our existing subscribers.

Our platform had approximately 52.0 million monthly unique visitors in December 2020 according to our internal record. If we are unable to consistently provide our users with quality services and experience, if users do not perceive our service offerings to be of value, or if we introduce new or adjust existing features or change the mix of digital media content in a manner that is not favorably received by our users, we may not be able to retain our existing user base.

Our number of subscribers experienced a decline in the past partly due to the intensified scrutiny over internet content from the Chinese government, and may experience further downward pressure in the future. With a government campaign against inappropriate internet content launched in April 2014, we have had to increase the monitoring of content on our platform. All the measures we adopt in response to increasing regulatory scrutiny may materially and adversely affect user experience on our platform and make our services less attractive to our subscribers, leading to a decline in the number of subscribers. We saw a reduction in the number of total subscribers of 4.4 million as of December 31, 2014, and permitted temporary suspension of services by about 350,000 existing subscribers as of December 31, 2014. Although the permitted temporary suspension of services gradually reduced to 175,000 existing subscribers as of December 31, 2020, such favorable trends may not sustain, and any increase in the number of subscribers may not necessarily lead to a corresponding increase in revenue. Similar government action or other forces may make it challenging for us to retain our user base, or may contribute to a further decline in our user base, in the future. See "—Risks Related to Doing Business in China—Regulation and censorship of information disseminated over the internet in China have adversely affected our business and may continue to adversely affect our business, and we may be liable for the digital media content on our platform."

In the long term, even without taking into account the abovementioned government restrictions, we cannot assure you that we would be able to retain our large user or subscriber base. For example, our efforts to provide greater incentives for our users to subscribe, including marketing activities to highlight the value of differentiated subscriber-only services, such as Green Channel, may not continue to succeed. Our subscribers may stop their subscriptions or other spending on our products or services because we no longer serve their needs or if we are unable to offer a satisfying user experience or successfully compete with current and new competitors in both retaining our existing subscribers and attracting new subscribers, which would adversely impact our business, results of operations and prospects. In addition, the development of technologies may also render our acceleration technology obsolete. For example, the development of 5G technology significantly increased the speed of wireless mobile communications. Although people generally expect 5G technology would significantly change people's life, when and how it will happen are yet to be fully demonstrated. The new technology will create new business opportunities, but it may also alter people's online habits, which in turn may have a negative impact on our businesses such as our membership subscription and cloud computing products and services.

The intellectual property protection mechanism we have implemented may not always be effective or sufficient. The premium acceleration services, Xunlei Cloud Drive and other value-added services we provide to our users have exposed us to and may continue to expose us to copyright infringement claims and other related claims, which could be time-consuming and costly. Any damage awards, injunctive relief and/or court orders could materially and adversely affect our existing business model, divert our management's attention and adversely impact our business and reputation.

Our success depends, in large part, on our ability to operate our business without infringing, misappropriating or otherwise violating third-party rights, including third-party intellectual property rights. Internet, technology and media companies are frequently involved in litigations based on allegations of infringement of intellectual property rights, unfair competition, invasion of privacy, defamation and other violations of third-party rights. In the ordinary course of our business, we receive, from time to time, written notices from third parties claiming that certain contents and games on our network, websites, products or services infringe their copyrights or the copyrights of third parties. These notices may contain threats to take legal actions against us or requests for cessation of distribution, marketing or displaying such contents or games on our network, websites, products or services. As of the date of this annual report, we are involved in 19 pending copyright lawsuits in China. Almost all of these claims alleged that contents on our network, products or services constitute infringements of the plaintiffs' copyrights. The total amount of damages claimed in these pending copyright lawsuits is approximately RMB18.3 million (US$2.7 million). See also "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings." While we believe that none of these pending lawsuits are likely to have a material adverse effect on our business, claims alleging copyright infringement or other claims arising from the content accessible through our distributed computing network, or on our websites or through our other services, with or without merit, may lead to damage awards and/or court orders, diversion of our management's attention and financial resources and negative publicity affecting our brand and reputation, and therefore may adversely affect our results of operations and business prospects.

We provide subscribers with limited space to temporarily store content downloaded on our servers for optimal acceleration performance. Subscribers may also request our cloud servers to transmit a file on their behalf and download it to their local storage. We also provide users with cloud storage services through Xunlei Cloud Drive, which allows users to save documents, images, audios, videos and other files to cloud servers automatically upon completing the download at an accelerated speed. See "Item 4. Information on the Company—B. Business Overview—Our Platform." In addition, certain of our services allow users to upload files and various media contents after they create accounts with us, converting the files into links and sharing such links with designated persons. We do not provide users with any links to third parties, nor do we download or save any contents from third parties for our users on our own initiative. Although we have made commercially reasonable efforts to request users to comply with applicable intellectual property laws, we cannot ensure that all of our users have the rights to use, transmit or share these contents if such content infringes third-party intellectual property rights. We have implemented internal procedures to meet the requirements under relevant PRC laws and regulations to monitor and review contents available on our platform, and remove contents promptly once we receive notice of infringement from the legitimate right holder. See also "Item 4. Information on the Company—B. Business Overview— Intellectual Property—Digital media data monitoring and copyright protection" for more details. However, due to the significant amount of digital media content accessible through our acceleration services and other value-added services, we cannot guarantee the effectiveness of our current implementation of intellectual property protection mechanisms and measures. We may be liable for temporarily storing or transmitting content or creating links representing content on behalf of our subscribers if such content infringes third-party intellectual property rights, and any such potential legal liabilities could materially and adversely affect our business.

The validity, enforceability and scope of protection of intellectual property in internet-related industries, particularly in China, are uncertain and still evolving. As we face increasing competition and as litigation becomes more common in China in resolving commercial disputes, we face a higher risk of intellectual property infringement claims. The Supreme People's Court of China promulgated a judicial interpretation on infringement of the right of internet dissemination in December 2012 which was revised in December 2020 and became effective on January 1, 2021. This judicial interpretation provides that the courts will require service providers to remove not only links or content that have been specifically mentioned in the notices of infringement from rights holders, but also links or content they "should have known" to contain infringing content. The interpretation further provides that where an internet service provider has directly obtained economic benefits from any content made available by an internet user, it has a higher duty of care with respect to internet users' infringement of third-party copyrights. This interpretation may subject us and other internet service providers to significant administrative burdens and litigation risks. See "Item 4. Information on the Company—B. Business Overview—Regulation— Regulation on Intellectual Property Rights.". Interested parties may lobby for more robust intellectual property protection in jurisdictions in which we conduct business or may conduct business, and intellectual property laws in China and other such jurisdictions may become less favorable to our business. Intellectual property litigation may be expensive and time-consuming and could divert management attention and resources. If there is a successful claim of infringement, we may be required to discontinue the infringing activities, pay substantial fines and damages and/or seek royalty or license agreements that may not be available on commercially acceptable terms, if at all. Our failure to obtain the required licenses on a timely basis could harm our business. Any intellectual property litigation and/or any negative publicity by third parties alleging our intellectual property infringement could have a material adverse effect on our business, reputation, financial condition or results of operations. To address the risks relating to intellectual property infringement, we may have to substantially modify, limit or, in extreme cases, terminate some of our services. Any of such changes could materially affect our users' experience and in turn have a material adverse impact on our business.

If we are unable to successfully capture and retain the growing number of mobile internet users or if we are unable to successfully monetize our mobile products, our business, financial condition and results of operations may be materially and adversely affected.

An increasing number of users access our products and services through mobile devices, and the transition to mobile internet is a key part of our current business strategies. Products such as Xunlei Accelerator are now available to users from PCs as well as mobile devices, and we intend to continue expanding the number of mobile products we offer. An important element of our strategy to transition to mobile internet is to continue to further develop features for our mobile products and to develop new mobile products to capture a greater share of the growing number of users that access internet services such as ours through mobile devices. For example, we developed Mobile Xunlei, which allows users to search, download and consume digital media content on their mobile devices in a user-friendly way. As new laptops, mobile devices and operating systems are continually being released, it is difficult to predict the problems we may encounter in developing our products for use on these devices and operating systems, and we may need to devote significant resources to create, support and maintain these services. Devices providing access to our products and services are not manufactured and sold by us, and we cannot assure you that companies manufacturing or selling these devices would always ensure that their devices perform reliably and are maximally compatible with our systems. Any faulty connection between these devices and our products may result in user dissatisfaction with our products, which could damage our brand and have a material and adverse effect on our financial results. In addition, the lower resolution, functionality and memory associated with some mobile devices may make the use of our products and services through such devices more difficult and the versions of our products and services we develop for these devices may fail to attract users. Manufacturers or distributors may establish unique technical standards for their devices and, as a result, our products may not work or work properly or be viewable on all devices on which they are installed. Furthermore, new, comparable products which are specifically created to function on mobile operating systems, as compared to some of our products that were originally designed to be accessed from PCs, and such new entrants may operate more effectively on mobile devices than our mobile products do.

In addition, if we are unable to attract and retain the increasing number of users who access our products through mobile devices, or if we are slower than our competitors in developing attractive services adaptable for mobile devices, we may fail to capture a significant share of an increasingly important portion of the market or may lose existing users. In addition, even if we are able to retain the increasing number of users who access our services through mobile devices, we may not be able to successfully monetize them in the future. For example, because of the inherent limitations of mobile devices, we may not be able to provide as many kinds of products on mobile devices as we do on PC, which may limit the monetization potential of our mobile products and services.

We may be subject to the risks of overseas expansion.

We have been exploring opportunities in overseas market. Operating business internationally may expose us to additional risks and uncertainties. As we have very limited experience in operating our business in overseas markets, we may be unable to attract a sufficient number of users, fail to anticipate competitive conditions or face difficulties in operating effectively in overseas markets. We may also fail to adapt our business models to the local market due to various legal requirements and market conditions. Our international operations and expansion efforts have resulted and may continue to result in increased costs and are subject to a variety of risks, including increased competition, fluctuations in foreign exchange rates, uncertain enforcement of our intellectual property rights, more complex distribution logistics and the complexity of compliance with foreign laws and regulations. Compliance with applicable Chinese and foreign laws and regulations, such as import and export requirements, anti-corruption laws, tax laws, foreign exchange controls and cash repatriation restrictions, data privacy requirements, environmental laws, labor laws, restrictions on foreign investment, and anti-competition regulations, increases the costs and risk exposure of doing business in foreign jurisdictions. Although we have strived to comply with these laws and regulations, a violation by our employees, contractors or agents could nevertheless occur, especially during the exploratory stages. In some cases, compliance with the laws and regulations of one country could violate the laws and regulations of another country. Violations of these laws and regulations could materially and adversely affect our brand, international growth efforts and business.

We also could be significantly affected by other risks associated with international activities including, but not limited to, economic and labor conditions, increased duties, taxes and other costs and political instability. Margins on sales of our products in foreign countries, and on sales of products that include components obtained from foreign suppliers, could be materially and adversely affected by international trade regulations, including duties, tariffs and antidumping penalties. We are also exposed to credit and collectability risk on our trade receivables with customers in certain international markets. There can be no assurance that we can effectively limit our credit risk and avoid losses. In addition, political instability may also expose us to additional risks and uncertainties. If any of these economic or political risks materialize and we have failed to anticipate and effectively manage them, we may suffer a material adverse effect on our business and results of operations.

If we fail to keep up with the technological development in the internet industry and users' changing demand, our business, financial condition and results of operations may be materially and adversely affected.

The internet industry is rapidly evolving and subject to continual technological changes. As the internet infrastructure continues to develop, the internet may become more easily accessible through alternative technological innovations in the future, which may make our existing products and services less attractive to our users, and we may lose our existing users and fail to attract new users, which may further adversely impact our business, financial condition and results of operations.

In addition, user demand for internet content may also shift over time. Currently, internet users appear to have significant demand for multimedia acceleration, online games and online streaming services, and we expect such demand to continue. However, we cannot assure you that the behavior of internet users will not change in the future. For example, it is expected that the development of 5G technology may have certain impacts on mobile internet user's behavior. If 5G technology reduces our users' demand for internet acceleration, our membership subscription and cloud computing services will be negatively affected unless we are able to successfully develop alternative products or services to take advantage of new opportunities created by this new technology. If we fail to upgrade our services in response to changes in user demand in an effective and timely manner, the number of our users and advertisers may decrease. Furthermore, changes in technologies and user demand may require substantial capital expenditures in product development and infrastructure. To further expand our user base and offer our users a wider range of access points, we are expanding our business to mobile devices in part through potentially pre-installed acceleration products in mobile phones. In addition, we are continually developing and upgrading products and services, including our cloud computing services, which is expected to utilize the idle capacity of our users, and seeking strategic cooperation with hardware manufacturers such as smartphone makers, which may require significant resources from us. However, if we are not able to perfect our new technologies or to achieve the intended results or if our innovations cannot respond to the needs of our users or if our users are not attracted to our upgraded or new products and services, we may not be able to maintain or expand our user base, and our business, results of operations and prospects may be materially and adversely affected.

Our technologies, business methods and services, including those relating to our resource discovery network, may be subject to third-party patent claims or rights, such as issued patents or pending patent applications, that limit or prevent their use.

We cannot assure you that our technologies, business methods and services, including those relating to our resource discovery network, will be free from claims of patent infringements, and that holders of patents would not seek to enforce such patents against us in China, the United States or any other jurisdictions. For example, we were involved in a patent infringement case in China. The plaintiff alleged that our acceleration service infringed the plaintiff's patent rights. In November 2018, the court dismissed the plaintiff's all claims. The plaintiff subsequently appealed but its claims were dismissed by the appellate court as well. In March 2020, the plaintiff filed a petition to retrial case. As of the date of this annual report, the court has declined to retry the case. We are currently not involved in any patent infringement case in China. We believe that our products do not infringe any third-party patents of which we are aware. However, our analysis may have failed to identify all relevant patents and patent applications. For example, there may be currently pending applications, unknown to us, that may later result in issued patents that are infringed by our products, services or other aspects of our business. There could also be existing patents of which we are not aware that our products may inadvertently infringe. Third parties may attempt to enforce such patents against us. Further, the application and interpretation of China's patent laws and the procedures and standards for granting patents in China are still evolving and are uncertain, and we cannot assure you that PRC courts or regulatory authorities would agree with our analysis. Any patent infringement claims, regardless of their merits, could be time-consuming and costly to us. If we were found to infringe third-party patents and were not able to adopt non-infringing technologies, we may be severely limited in our ability to operate our business, and our results of operations could be materially and adversely affected.

We may be subject to claims or lawsuits outside of China, which could increase our risk of direct or indirect liabilities for our existing or future service offerings.

We may be subject to claims or lawsuits outside China, such as the United States, by virtue of our listing in the United States, the ownership of our ADSs by investors, the extraterritorial application of foreign law by foreign courts or for other reasons. We have attracted and expect to continue to attract attention from intellectual property owners outside of China, despite our efforts to control access to certain products by users outside China. For example, the Recording Industry Association of America filed a letter with the Office of the United States Trade Representative in November 2010 accusing certain of our divested or discontinued products of facilitating intellectual property infringement. Although we take steps to block users logging in from IP addresses that are located in certain jurisdictions, including the United States, from accessing certain of our services, due to technological limitations, such efforts may not be 100% successful, and any unintended access to our services may increase our risk of becoming subject to copyright laws in such jurisdictions. Even if our efforts to block IP addresses located in the United States or other jurisdictions are successful, the uncertainties surrounding the approach to intellectual property and online service providers that the new U.S. administration will take may increase our risk of becoming impacted by copyright laws in such jurisdictions. If we are ever held to be subject to United States copyright law, that could increase our risk of direct or indirect copyright liability for our resource discovery, acceleration or other services. If a claim of infringement brought against us in the United States or other jurisdictions is successful, we may be required to (i) pay substantial statutory or other damages and fines, (ii) remove relevant content from our website, (iii) discontinue products or services, (iv) disable access through our service to certain sites or content; (v) terminate users; and/or (vi) seek royalty or license agreements that may not be available on commercially reasonable terms or at all.

In addition, as a publicly listed company, we may be exposed to increased risk of litigation. For example, we were involved in shareholder class action lawsuits in the United States. See "Item 8. Financial Information-A. Consolidated Statements and Other Financial Information-Legal Proceedings." We may be involved in more class action lawsuits in the future. While we believe the claims in this lawsuit are without merit, such kinds of lawsuits 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 lawsuits. 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.

We may not be able to prevent unauthorized use of our intellectual property or disclosure of our trade secrets and other proprietary information, which could reduce demand for our services and have material and adverse impact on our business, financial condition and results of operations.

Our patents, trademarks, trade secrets, copyrights and other intellectual property rights are important assets for us. Events that are outside of our control may pose a threat to our intellectual property rights. For example, effective intellectual property protection may not be available in China and some other jurisdictions in which our services are distributed or made available through the internet. Also, the efforts we have made to protect our proprietary rights may not be sufficient or effective. For example, the legal regimes relating to the recognition and enforcement of intellectual property rights in China and South America are particularly limited. Therefore, legal proceedings to enforce our intellectual property in these jurisdictions may progress slowly, during which time infringement may continue largely unimpeded. Countries that have relatively inefficient intellectual property protection and enforcement regimes represent a significant portion of the demand for our products. These factors may make it more challenging for us to enforce our intellectual property rights against infringement. The infringement of our intellectual property rights, particularly in these jurisdictions, may materially harm our business and competitiveness in these markets and elsewhere by reducing our sales, and adversely affecting our results of operations, and diluting our brand or reputation. Any significant impairment of our intellectual property rights could harm our business or our competitiveness. Also, protecting our intellectual property rights is costly and time consuming. Any increase in the unauthorized use of our intellectual property could make it more expensive to conduct our business and harm our results of operations.

We seek to obtain patent protection for our innovations. However, it is possible that patent protection may not be available for some of these innovations. In addition, given the costs of obtaining patent protection, we may choose not to protect certain innovations that later turn out to be important. Furthermore, there is always the possibility, despite our efforts, that the scope of the protection gained will be insufficient or that an issued patent may be deemed invalid or unenforceable.

We also seek to maintain certain intellectual property as trade secrets. We require our employees, consultants, advisors and collaborators to enter into confidentiality agreements in order to protect our trade secrets and other proprietary information. These agreements might not effectively prevent disclosure of our trade secrets, know-how or other proprietary information and might not provide an adequate remedy in the event of unauthorized disclosure of such confidential information. In addition, others may independently discover our trade secrets and proprietary information, in which case we cannot assert such trade secret rights against such parties. Any unauthorized disclosure or independent discovery of our trade secrets would deprive us of the associated competitive advantages. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive position.

The revenue model for our live streaming may not remain effective and we cannot guarantee that our future monetization strategies will be successfully implemented or generate sustainable revenues and profit.

We launched our live video streaming services in February 2016. In May 2018, we expanded our live streaming business by launching a live audio streaming product, PeiWan. In September 2019, we started to operate another live video streaming product, BuOu Live, by cooperating with a third party. In 2020, revenue from live streaming business was US$20.9 million, accounting for 11.2% of our total revenues in 2020. The live streaming industry is highly competitive and there are several well-established and successful players in this market. We may not be able to compete effectively with them and realize the growth of our live streaming business continuously. We are not sure whether our products will be accepted by the market and generate/continue to generate revenues as we expected. The user demand may also change, decrease substantially or dissipate and we may fail to anticipate and serve user demands effectively and timely.

Although we factor in industry standards and expected user demand in determining how to optimize virtual item merchandizing effectively, if we fail to properly manage the supply and timing of our virtual items and their appropriate prices, our users may be less likely to purchase these virtual items from us. In addition, if users' spending habits change and they choose to only access our content for free without additional purchases, we may not be able to continue to successfully implement the virtual items-based revenue model for live streaming, in which case we may have to provide other value-added services or products to monetize our user base. We cannot guarantee that our attempts to monetize our user base and products and services will continue to be successful, profitable or widely accepted, and therefore the future revenue and income potential of our business are difficult to evaluate.

We may fail to offer attractive content for our live streaming services, or attract and retain talented and popular broadcasters, which may materially adversely affect the operation of our live streaming services and its results of operations.

We offer live streaming content. Our content library is constantly evolving and growing to meet users' evolving interests. We actively track viewership growth and community feedback to identify trending content and encourage our broadcasters to create content that caters to users' constantly changing taste. However, if we fail to continue to expand and diversify our content offerings, identify trending and popular genres, or maintain the quality of our content, we may experience decreased viewership and user engagement, which may materially and adversely affect our results of operations and financial conditions.

In addition, we largely rely on our broadcasters to create high-quality and fun live streaming content. Popular broadcasters are key to the success of our living streaming services. We have in place a comprehensive and effective incentive mechanism to encourage broadcasters to supply content that are attractive to our users. We have also entered into multi-year cooperation agreements that contain exclusivity clauses with popular broadcasters and the talent agencies they cooperate with. However, if any of those broadcasters and/or the talent agencies decides to breach the agreement or chooses not to continue the cooperation with us once the term of the agreement expires, or if we fail to attract new talented and productive broadcasters, the popularity of our platform may decline and the number of our users may decrease, which could materially and adversely affect our results of operations and financial condition.

We may be held liable for information or content displayed on, retrieved from or linked to our platforms, or distributed to our users, if such content is deemed to violate any PRC laws or regulations, or for improper or fraudulent activities conducted on our platform, and PRC authorities may impose legal sanctions on us and our reputation may be damaged.

Our live streaming services enable users to interact and chat with broadcasters and other users and engage in various other online activities. Although we require our broadcasters to register their real name, we are unable to independently verify the accuracy and authenticity of the identity information provided by them. For the registration of users before they become broadcasters, we rely on third-party organizations to verify their identities through mobile phone numbers or ID card number, which may not always be reliable. In addition, we have put in place measures to monitor content on our platform generated by our users, but it is impossible for us to detect every piece of inappropriate or illegal content on our platform due to the immense quantity of user-generated content on our platform. Therefore, it is possible that broadcasters and/or users may engage in illegal, obscene or incendiary conversations or activities, including the publishing of inappropriate or illegal content that may be deemed unlawful under PRC laws and regulations on our platforms. For example, we received a notice from CAC in 2020, pointing out that there was certain inappropriate information discovered on our platform. We promptly fixed the issue and managed to avoid the risk of being removed from app stores by regulatory authorities. If any content on our platforms is deemed illegal, obscene or incendiary, or if appropriate licenses and third-party consents have not been obtained, claims may also be brought against us for defamation, libel, negligence, copyright, patent or trademark infringement, other unlawful activities or other theories and claims based on the nature and content of the materials that are provided, uploaded, shared, published or otherwise accessed by users or us through our platforms. Defending any such actions could be costly and involve significant time and attention of our management and other resources. In addition, PRC authorities may impose legal sanctions on us, including, in serious cases, suspending or revoking the licenses necessary to operate our platforms if they find that we have not adequately managed the content on our platforms. Any such claims or sanctions against us could materially and adversely affect our business and our brand.

We believe that maintaining and enhancing our Xunlei brand is of significant importance to the success of our business. A well-recognized brand is critical to increasing our user base and, in turn, enhancing our attractiveness to advertisers, subscribers and paying users. If we fail to sustain or improve the strength of our brand, we may subsequently experience difficulty in maintaining market share. We have developed our reputation and established a leading position by providing our users with superior acceleration services and cloud computing services. We will continue to conduct various marketing and brand promotion activities. We cannot assure you, however, that these activities will be successful and achieve the brand promotion effects we expect. In addition, any negative publicity in relation to our services or our marketing or promotion practices, regardless of its veracity, could harm our brand image and, in turn, result in a reduced number of users and advertisers. Historically, there has been negative publicity about our company, our products and services and certain key members of our management team, which has adversely affected our brand, public image and reputation. If we fail to maintain and enhance our brand, or if we incur excessive expenses in this effort, our business, financial condition and results of operations may be materially and adversely affected.

System failure, interruptions and downtime, including those caused by cyber-attacks or security breaches, can result in user dissatisfaction, adverse publicity or leakage of confidential information of our users and customers, and our business, financial condition, results of operations may be materially and adversely affected.

Our operations rely on our networks and servers, which can suffer system failures, interruptions and downtime. Our network systems are vulnerable to damage from computer viruses, fires, floods, earthquakes, power losses, telecommunication failures, computer hacking, security breach, and similar events despite our implementation of security measures, which may cause interruptions to the services we provide, degrade the user experience, disclosure of our data or user data, such as personal information, names, accounts, user IDs and passwords, and payment or transaction related information, or cause users to lose confidence in our products. Our efforts to protect our company data and user data may also be unsuccessful due to software bugs or other technical malfunctions, employee error or malfeasance, government surveillance, or other factors.

The satisfactory performance, stability, security and availability of our websites and our network infrastructure are critical to our reputation and our ability to attract and retain users and advertisers. Our network and servers contain information regarding file index, advertising records, premium licensed digital media content and various other facets of the business to assist management and help ensure effective communication among various departments and offices of our company. Any failure to maintain the satisfactory performance, stability, security and availability of our network, website, servers or technology platform, whether such failure results from intentional cyber-attacks by hackers, from issues with our own technology and team or from other factors beyond our control, may cause significant harm to our reputation and impact our ability to attract and maintain users and business partners. We have put in place various measures to prevent such incidents from happening and internal reporting procedures with respect to such incidents. However, such prevention measures may not function in a way as we expect due to the evolution of the sophistication of cyber-attacks, advances in technology, an increased level of sophistication and diversity of our products and services, an increased level of expertise of hackers, new discoveries in the field of cryptography or others, software bugs or other technical malfunctions, or other evolving threats.

From time to time, our users in certain locations may not be able to gain access to our network or our websites for a period of time lasting from several minutes to several hours, due to server interruptions, power shutdowns, internet connection problems or other reasons. For example, in 2020, one of our products experienced a system failure due to an extremely high usage rate, which lasted for around three hours and affected a large portion of our users. Although we have fixed the server promptly, we cannot assure you that such instances will not occur in the future. Any server interruptions, break-downs or system failures, including failures which may be attributable to events within or outside our control that could result in a sustained shutdown of all or a material portion of our network or website, could reduce the attractiveness of our service offerings. In addition, any substantial increase in the volume of traffic on our network or website will require us to increase our investment in bandwidth, expand and further upgrade our technology platform. We do not maintain insurance policies covering losses relating to our network systems due to very limited available insurance products in the insurance market in China. As a result, any system failure, interruptions or network downtime for an extended period may have a material adverse impact on our revenues and results of operations.

We rely on information technology systems to process, transmit and cache or store electronic information in our day-to-day operations, including customer, employee and company data. The secure processing, maintenance and transmission of this information is critical to our operations and the legal environment surrounding information security, storage, use, processing, disclosure and privacy is demanding with the frequent imposition of new and changing requirements. We also store certain information with third parties. Our information systems and those of our third-party vendors are subjected to computer viruses or other malicious codes, unauthorized access attempts, and cyber- or phishing-attacks and also are vulnerable to an increasing threat of continually evolving cybersecurity risks and external hazards, as well as improper or inadvertent staff behavior, all of which could expose confidential company and personal data systems and information to security breaches. Any such breach could compromise our networks, and the information stored therein could be accessed, publicly disclosed, lost or stolen. Such attacks could result in our intellectual property and other confidential information being lost or stolen, disruption of our operations, and other negative consequences, such as increased costs for security measures or remediation costs, and diversion of management attention. Any actual or perceived access, disclosure or other loss of information or any significant breakdown, intrusion, interruption, cyber-attack or corruption of customer, employee or company data or our failure to comply with federal, state, local and foreign privacy laws or contractual obligations with customers, vendors, payment processors and other third parties, could result in legal claims or proceedings, liability under laws or contracts that protect the privacy of personal information, regulatory penalties, disruption of our operations, and damage to our reputation, all of which could materially adversely affect our business, revenue and competitive position. For example, in 2020, a few individual users had taken advantage of a technical flaw of certain of our products to make fraudulent purchases and managed to cash out. We have promptly identified and patched the technical flaw. While we will continue to implement additional protective measures to reduce the risk of and detect cyber-incidents, cyber-attacks are becoming more sophisticated and frequent, and the techniques used in such attacks change rapidly. Our protective measures may not protect us against attacks and such attacks could have a significant impact on our business and reputation.

In addition, there has been a trend tightening the regulation of privacy and user data protection globally. We may become subject to new laws and regulations applying to the solicitation, collection, processing or use of personal or consumer information that could affect how we store, process and share data with our customers, suppliers and third-party sellers. For example, the National Information Security Standardization Technical Committee issued the latest Standard of Information Security Technology—Personal Information Security Specification, which came into effect in March 2020. Under such standard, the personal data controller refers to entities or persons who are authorized to determine the purposes and methods for using and processing personal information. The personal information controller should follow the principles of legality, justification and necessity in handling personal information. The personal information controller should obtain a consent from a personal information provider and provide such personal information provider an independent choice when the product or service offered by the personal information controller has multiple functions. On November 28, 2019, the Secretary Bureau of the Cyberspace Administration of China, the General Office of the Ministry of Industry and Information Technology, the General Office of the Ministry of Public Security and the General Office of the State Administration for Market Regulation jointly promulgated the Identification Method of Illegal Collection and Use of Personal Information Through App, which provides guidance for regulatory authorities to identify illegal collection and use of personal information through mobile apps, for the app operators to conduct self-examination and self-correction, and for other participants to voluntarily monitor compliance. Moreover, the PRC Constitution, the PRC Criminal Law, the Civil Code of the PRC and the PRC Internet Security Law protect individual privacy in general, which require certain authorization or consent from internet users prior to collection, use or disclosure of their personal data and also protection of the security of the personal data of such users. In particular, Amendment 7 to the PRC Criminal Law prohibits institutions, companies and their employees in the telecommunications and other industries from selling or otherwise illegally disclosing a citizen's personal information obtained during the course of performing duties or providing services.

In addition, we may need to comply with increasingly complex and rigorous regulatory standards enacted to protect business and personal data in the U.S., Europe and elsewhere. For example, the European Union adopted the General Data Protection Regulation, or the GDPR, which became effective on May 25, 2018. The GDPR imposes additional obligations on companies regarding the handling of personal data and provides certain individual privacy rights to persons whose data is stored. New privacy laws will continue to come into effect around the world in 2020, with one of the most significant being the California Consumer Privacy Act, or the CCPA, which became effective on January 1, 2020. Compliance with existing, proposed and recently enacted laws, including implementation of the privacy and process enhancements called for under GDPR, CCPA and regulations from other legislations, can be costly. Any failure to comply with these regulatory standards could subject us to legal and reputational risks. Any inability, or perceived inability, to adequately address privacy and data protection concerns, even if unfounded, or comply with applicable laws, regulations, policies, industry standards, contractual obligations, or other legal obligations could result in additional cost and liability to us or company officials, damage our reputation, inhibit sales, and otherwise adversely affect our business.

Our results of operations could be materially and adversely affected if our cooperation with Itui regarding online advertising is unsuccessful. We may also be subject to penalties from relevant authorities due to certain actions or inactions of Itui in connection with online advertising, which is beyond our control.

We realized growth of the revenue from our online advertising services from US$16.9 million in 2016 to US$27.8 million in 2018. However, revenue from our online advertising service decreased to US$15.6 million in 2019, and further decreased to US$13.2 million in 2020, primarily due to a generally decreased demand for our online advertising services. In May of 2020, we entered into an advertising revenue sharing agreement with a subsidiary of Itui International Inc., our largest shareholder. Itui provides Xunlei with online traffic monetization services, including the operation and placement of advertisements, research and technology support with respect to advertising systems, business algorithm platform as well as content recommendation and other optimization services. By outsourcing our advertising business to Itui, we hope to take advantage of Itui's advanced precision targeting algorithm to achieve better placement of advertisement. However, we cannot assure you that we can improve the results of operations of regarding online advertising through such cooperation. In our cooperation with Itui, we require Itui to comply with all relevant laws and regulations regarding advertising business. However, we have no control over Itui and we cannot assure you that Itui will be able to operate the advertising business and its advertising platform legally and successfully. We may still be liable for certain circumstances in connection with Itui that are beyond our control, and our business may also be negatively affected. In addition, if we are unable to maintain our cooperation with Itui for whatever reasons and we are unable to find a suitable replacement in a timely manner, or at all, our advertising revenue may experience significant declines. As a result, our business and financial condition may be negatively affected.

We rely on third-party platforms to distribute our mobile applications. If we are unable to maintain a good relationship with such platform providers, if their terms and conditions or pricing were changed to our detriment, if we violate, or if a platform provider believes that we have violated, the terms and conditions of its platform, or if any of these platforms loses market share or falls out of favor or is unavailable for a prolonged period of time, our mobile strategy may suffer.

We are subject to the standard policies and terms of service of third-party platforms, which govern the distribution of our mobile application on the platform. Each platform provider has broad discretion to change and interpret its terms of service and other policies with respect to us and other users, and those changes and interpretation may be unfavorable to us. A platform provider may also change its fee structure, add fees associated with access to and use of its platform, alter how we are able to advertise or distribute on the platform, or change how the personal information of its users is made available to application developers on the platform. Such changes may decrease the visibility or availability of our applications, limit our distribution capabilities, prevent access to our applications, reduce the amount of downloads and revenue we may recognize from the applications, increase our costs to operate on these platforms or result in the exclusion or limitation of our application on such platforms. Any such changes could adversely affect our business, financial condition or results of operations.

If we violate, or a platform provider believes we have violated its terms of service (or if there is any change or deterioration in our relationship with these platform providers), that platform provider could limit or discontinue our access to the platform. A platform provider could also limit or discontinue our access to the platform if it establishes more favorable relationships with one or more of our competitors or it determines that we are a competitor. Any limit of, or discontinuation to, our access to any platform could adversely affect our business, financial condition or results of operations. In September 2016, all of our mobile applications, including Mobile Xunlei, were removed from Apple's iOS App Store as a result of alleged possible violations of the developer license agreement between Apple and us. After a prolonged negotiation, Apple agreed that we could re-launch our mobile applications, including Mobile Xunlei, on Apple's iOS App Store as long as our mobile applications comply with Apple's policies for launching mobile applications on App Store and pass Apple's scrutinization. In July 2020, we successfully re-launched our mobile applications on Apple's iOS App Store, which means new users can download our mobile applications again. Although we have re-launched our mobile applications on App Store, we cannot assure you the removal of our mobile applications from App Store will not happen again in the future. Furthermore, other app stores also have the right to update their store policies. If we are deemed to violate their policies, our mobile applications are removed from App Store again or other app stores at the same time, which may significantly harm our mobile strategy, materially and adversely affect our business operations, results of operations and financial condition.

We are strictly regulated in China. Any lack of requisite licenses or permits applicable to our businesses or to our third-party services providers and any changes in government policies or regulations may have a material and adverse impact on our businesses, financial conditions and results of operations.

Our business is subject to governmental supervision and regulations by the relevant PRC governmental authorities including the State Council, the Ministry of Industry and Information Technology (formerly the Ministry of Information Industry), or MIIT, the State Administration of Radio and Television, or SAPPRFT, (formerly the General Administration of Press and Publication, Radio, Film and Television (established in March 2013 as a result of institutional reform integrating the State Administration of Radio, Film and Television, and the General Administration of Press and Publication), or GAPPRFT), Ministry of Culture and Tourism (established in March 2018 as a result of institutional reform integrating the Ministry of Culture, and the Ministry of Tourism), or MOCT and other relevant government authorities. Together these government authorities promulgate and enforce regulations that cover many aspects of operation of telecommunications and internet information services, including entry into the telecommunications industry, the scope of permissible business activities, licenses and permits for various business activities and foreign investment.

We are advised by our PRC legal counsel that a license for online transmission of audio-visual programs is required for the display of video content, including live streaming content, on our platform. See "Item 4. Information on the Company—B. Business Overview—Regulation—Regulation on online transmission of audio-visual programs." We used to be a registered owner of such license when we were operating Xunlei Kankan business. However, when we disposed of Xunlei Kankan business to a purchaser in July 2015, the registered owner of such license was also changed to the purchaser. After the disposal, Shenzhen Wangwenhua started to operate a live streaming business and a short video business. As advised by our PRC legal counsel, a license for online transmission of audio-visual programs is required for operating short video business and live streaming business. In June 2018, Shenzhen Wangwenhua acquired 80% of the equity interest of Henan Tourism Information Co., Ltd., or Henan Tourism, from an independent third party. Henan Tourism is a registered owner of the license for online transmission of audio-visual programs. However, Shenzhen Wangwenhua, the entity that operates both license-required businesses, is not a registered owner of the license for online transmission of audio-visual programs. As a result, relevant PRC government authorities may find that we are operating license-required business without obtaining a proper license, and thus may issue warnings, order us to rectify our violating operations and impose fines on us. In the case of serious violations as determined by relevant authorities at its discretion, they may ban the violating operations, seize our equipment in connection with such operations and impose a penalty of one to two times of the amount of the total investment in such operations.

The cloud computing services we provide to the internet users may be deemed to have included the content distribution network (CDN) services. Pursuant to the *Notice of Ministry of Industry and Information Technology on Cleaning up and Standardizing the Internet Network Access Service Market*, we have to update our existing value-added telecommunication services license, or VATS License, to specifically cover the CDN services. Shenzhen Onething Technologies Co., Ltd., or Shenzhen Onething, a subsidiary of Shenzhen Xunlei, and a subsidiary of Shenzhen Onething have obtained the VATS Licenses that cover the CDN services.

If the relevant PRC authority decides that we are operating certain business without the proper licenses or approvals, we may be warned, fined, ordered to rectify our violations or be imposed restrictions or even suspension on our relevant business. In addition to the above, if the PRC government promulgates new laws and regulations that require additional licenses or imposes additional restrictions on the operation of any part of our business, it has the power to, among other things, levy fines, confiscate our income, revoke our business licenses, and require us to discontinue our business or impose restrictions on the affected portion of our business. Any of these actions by the PRC government may have a material and adverse effect on our results of operations.

Furthermore, for our cloud computing business, we are operating under the shared economy business model and therefore face certain risks related to this business model. We cannot assure you that our cooperation with all third parties for our cloud computing business complies with all laws and regulations. For example, we cannot assure you that our third-party service providers have obtained or applied for all permits and licenses required for providing relevant services to us. We cooperate with various third-party service providers to provide Internet Data Center (IDC) and Internet Service Provider (ISP) services for our CDN services. As PRC laws and regulations require IDC and ISP service providers to obtain the corresponding IDC licenses and ISP licenses, we require our third-party service providers to obtain such licenses. However, we cannot assure you that these third-party services providers maintain or are able to obtain in a timely manner or at all the required licenses. If our third-party service providers fail to obtain or maintain relevant approvals, licenses or permits required for operating such businesses, our third-party service providers could be subject to liabilities, penalties and operational disruptions. Even if these service providers are able to maintain proper licenses, it is possible that the services and bandwidth resources they provide may not meet our requirements.

Violation of existing or future laws, regulations or regulations on collection and use of personal data could damage our reputation, deter current and potential users from using our services and substantially harm our business and results of operations.

Pursuant to the applicable PRC laws and regulations concerning the collection, use and sharing of personal data, our PRC subsidiaries, VIE and its subsidiaries are required to keep our users' personal information confidential and are prohibited from disclosing such information to any third parties without such users' consent. Relevant laws and regulations also require internet operators to take measures to ensure confidentiality of users' information. See "Item 4. Information on the Company—B. Business Overview—Regulation—Regulation on internet privacy." In November 2019, the MIIT issued the Notice on Carrying Out the Special Rectification of App Infringement on Users' Rights and Interests. Based on such notice, the MIIT required a number of mobile apps to be removed from application stores as these apps infringed users' rights and interests and rectifications cannot be completed within a specified period of time. In early 2020, the MIIT also notified application stores to suspend downloading three mobile apps as these apps cannot complete rectification within a specified period of time.

To comply with relevant laws and regulations, we periodically review our privacy policies and amend as needed based on the development and changes of our business to ensure that we collect, use or process any of our users' personal information after we obtain users' prior consent. While we strive to comply with our privacy guidelines as well as all applicable data protection laws and regulations, any failure or perceived failure to comply with relevant laws and regulations may result in proceedings or actions against us by government entities or others, and could damage our reputation. For example, one of our mobile applications received a notice from a regulatory authority for failing to explicitly inform users of the purpose, method, and scope of our personal data collection. In response, we have modified the privacy policies of the product to the regulator's satisfaction. However, we cannot guarantee you that regulatory authorities will not find our privacy policies insufficient again in the future, and we may be ordered to modify our privacy policies and make rectifications to meet the requirements of relevant laws or regulations. If we fail to make modifications or rectifications to the satisfaction of relevant regulatory authorities, we may subject to administrative penalties or even removals of our mobile applications.

In addition, user and regulatory attitudes towards privacy are evolving and concerns about the security of personal data could also lead to a decline in general usage of our products and services, which could lead to lower user numbers. For example, if the PRC government authorities require real-name registration by our users, our user numbers may decrease and our business, financial condition and results of operations may be adversely affected. See "—Risks Related to Doing Business in China—We may be adversely affected by the complexity, uncertainties and changes in PRC regulations of internet-related business and companies." In addition, we may become subject to the data protection or personal privacy laws of jurisdictions outside of China, where more stringent requirements may be imposed on us and we may have to allocate more resources to comply with the legal requirements, and our user numbers may further decrease. A significant reduction in user numbers could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to generate sufficient cash from operations or to obtain sufficient capital to meet the additional capital requirements of our changing business.

In order to implement our development strategies, including our strategies to transition to mobile internet and continuing efforts on our cloud computing business, we will make continual capital investments in terms of devoting more research and development efforts into investigating user needs and develop new mobile products and update existing ones, continue enhancing the technologies involved in our cloud computing business and provide more frequent updates to our existing products. Thus, we will continue to incur substantial capital expenditures on an ongoing basis, and it may become difficult for us to meet such capital requirements.

To date, we have financed our operations and the building of Xunlei Tower, our new headquarters, primarily by using our existing internal cash reserves and borrowing bank loans. If we fail to retain a sufficient number of users and continue to convert such users into paying users or subscribers, we may not be able to generate sufficient revenues to cover our business development strategies, including our continued transition to mobile internet and the continued expansion of our cloud computing business, and our business may be materially and adversely affected. Further, after the construction of Xunlei Tower is completed, we may operate the building ourselves, which may subject us to additional real estate related financial and operating risks.

We may obtain additional financing, including from equity offerings and debt financings in capital markets, to fund the operation and planned expansion of our business. Our ability to obtain additional financing in the future, however, is subject to a number of uncertainties, including:

- our future business development, financial condition and results of operations;
- general market conditions for financing activities by companies in our industry; and
- macroeconomic, political and other conditions in China and elsewhere.

If we cannot obtain sufficient capital to meet our capital expenditure needs, we may not be able to execute our growth strategies and our business, results of operations and prospects may be materially and adversely affected.

Our costs and expenses, such as research and development expenses, may increase and our results of operations may be adversely affected.

The operation of our extensive resource delivery network and cloud computing business as well as our exploration and implementation of our new business strategies require significant upfront capital expenditures as well as continual, substantial investment in content, technology and infrastructure. Since inception, we have invested substantially in research and development to maintain our technology leadership, and in equipment to increase our network capacity. We expect our research and development expenses to increase in the near term as we continue to expand our research and development team to develop new products and update existing products, particularly as we continue devoting resources in the development of our cloud computing business and the development and updating of our mobile products. Most of our capital expenditures, such as expenditures on servers and other equipment, are based upon our estimation of potential future demand and we are generally required to pay the entire purchase price and license fees upfront. As a result, our cash flow may be negatively affected in the periods in which such payments are made. We may not be able to quickly generate sufficient revenue from such expenditures, which may negatively affect our results of operations within certain periods thereafter; and if we overestimate future demand for our services, we may not be able to achieve expected rates of return on our capital expenditures, or at all.

In addition, bandwidth and other costs are subject to change and are determined by market supply and demand. For example, the market prices for professionally produced digital media content have increased significantly in China during the past few years, and there have been increases in the relevant license fees. In addition, if bandwidth and other providers cease their business with us or raise the prices of their products and services, we will incur additional costs to find alternative service providers or to accept the increased costs in order to provide our services. If we cannot maintain a cost-effective operation, or if our costs to deliver our services do not decline commensurate with any future declines in the prices we charge our users, our results of operations may be adversely affected and we may fail to achieve profitability.

If we are unable to collect accounts receivable in a timely manner or at all, our financial condition, results of operations and prospects may be materially and adversely affected.

We generated a large portion of our revenue from the sales of CDN in 2020. As of December 31, 2020, we have a considerable portion of accounts receivable arising from the sales of CDN. In addition, we have outsourced our advertising operations to Itui in 2020. As a result, we generated a considerable portion of revenues from the advertising revenue sharing agreement we entered into with Itui. As a result, the financial soundness of our customers purchasing CDN from us, Itui, advertising agencies, or advertisers may affect our collection of accounts receivable. In general, a credit assessment of our CDN purchasers will be made to evaluate the collectability of the service fees before entering into any business contracts, and we require Itui to do the same with advertising agencies or advertisers. However, we cannot assure you that we or Itui will always be able to accurately assess the creditworthiness of each CDN purchaser, advertising agency, or advertiser, as applicable. Any inability of Itui, advertisers, advertising agencies or CDN purchasers, especially those that accounted for a significant percentage of our accounts receivables in the past, to pay us in a timely manner may adversely affect our liquidity and cash flows. For example, we made a provision for our accounts receivable of US$7.6 million in 2018 due to a CDN purchaser’s prolonged overdue payment and its shutdown of operations. In addition, the online advertising market in China is dominated by a small number of large advertising agencies. If the large advertising agencies that Itui has business relationships with demand higher rebates for their agency services, our results of operations will be materially and adversely affected.

We had net operating cash outflows in 2018, 2019, and 2020 and may be subject to liquidity pressure in the future if we cannot generate sufficient cash from our operating activities in the future.

We had net operating cash outflows of US$35.6 million, US$45.6 million and US$13.9 million in 2018, 2019 and 2020. See "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Operating activities" for reasons of such net operating cash outflows. We cannot guarantee we will be able to generate positive and sufficient cash flows from operating activities in the future. If we have negative cash flows from operating activities in the future, our business, results of operations and liquidity may be adversely affected.

In addition, we are constructing a building which will be used as our research and development center and headquarters. We planned to invest RMB600.0 (US$92.0 million) million at the beginning of the project planning. Based on our latest estimates, we expect to invest a total of RMB450.0 million (US$69.0 million) for this construction project. In 2019, we entered into a loan facility agreement with a commercial bank to finance the construction project. The land use right and the building under construction were mortgaged to the bank and one of our subsidiaries also provided a guarantee to the bank. The maximum amount of loans we are able to take out is RMB400.0 million (US$61.3million). As of December 31, 2020, we took out RMB130.0 million (US$19.9 million). We plan to take out another loan under this facility for no more than RMB120.0 million (US$17.4 million) in the near future depending on the progress of the construction project. As of the date of this report, we anticipate the construction project will be completed within our budget. Although we had cash, cash equivalents and short-term investments of US$255.1 million as of December 31, 2020, we may be under liquidity pressure if we are unable to generate sufficient cash from our operating activities in the future, unable to renew our bank loans, or if the actual cost of the construction project goes beyond our estimated costs. In addition, we plan to complete the construction by 2021 or early 2022 and relocate to the new building afterwards. However, we cannot assure you that we will definitely be able to complete the construction by then due to a number of factors that are beyond our control including outbreak of pandemic, weather conditions, force majeure, labor disputes and government regulations. For example, the completion of the construction project is subject to government approval. We cannot guarantee you that relevant government authorities will grant us approval in our expected timeline. If we are unable to move into the new building as in our expected timeline, we will have to continue to pay office rental expenses. In addition, we may lease certain floors of the building to other parties and use the rental we receive to pay loan interest. If the new building cannot be put into use in our expected timeline, we will have to pay loan interest from our existing cash, which will increase our liquidity pressure. In the worst-case scenario, if we are unable to repay the loan, the bank may foreclose our building. As a result, we may have to rent other office space to continue our business operations and incur additional costs. Furthermore, we engaged a reputable national construction company to construct the building and a professional real estate consulting firm to manage the process. Disputes between construction company/real estate consulting firm/other construction service providers and us have arisen and may continue to arise in the future, which may cause delay to the completion of the construction project. For example, we have a pending lawsuit with a constructing company of our headquarters construction project, which may adversely affect our financial condition if we lose the case. The lawsuit may also divert our management's attention and subject us to additional costs.

We may not be able to successfully address the challenges and risks we face in the online games market, such as a failure to operate popular, high-quality games or to obtain all the licenses required to operate online games, which may subject us to penalties from relevant authorities, including the discontinuance of our online game business.

We have cooperated with third parties to operate certain web games since 2019. See "Item 4. Information on the Company-B. Business Overview-Our platform-Online game services." Operating online games in China requires several permits and approvals. For example, as advised by our PRC legal counsel, a VATS License is required for operating online games and an internet publication license is required for operating internet publishing services, which is defined as offering internet publications to the public through the internet. Our online game operating subsidiaries have obtained the VATS License for operating our online games, but have not obtained the internet publishing services license. Based on our consultation with the responsible government authority, since our online game operating subsidiaries are only operators of online games or only provide a platform for online game operations, they are not required to obtain the internet publishing services license. Therefore, our online game operating subsidiaries have not obtained the internet publishing services license. However, we cannot rule out the possibility that relevant government authorities may in future take the view that our online game operating subsidiaries are required to obtain the internet publishing services license and thus penalize us for operating online game business without a proper license. If that were to happen, we would be subject to orders to the shut-up the website or delete all relevant online publications, confiscation of illegal income and major equipment or fines. In addition, according to relevant regulations, an online game has to be scrutinized by and obtain an approval number (ISBN number) from the SAPPRFT before it is allowed to be launched online. In our cooperation with online game providers, we require that ISBN numbers have to be obtained for the online games within the scope of our cooperation. However, as we are not the developers or publishers of those online games, we cannot assure you that the ISBN numbers of those online games are obtained strictly in compliance with relevant legal requirements and procedures without any defects or relevant amendment filings are made in compliance with relevant legal requirements. If the ISBN numbers are obtained not in compliance with relevant laws and regulations or amendment filings are not made timely, relevant government authorities may impose fines on us, confiscate our income generated from operating such online games and require us to delete all relevant online publications or discontinue our online game business.

In addition, relevant PRC laws and regulations require that contents of online games are prohibited to advocate cult, superstition, obscenity, pornography, gambling or violence, or abet commission of crime. As we are not the developers of the online games we operate, we cannot assure you that the contents of the online games we operate are fully in compliance with such requirement. Failure to comply with relevant PRC laws and regulations may subject us to liability, administrative actions or penalties imposed by relevant PRC authorities. The imposition of any of these penalties may result in a material and adverse effect on our ability to operate our online game business and our results of operations. As we do not have control over the contents of the online games we operate, we cannot assure you that we will not be subject to any intellectual property infringement claims or misappropriation claims. As of the date of this annual report, we were not involved in any lawsuits relating to the online games we operate. Defending those claims, with or without merits, could be costly and time-consuming, and diverge our management’s attention. If we or our third-party online game providers lose the cases, we may be required to compensate a large amount of damages or immediately discontinue the operation of relevant online games. If we are unable to find alternative solutions on commercially reasonable terms on a timely basis, our online game business, reputation and results of operations may be materially and adversely affected.

In October 2019, General Administration of Press and Publication issued the Notice by the General Administration of Press and Publication of Preventing Minors from Indulging in Online Games, or Anti-indulgence Notice, which imposed an array of restrictive measures to prevent underage users to indulge in online games. For example, game operators are not allowed to provide underage users with any form of access to online games during the period from 22:00 p.m. each day to 8:00 a.m. of the next day and the total length of time for game operators to provide underage users with access to online games cannot exceed three hours a day during statutory holidays or 1.5 hours a day on days other than statutory holidays. The Anti-indulgence Notice also requires game operators to implement the real-name registration system for players of online games and take effective measures to restrict underage players from using paid services that are inconsistent with their capacity for civil conduct. We have implemented a real-name registration system for our online games. Game operators or developers of the online games on our platform are able to access to our real-name registration system and implement their anti-indulgence measures based on the identify information in our system. We have also cooperated with third parties in developing an anti-indulgence system pursuant to the Anti-indulgence Notice and started to implement such system for new mobile games that we offered in collaboration with third parties since April 2020. In February 2021, Shenzhen Press and Publication Bureau issued the Notice on Interface Docking of Anti-indulgence and Real Name Registration System to Prevent Minors from Indulging in Online Games, which requires all the online game enterprises in Guangdong Province to file the application before April 30, 2021, and all such games to connect with the national anti-indulgence and real-name registration system established by Publication Bureau of the Publicity Department of the CPC Central Committee before June 1, 2021. Although we have been preparing the requisite application and working on connecting our online games to the national anti-indulgence and real-time registration system, we cannot assure you that we will meet the relevant requirements in time. If any third-party online game operators, developers or we fail to comply with the above requirements, we may have joint or several liabilities and thus be subject to administrative penalties. Penalties under the Anti-indulgence Notice include fines and other penalties such as taking corrective actions during specified periods, shutting down of our online games operations and license revocation due to the fact that we did not implement those restrictions pursuant to the Anti-indulgence Notice. If any of the above were to happen, our online game business and results of operations would be negatively affected.

We operate in a competitive market and may not be able to compete effectively.

We face significant competition in different areas of our business. Some of our existing or potential competitors have a longer operating history and significantly greater financial resources than we do, and in turn may be able to attract and retain more users and advertisers. Our competitors may compete with us in a variety of ways, including by conducting brand promotions and other marketing activities and making acquisitions. For example, in the cloud computing sector, we face existing intensive competition from leading Chinese internet companies such as Alibaba and Tencent. They generally have a stronger competitive position and have more resources and technological capability to compete in this sector. We cannot guarantee you that we will certainly be able to compete effectively with them and continuously increase our market share or maintain our existing market share. In the cloud acceleration sector, although we currently have a niche market in China for cloud acceleration products and services, we cannot guarantee that we will be able to maintain our established position in the future. We may face competition from leading Chinese internet companies if they start to allocate resources and focus on the development in this business sector or from startups who may develop similar or alternative products. With more entrants into the cloud acceleration business, aggressive price cutting by competitors may result in the loss of our existing subscribers. We may have to take actions to retain our user base and attract more subscribers at significant cost, including upgrading and developing existing and new products and services in order to meet users' changing demand, but we cannot assure you that such efforts will succeed, especially given the tightening control over internet content by the Chinese government. See "—If we fail to keep up with the technological development in the internet industry and users' changing demand, our business, financial condition and results of operations may be materially and adversely affected" and "—Regulation and censorship of information disseminated over the internet in China have adversely affected our business and may continue to adversely affect our business, and we may be liable for the digital media content on our platform." If we are unable to effectively compete in any aspect of our business, our business, financial condition and results of operations may be materially and adversely effected.

Undetected programming errors or flaws or failure to maintain effective customer service could harm our reputation or decrease market acceptance of our services, particularly our resource discovery network, which would materially and adversely affect our results of operations.

Our programs may contain programming errors that may only become apparent after their release, especially in terms of upgrades to, for example, Xunlei Accelerator or cloud acceleration subscription services. We receive user feedback in connection with programming errors affecting their user experience from time to time, and such errors may also come to our attention during our monitoring process. However, we cannot assure you that we will be able to detect and resolve all these programming errors effectively or in a timely manner. Undetected programming errors or defects may adversely affect user experience and cause our users to stop using our services and our advertisers to reduce their use of our services, any of which could materially and adversely affect our business and results of operations.

Advertisements displayed on our platform may subject us to penalties and other administrative actions.

Under PRC advertising laws and regulations, advertisement channels such as us are obligated to monitor the advertising content they display to ensure that such content is true, accurate and in full compliance with applicable laws and regulations. PRC advertising laws and regulations set forth certain content requirements for advertisements in the PRC 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. In April 2015 and October 2018, the SCNPC subsequently issued the amended Advertisement Law, which took effect on September 1, 2015 and October 26, 2018, to further strengthen the supervision and management of advertisement services. Pursuant to the Advertisement Law, any advertisement that contains false or misleading information to deceive or mislead consumers shall be deemed false advertising. Furthermore, the Advertisement Law explicitly stipulates detailed requirements for the content of several different kinds of advertisement, including advertisements for medical treatment, pharmaceuticals, medical instruments, health food, alcoholic drinks, education or training, products or services having an expected return on investment, real estate, pesticides, feed and feed additives, and some other agriculture-related advertisement. On July 4, 2016, SAIC issued the Interim Measures for the Administration of Internet Advertising to specifically regulate internet advertising activities. See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulation on advertising business” for details. In providing advertising services, we are required to review the supporting documents provided to us by advertising agencies or advertisers for the relevant 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, we 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 eliminate the effect of illegal advertisement and cessation of publishing the advertisement. In circumstances involving serious violations, the State Administration for Industry and Commerce, or the SAIC, or its local branches may revoke violators’ licenses or permits for their advertising business operations.

To fulfill these monitoring functions specified by the PRC laws and regulations set forth above, we have taken several measures. In almost all of our advertising agreements, we require the advertising agencies or advertisers that entered into agreements with us: (i) ensure the advertising content provided to us is true, accurate and in full compliance with PRC laws and regulations; (ii) ensure such content does not infringe any third-party’s rights and interests; and (iii) indemnify us for any liabilities arising from such advertising content. We have outsourced our advertising business to Itui in 2020 and required Itui to set up an effective review mechanism for each advertisement it placed on our websites and platform so as to ensure the contents are in full compliance with relevant legal requirements. However, we cannot assure you that all the contents contained in such advertisements are true and accurate as required by the advertising laws and regulations, especially given the uncertainty in the application of these laws and regulations. If we are found to be in violation of applicable PRC advertising laws and regulations in the future, 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 and results of operations.

We face risks relating to third parties' billing and payment systems.

The billing and payment systems of third parties such as online third-party payment processors help us maintain accurate records of payments of sales proceeds by certain subscribers and other paying users and collect such payments. Our business and results of operations could be adversely affected if these third parties fail to accurately account for or calculate the revenues generated from the sales of our products and services. Moreover, if there are security breaches or failure or errors in the payment process of these third parties, user experience may be affected and our business results may be negatively impacted.

The channels for the payment of our services and products typically comprise third-party online system, fixed phone line and mobile phone payment. A significant portion of the payments have been made through our online payment system since 2014. Although we have been able to control our payment handling charges by encouraging our subscribers to use the third-party online system which charges relatively lower levels of handling fees compared with other payment channels, the subscribers may change their habits to make payments through mobile phones or other distribution channels with higher costs. If more and more subscribers use the mobile phone as their payment channels and the cost remains unchanged or even increases in the future, or if we fail to minimize the associated payment handling charges, our results of operations may be adversely affected.

We also do not have control over the security measures of our third-party payment service providers, and security breaches of the online payment systems that we use could expose us to litigation and possible liability for failing to secure confidential customer information and could, among other things, damage our reputation and the perceived security of all of the online payment systems we use. In addition, there may be billing software errors that would damage customer confidence in these payment systems. If any of the above were to occur, we may lose paying users and users may be discouraged from purchasing our products, which may have an adverse effect on our business and results of operations.

We have granted, and may continue to grant, share awards under our share incentive plans, which may result in increased share-based compensation expenses.

We have granted share-based compensation awards, including share options and restricted shares, to various employees, key personnel and other non-employees to incentivize performance and align their interests with ours. In June 2020, we terminated our 2010 share incentive plan, 2013 share incentive plan and 2014 share incentive plan and adopted a 2020 share incentive plan, or the 2020 Plan. Upon the termination of our then-existing share incentive plans, the awards that are granted and outstanding under those share incentive plans and the evidencing original award agreements shall remain effective and binding under the 2020 Plan, subject to any amendment and modification to the original award agreements that we shall determine. Under the 2020 Plan, we are authorized to issue a maximum number of 31,000,000 common shares of our company upon exercise of the options or other types of awards. As of March 31, 2021, 10,862,500 restricted share units had been granted and outstanding under the 2020 Plan. As of March 31, there were also 1,036,000 unvested restricted shares that survived the termination of our previous share incentive plans and remained outstanding under the 2020 Plan. As of March 31, 2021, our unrecognized share-based compensation expenses relating to the awards outstanding under the 2020 Plan amounted to US$1.4 million. See "Item 6. Directors, Senior Management and Employees —B. Compensation—Share incentive plans" for details.

We will issue the equivalent number of common shares upon the vesting and exercise of these options. The amount of these expenses is based on the fair value of the share-based compensation award we granted. The 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 under share-based compensation schemes will dilute the ownership interests of our shareholders, including holders of our ADSs. We believe the granting of incentive awards is of significant importance to our ability to attract and retain key personnel and employees, and we will continue to grant stock options, restricted shares and other share awards to employees in the future. As a result, our expenses associated with share-based compensation may increase, which may have an adverse effect on our results of operations.

The continuing and collaborative efforts of our senior management and key employees are crucial to our success, and our business may be harmed if we were to lose their services.

Our success depends on the continual efforts and services of our senior management team. If one or more of our executives or other key personnel are unable or unwilling to continue to provide services to us for whatever reasons, we may not be able to find suitable replacements easily or at all. Competition for management and key personnel in our industry is intense and the pool of qualified candidates is limited. We may not be able to retain the services of our executives or key personnel or attract and retain experienced executives or key personnel in the future. If any of our executive officers or key employees joins a competitor or forms a competing company, we may lose advertisers, know-how and key professionals and staff members. Each of our executive officers has entered into an employment agreement (including a non-compete provision) with us. However, if any dispute arises between us and our executives or key employees, these agreements may not be enforceable in China, where these executives and key employees reside, in light of uncertainties with China's legal system.

In addition, while we often grant additional incentive shares to management personnel and other key employees after their hire dates, the initial grants are usually much larger than subsequent grants. Employees may be more likely to leave us after their initial incentive share grant fully vests, especially if the value of the incentive shares has significantly appreciated in value relative to the exercise price. If any member of our senior management team or other key personnel leaves our company, our ability to successfully operate our business and execute our business strategy could be impaired.

Any misconduct of our employees may negatively affect our reputation and corporate image, which in turn may adversely affect our business and prospects.

We believe that maintaining and enhancing our reputation and corporate image is of significant importance to the success of our business. If any of our employees engaged in any misconduct, whether or not related to the employee's work at our company, it may negatively affect our reputation and corporate image. Historically, there has been negative publicity about our company and our management, which adversely affected our brand, public image and reputation. A member of our senior management team who is also our director was subject to certain legal sanctions in China in the past due to copyright infringement activities when working at another company unrelated to us. Even though the infringement activities took place a number of years before the executive joined our company and had nothing to do with us, the past misconduct of the executive and the sanctions he was subject to may negatively affect our reputation and corporate image, which in turn may adversely affect our business and prospects. As part of our internal compliance procedures, we routinely conduct internal audits and inspections, including exit interviews and audits, on current and former employees. Any misconduct by our current or former employees uncovered from such compliance procedures, whether the misconduct relates to the employees' work with us, would potentially have material adverse impact on our reputation, results of operations, financial performance or future prospects. For example, in October 2020, we received a notification from Shenzhen Municipal Public Security Bureau that the bureau has filed a case for investigation of our former CEO, Mr. Lei Chen, for alleged embezzlement of the Company's assets, which, although did not result in material adverse impact on our financial reporting, caused harm to our company. In addition, we may also face disputes with former or current disgruntled employees. Any allegations against us, with or without merits, may negatively affect our reputation and corporate image.

Strategic alliances, investments or acquisitions may have a material and adverse effect on our business, reputation, results of operations and financial condition.

We may enter into strategic alliances with various third parties to further our business purposes from time to time. Strategic alliances with third parties could subject us to a number of risks, including risks associated with sharing proprietary information, non-performance by the counterparty, and an increase in expenses incurred in establishing new strategic alliances, any of which may materially and adversely affect our business. We may have little ability to control or monitor their actions. To the extent the third parties suffer negative publicity or harm to their reputations from events relating to their business, we may also suffer negative publicity or harm to our reputation by virtue of our association with such third parties.

We have in the past invested in or acquired additional assets, technologies or businesses that are complementary to our existing business. If we are presented with appropriate opportunities, we may continue to do so in the future. Investments or acquisitions and the subsequent integration of new assets and businesses into our own would require significant attention from our management and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our business operations. The costs of identifying and consummating investments and acquisitions may be significant. We may also incur significant expenses in obtaining necessary approvals from relevant government authorities in China and elsewhere in the world. In addition, investments and acquisitions could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities and exposure to potential unknown liabilities or legal risks of the acquired business. The cost and duration of integrating newly acquired businesses could also materially exceed our expectations. Even if we complete the desired acquisitions or investment, such acquisitions and investment may expose us to new operational, regulatory, market and geographic risks and challenges, including:

- our inability to maintain the key business relationships and the reputation of the businesses we acquire or invest in;
- our inability to retain key personnel of the acquired or invested company;
- uncertainty of entry into markets in which we have limited or no prior experience and in which competitors have stronger market positions;
- failure to comply with laws and regulations as well as industry or technical standards of the markets into which we expand;
- our dependence on unfamiliar affiliates and partners of the companies we acquire or invest in;
- unsatisfactory performance of the businesses we acquire or invest in;
- our responsibility for the liabilities associated with the businesses we acquire, including those that we may not anticipate;
- goodwill impairment risks associated with the businesses that we acquire;
- our inability to integrate acquired technology into our business and operations;
- our inability to develop and maintain a successful business model and to monetize and generate revenues from the businesses we acquire; and
- our inability to maintain internal standards, controls, procedures and policies.

Any of these events could disrupt our ability to manage our business. These risks could also result in our failure to derive the intended benefits of the acquisitions or investments, and we may be unable to recover our investment in such initiatives or may have to recognize impairment charges as a result.

Furthermore, the financing and payment arrangements we use in any acquisition could have a negative impact on you as an investor, because if we issue shares in connection with an acquisition, your holdings could be diluted. Moreover, if we take on significant debt to finance such acquisitions, we would incur additional interest expenses, which would divert resources from our working capital and potentially have a material adverse impact on our results of operations.

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

The industries in which we operate, including the mobile internet industry, may be affected by economic downturns. For example, a prolonged slowdown in the world economy, including in the Chinese economy, may lead to a reduced amount of mobile internet advertising, which could materially and adversely affect our business, financial condition and results of operations. In addition, certain of our products and services may be viewed as discretionary by our users, who may choose to discontinue or reduce spending on such products and services during an economic downturn. In such an event, our ability to retain existing users and increase new users will be adversely affected, which would in turn negatively impact our business and results of operations.

Moreover, a slowdown or disruption in the global or Chinese economy may have a material and adverse impact on financings available to us. In addition, COVID-19 had a severe and negative impact on the Chinese and the global economy. Whether this will lead to a prolonged downturn in the economy is still unknown. Even before the outbreak of COVID-19, the global macroeconomic environment was facing numerous challenges. The growth rate of the Chinese economy had already been slowing since 2010. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies which had been adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and China, even before 2020. The weakness in the economy could erode investor confidence, which constitutes the basis of the credit market. Unrest, terrorist threats and the potential for war in the Middle East and elsewhere may increase market volatility across the globe. There have also been concerns about the relationship between China and other countries, including the surrounding Asian countries, which may potentially have economic effects. In particular, there is significant uncertainty about the future relationship between the United States and China with respect to trade policies, treaties, government regulations and tariffs. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. The unstable economy affecting the financial markets and banking system may significantly restrict our ability to obtain financing in the capital markets or from financial institutions on commercially reasonable terms, or at all. Although we are uncertain about the extent to which the global financial and economic fluctuations and slowdown of Chinese economy may impact our business in the short-term and long-term, there is a risk that our business, results of operations, financial condition, and prospects would be materially and adversely affected by any severe or prolonged slowdown in the global or Chinese economy.

Our operations depend on the performance of the internet infrastructure in China.

The successful operation of our business depends on the performance of the internet infrastructure and telecommunications networks in China. In China, almost all access to the internet is maintained through state-owned telecommunications operators under the administrative control and regulatory supervision of the MIIT. Moreover, we have entered into contracts with various subsidiaries of a limited number of telecommunications service providers in each province for network-related services. On the one hand, if the internet industry in China does not grow as quickly as expected, our business and operations will be negatively affected. We have limited access to alternative networks or services in the event of disruptions, failures or other problems with China's internet infrastructure or the telecommunications networks provided by telecommunications service providers. In addition, our network and website regularly serve a large number of users and advertisers. With the expansion of our business, we may be required to upgrade our technology and infrastructure to keep up with the increasing traffic on our website. However, we have no control over the costs of the services provided by telecommunications service providers. If the prices we pay for telecommunications and internet services rise significantly, our results of operations may be materially and adversely affected. If internet access fees or other charges to internet users increase, our user traffic may decline and our business may be harmed. On the other hand, if the internet industry grows faster than expected and we cannot react to the market demand in a timely manner in terms of our research and development effort, the user experience and the attractiveness of our services may be harmed, which will negatively impact our business and results of operations.

If we fail to maintain an effective system of internal control over financial reporting, we may be unable to accurately report our financial results or prevent fraud or fail to meet our reporting obligations, and investor confidence in our company and the market price of our ADSs may be adversely affected.

We are subject to reporting obligations under the U.S. securities laws. The SEC, as required under Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company to include a management report on such 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. As we are not an emerging growth company anymore, we are subject to the requirement to provide attestation by our independent registered public accounting firm on effectiveness of internal control over financial reporting.

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 annual report, as required by Rule 13a-15(b) under the Exchange Act. Our management has concluded that our internal control over financial reporting was effective as of December 31, 2020. Our independent registered public accounting firm, PricewaterhouseCoopers Zhong Tian LLP, also attested that our internal control over financial reporting is effective. However, if we fail to maintain effective internal control over financial reporting in the future, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial information. This could in turn limit our access to capital markets, harm our results of operations, and lead to a decline in the trading price of our ADSs. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the stock exchange on which we list, regulatory investigations and civil or criminal sanctions. We may also be required to restate our financial statements from prior periods.

We have limited business insurance coverage and any uninsured business disruption may have an adverse effect on our results of operations and financial condition.

Insurance companies in China currently do not offer as extensive an array of insurance products as insurance companies do in more developed economies. We have limited business liability or disruption insurance to cover our operations. Any uninsured occurrence of business disruption may result in our incurring substantial costs and the diversion of resources, which could have an adverse effect on our results of operations and financial condition.

We face risks related to natural disasters such as earthquakes and health epidemics and other outbreaks, which could significantly disrupt our operations.

Our operations may be vulnerable to interruption and damage from natural and other types of 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. Due to their nature, we cannot predict the incidence, timing and severity of catastrophes. If any such 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. As we do not carry property insurance and significant time could be required to resume our operations, our financial position and results of operations could be materially and adversely affected in the event of any major catastrophic event.

In addition, our business could be materially and adversely affected by the outbreak of pandemics such as influenza A (H1N1), avian influenza, H7N9, severe acute respiratory syndrome (SARS) or other epidemics. Any occurrence of these pandemic diseases or other adverse public health developments in China or elsewhere could severely disrupt our staffing or the staffing of our business partners, including our advertisers, and otherwise reduce the activity levels of our work force and the work force of our business partners, causing a material and adverse effect on our business operations. In response to the COVID-19 pandemic, we made remote working arrangement and suspended our offline work and all our business travels in early 2020 to ensure the safety and health of our employees. As a result, our customer service capacity was compromised which might have adversely affected our users' experience. As of the end of April 2020, we had completely resumed our operations. Although COVID-19 has been largely contained in China, there are still uncertainties regarding the COVID-19 pandemic, including the duration of the pandemic, and the extent of local and worldwide social, political, and economic disruption it may cause. It is also uncertain whether or not COVID-19 or a mutated version of the coronavirus will return in the future. While the COVID-19 pandemic has not materially and adversely affected our business, operations, or financial results as of the date of this annual report, it may have far-reaching impact, directly and indirectly, on many aspects of our operations, including potential impact on our customers, product users, suppliers, employees, cooperation partners, and the market in general, and the scope and nature of the impact continue to evolve. Resurgence of confirmed cases have happened and could happened again in the future, which could lead to the re-imposition of various restrictions. We will continue to monitor and assess the development of the COVID-19 pandemic and intend to make adjustments to our business accordingly.

Risks Related to Our Corporate Structure

If the PRC government finds that the agreements that establish the structure for operating our businesses in China do not comply with PRC governmental restrictions on foreign investment in internet-related business and foreign investors' mergers and acquisition activities in China, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.

Current PRC laws and regulations place certain restrictions on foreign ownership of companies that engage in internet businesses, including the provision of online game and online advertising services. For example, foreign investors' equity interests in value-added telecommunication service providers, other than e-commerce service providers, may not exceed 50%, and the Provisions on the Administration of Foreign-Invested Telecommunications Enterprises (2016 Revision) requires that the major foreign investor in a value-added telecommunication service provider in China must have experience in providing value-added telecommunications services overseas and maintain a good track record. In addition, foreign investors are prohibited from investing in or operating entities engaged in, among others, internet cultural operating service, internet news service, and online transmission of audio-visual programs service. We are a Cayman Islands exempted company and Giganology (Shenzhen) Ltd., or Giganology Shenzhen and Xunlei Computer (Shenzhen) Co., Ltd., or Xunlei Computer, our PRC subsidiaries, are considered foreign-invested enterprises. Accordingly, neither of these two PRC subsidiaries is eligible to provide value-added telecommunication services and the aforementioned internet related services in China. As a result, we conduct our operations in China principally through contractual arrangements among Giganology Shenzhen and Shenzhen Xunlei and its shareholders. Shenzhen Xunlei or its subsidiaries hold the licenses and permits necessary to conduct our resource discovery network, online advertising, online games, cloud computing and related businesses in China, and Shenzhen Xunlei hold various operating subsidiaries that conduct a majority of our operations in China. Our contractual arrangements with Shenzhen Xunlei and its shareholders enable us to exercise effective control over Shenzhen Xunlei and Shenzhen Xunlei's operating subsidiaries and hence treat them as our consolidated entities and consolidate their results. For a detailed discussion of these contractual arrangements, see "Item 4. Information on the Company—C. Organizational Structure."

We cannot assure you, however, that we will be able to enforce these contracts. Although we have been advised by King & Wood Mallesons, our PRC legal counsel, that each contract under these contractual arrangements with Shenzhen Xunlei and its shareholders is valid, binding and enforceable under current PRC laws and regulations, we cannot assure you that the PRC government would agree that these contractual arrangements comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. PRC laws and regulations governing the validity of these contractual arrangements are uncertain and the relevant government authorities have broad discretion in interpreting these laws and regulations. If the PRC government determines that we do not comply with applicable laws and regulations, it could revoke our business and operating licenses, require us to discontinue or restrict our operations, impose fines, restrict our right to collect revenues, block our website, require us to restructure our operations, impose additional conditions or requirements with which we may not be able to comply, or take other regulatory or enforcement actions against us that could be harmful to our business. The imposition of any of these penalties would result in a material and adverse effect on our ability to conduct our business.

We rely on contractual arrangements with our variable interest entity in China and its shareholders for our operations, which may not be as effective as direct ownership in providing operational control the variable interest entity and its subsidiaries.

Since PRC laws restrict foreign equity ownership in companies engaged in internet business in China, we rely on contractual arrangements with Shenzhen Xunlei, our VIE, and the shareholders of Shenzhen Xunlei to operate our business in China. If we had direct ownership of Shenzhen Xunlei, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of Shenzhen Xunlei, which in turn could effect changes at the management level, subject to any applicable fiduciary obligations. However, under the current contractual arrangements, we rely on Shenzhen Xunlei and its shareholders' performance of their contractual obligations to exercise effective control. In addition, our operating contract with Shenzhen Xunlei has an initial term of ten years and an extended term of ten years since 2016. The operating contract is subject to Giganology Shenzhen's unilateral termination right and may be extended as requested by Giganology Shenzhen. In general, none of Shenzhen Xunlei or its shareholders may terminate the contracts prior to the expiration date. However, the shareholders of Shenzhen Xunlei may not act in the best interests of our company or may not perform their obligations under these contracts, including the obligation to renew these contracts when their initial contract term expires. Such risks exist throughout the period in which we intend to operate our business through the contractual arrangements with Shenzhen Xunlei. We may replace the shareholders of Shenzhen Xunlei at any time pursuant to our contractual arrangements with Shenzhen Xunlei and its shareholders. However, if any dispute relating to these contracts remains unresolved, we will have to enforce our rights under these contracts through the operations of PRC law and courts and therefore will be subject to uncertainties in the PRC legal system. See "—Any failure by Shenzhen Xunlei or its shareholders to perform their obligations under our contractual arrangements with them may have a material adverse effect on our business" and "Item 4. Information on the Company—C. Organizational Structure." Therefore, these contractual arrangements may not be as effective as direct ownership in providing us with control over Shenzhen Xunlei.

Any failure by Shenzhen Xunlei or its shareholders to perform their obligations under our contractual arrangements with them may have a material adverse effect on our business.

Shenzhen Xunlei or its shareholders may fail to take certain actions required for our business or follow our instructions despite their contractual obligations to do so. If they fail to perform their obligations under their respective agreements with us, we may have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, which may not be effective. As of the date of this annual report, Mr. Sean Shenglong Zou, our co-founder and director, owned 76% of the equity interest in Shenzhen Xunlei, our variable interest entity. Under the equity pledge agreement among Giganology Shenzhen and the shareholders of Shenzhen Xunlei, as amended, the shareholders of Shenzhen Xunlei have pledged all of their equity interests in Shenzhen Xunlei to Giganology Shenzhen to guarantee Shenzhen Xunlei and its shareholders' performance of their respective obligations under the related contractual arrangements. In addition, the shareholders of Shenzhen Xunlei have completed the registration of equity pledge under the equity pledge agreement with the competent governmental authority. Pursuant to the contractual arrangements, we have the right to replace any shareholders of Shenzhen Xunlei at any time. For example, if any of the shareholders of Shenzhen Xunlei refuses or fails to perform his or her obligations under the contractual arrangements due to his or her significant equity interest in Shenzhen Xunlei and his or her relatively smaller percentage of equity interest in our Company, we can enforce the contractual arrangements and transfer his or her equity interests to another appointee of Giganology Shenzhen. However, we cannot assure you that such transfer can be implemented successfully or without significant costs. As a result, there are risks that we might not be able to have an effective control over our variable interest entity in the future.

Moreover, the exercise of call options under the equity interest disposal agreement, the intellectual properties purchase option agreement and certain other contractual arrangements will be subject to the review and approval of competent governmental authorities and incur additional expenses.

All of these contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in certain other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements, which may make it difficult to exert effective control over our variable interest entity and its subsidiaries, and our ability to conduct our business may be adversely affected.

Contractual arrangements with our variable interest entity may result in adverse tax consequences to us.

Under applicable PRC tax laws and regulations, arrangements and transactions among related parties may be subject to audit or scrutiny by the PRC tax authorities within ten years after the taxable year when the arrangements or transactions are conducted. See "Item 4. Information on the Company—B. Business Overview—Regulation—Regulation on tax—PRC enterprise income tax." We could face material and adverse tax consequences if the PRC tax authorities were to determine that the contractual arrangements among Giganology Shenzhen, our wholly owned subsidiary in China, and Shenzhen Xunlei, our variable interest entity in China and its shareholders, as well as the intellectual property framework agreement between Xunlei Computer and Shenzhen Xunlei were not entered into on an arm's-length basis and therefore constituted unfavorable transfer pricing arrangements. Unfavorable transfer pricing arrangements could, among other things, result in an upward adjustment on taxation, and the PRC tax authorities may impose interest on late payments on Shenzhen Xunlei, for the adjusted but unpaid taxes. Our results of operations may be materially and adversely affected if Shenzhen Xunlei's tax liabilities increase significantly or if it is required to pay interest on late payments.

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

Sean Shenglong Zou, Hao Cheng, Fang Wang, Jianming Shi and Guangzhou Shulian Information Investment Co., Ltd. are shareholders of Shenzhen Xunlei. We provide no incentives to the shareholders of Shenzhen Xunlei for the purpose of encouraging them to act in our best interests in their capacity as the shareholders of Shenzhen Xunlei. We may replace the shareholders of Shenzhen Xunlei at any time pursuant to the currently effective equity option agreements between us and these shareholders.

As a director and/or executive officer of our company, Mr. Zou and Mr. Cheng each has a duty of loyalty and care to us under Cayman Islands law. We are not aware that other publicly listed companies in China with a similar corporate and ownership structure as ours have brought conflicts of interest claims against the shareholders of their respective variable interest entities. However, we cannot assure you that when conflicts arise, the shareholders of Shenzhen Xunlei will act in the best interests 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 the shareholders of Shenzhen Xunlei, 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.

We may rely principally on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have. Any limitation on the ability of Giganology Shenzhen and Xunlei Computer to pay dividends to us could have a material adverse effect on our ability to conduct our business.

We are a holding company and we may rely principally on dividends and other distributions on equity paid by our wholly owned PRC subsidiaries including Giganology Shenzhen and Xunlei Computer, for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders and service any debt we may incur. If Giganology Shenzhen incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. In addition, the PRC tax authorities may require us to adjust our taxable income under the contractual arrangements Giganology Shenzhen currently has in place with Shenzhen Xunlei, our variable interest entity, as well as the intellectual property framework agreement between Xunlei Computer and Shenzhen Xunlei, in a manner that would materially and adversely affect its ability to pay dividends and other distributions to us. As of December 31, 2020, we had cash or cash equivalents of approximately RMB312.1 million (US$47.8 million) and US$30.7 million located within the PRC, of which RMB89.6 million (US$13.7 million) and US$0.5 million is held by Shenzhen Xunlei and its subsidiaries. We also have restricted cash of RMB10.1 million (US$1.5 million) as of December 31, 2020. The transfer of all the cash or cash equivalents is subject to PRC government's restrictions on currency conversion.

Under PRC laws and regulations, Giganology Shenzhen and Xunlei Computer, as wholly foreign-owned enterprises in the PRC, may pay dividends only out of its accumulated after-tax profits as determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign-owned enterprises such as Giganology Shenzhen and Xunlei Computer are required to set aside at least 10% of their accumulated after-tax profits each year, if any, to fund certain statutory reserve funds, until the aggregate amount of such a fund reaches 50% of their respective registered capital. At their discretion, wholly foreign-owned enterprises may allocate a portion of their 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 Giganology Shenzhen and Xunlei Computer 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. See also "—Risks related to doing business in China—Our global income may be subject to PRC taxes under the PRC EIT Law, which may have a material adverse effect on our results of operations."

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 making loans to our PRC subsidiaries and variable interest entity and its subsidiaries or making 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 may (i) make additional capital contributions to our PRC subsidiaries, (ii) establish new PRC subsidiaries and make capital contributions to these new PRC subsidiaries, (iii) make loans to our PRC subsidiaries or variable interest entity and its subsidiaries, or (iv) acquire offshore entities with business operations in China in an offshore transaction. However, most of these uses are subject to PRC regulations and approvals. For example:

- loans by us to our PRC subsidiaries, which are foreign-invested enterprises, to finance their respective activities cannot exceed statutory limits and must be registered with the PRC State Administration of Foreign Exchange, or SAFE, or its local branches; and

- loans by us to our variable interest entity, which is a domestic PRC entity, may not exceed the statutory limit, and any medium or long-term loan we extend to our variable interest entity must be recorded and registered by the National Development and Reform Commission and SAFE or its local branches.

On August 29, 2008, 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 No. 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 No. 142 provides that the 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 unless otherwise provided by law, such Renminbi capital may not be used for equity investments within the PRC. SAFE also strengthened its oversight of the flow and use of the Renminbi capital converted from 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. Violations of SAFE Circular No. 142 could result in severe monetary or other penalties. On March 30, 2015, SAFE issued SAFE Circular No. 19, which took effect and replaced SAFE Circular No. 142 as of June 1, 2015 and the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Policy on the Management of Foreign Exchange Settlement under Capital Account, or SAFE Circular No. 16, which became effective on June 9, 2016. Although SAFE Circular No. 19 and SAFE Circular No. 16 allow for the use of RMB converted from the foreign currency denominated capital for equity investments in the PRC, the restrictions will continue to apply as to foreign-invested enterprises' use of the converted RMB for purposes beyond the business scope, for the loans to non-associated companies or issuing inter-company RMB loans.

We may lose the ability to use and enjoy assets held by our variable interest entity and its subsidiaries that are important to the operation of our business if any of such entities goes bankrupt or becomes subject to a dissolution or liquidation proceeding.

As part of our contractual arrangements with our variable interest entity, our variable interest entity and its subsidiaries hold certain assets that are important to the operation of our business, including patents for the proprietary technology and related domain names and trademarks. If any of our variable interest entity or its subsidiaries 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. Under the contractual arrangements, our variable interest entity and its subsidiaries may not, in any manner, sell, transfer, mortgage or dispose of their assets or legal or beneficial interests in the business without our prior consent. If our variable interest entity 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.

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

On March 15, 2019, the National People's Congress enacted the Foreign Investment Law, which came into effect on January 1, 2020 and replace the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. However, since it is relatively new, uncertainties still exist in relation to its interpretation and implementation. For instance, under the Foreign Investment Law, "foreign investment" refers to the investment activities directly or indirectly conducted by foreign individuals, enterprises or other entities in China. Though it does not explicitly classify contractual arrangements as a form of foreign investment, there is no assurance that foreign investment via contractual arrangement would not be interpreted as a type of indirect foreign investment activities under the definition in the future. In addition, the definition contains a catch-all provision which includes investments made by foreign investors through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions promulgated by the State Council to provide for contractual arrangements as a form of foreign investment. In any of these cases, it will be uncertain whether our contractual arrangements will be deemed to be in violation of the market access requirements for foreign investment under the PRC laws and regulations. Furthermore, if future laws, administrative regulations or provisions prescribed by the State Council mandate further actions to be taken by companies with respect to existing contractual arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure, corporate governance and business operations.

Risks Related to Doing Business in China

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

Substantially all of our assets and operations are located in 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. Although the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the government. In addition, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. The Chinese government also exercises significant control over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies, such as those qualified to operate in free trade zones designated in certain major cities in China.

While the Chinese economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy and the rate of growth has been slowing. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations. The growth rate of the Chinese economy has gradually slowed since 2010, and the impact of COVID-19 on the Chinese economy in 2020 is severe. Any prolonged slowdown in the Chinese economy may reduce the demand for our products and services and materially and adversely affect our business and results of operations.

Regulation and censorship of information disseminated over the internet in China have adversely affected our business and may continue to adversely affect our business, and we may be liable for the digital media content on our platform.

China has strict regulations governing telecommunication service providers, internet and wireless access and the distribution of news and other information. Under these regulations, internet content providers, or ICPs, like us are prohibited from posting or displaying over the internet or wireless networks content that, among other things, violates PRC laws and regulations. If an ICP finds that prohibited content is transmitted on its website or stored in its system, it must terminate the transmission of such information or delete such information immediately and keep records and report to relevant authorities. Failure to comply with these requirements could lead to the revocation of the VATS License, which is required for our ICP services and other required licenses and the closure of the offending websites, and cloud network operators or website operators may also be held liable for prohibited content displayed on, retrieved from or linked to such network or website. We monitor digital media contents on our platform and periodically review and inspect whether there are contents that violate relevant PRC laws and regulations. However, we cannot assure you that we will always be able to identify and remove in a timely manner all digital media contents on our platform that violate relevant PRC laws and regulations. If we fail to timely remove relevant contents, we may be subject to relevant legal liabilities. In addition, efforts to constantly self-monitor in order to comply with these requirements could negatively impact user experience and lead to a decline in user numbers.

The Chinese government intensified its efforts to remove inappropriate content disseminated over the internet and wireless networks, and our efforts to monitor content on our platform and website led to a decline in subscriber numbers in the past few years. In April 2014, the Chinese government initiated a campaign to enhance and enforce its scrutiny on internet content in China, particularly for pornographic content, and various websites were subject to penalties and in some cases outright suspension of website operations. In December 2018, the Office of the Central Cyberspace Affairs Commission of China, or CAC, launched a campaign against illegal activities and inappropriate content on mobile apps and undertook restrictive measures against thousands of mobile apps, including suspension of mobile app operations for an indefinite period of time or permanently shutting down the mobile app operations. We regularly conducted internal compliance investigation to ensure that the content transmitted by our products is in compliance with the standards set out by the authorities. To date, we have deleted millions of cached files, blocked over one million digital files and added thousands of key words to our automatic keyword filtration system. In addition, we permitted temporary suspension of services by about 175,000 existing subscribers as of the end of 2020. We may experience further decline in user and subscriber numbers as we continue in our efforts to comply with the rules and regulations of the Chinese government.

We are subject to changing law and regulations regarding regulatory matters, corporate governance and public disclosure that have increased both our costs and the risk of non-compliance.

We are subject to rules and regulations by various governing bodies, including, for example, the Securities and Exchange Commission, which is charged with the protection of investors and the oversight of companies whose securities are publicly traded, and the various regulatory authorities in China and the Cayman Islands, and to new and evolving regulatory measures under applicable law. Our efforts to comply with new and changing laws and regulations have resulted in and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

Moreover, because these laws, regulations and standards are subject to varying interpretations, their application in practice may evolve over time as new guidance becomes available. This evolution may result in continuing uncertainty regarding compliance matters and additional costs necessitated by ongoing revisions to our disclosure and governance practices. If we fail to address and comply with these regulations and any subsequent changes, we may be subject to penalty and our business may be harmed.

Uncertainties with respect to the PRC legal system could adversely affect us.

We conduct our business primarily through our PRC subsidiaries and variable interest entity and its subsidiaries in China. Our operations in China are governed by PRC laws and regulations. Giganology Shenzhen is a foreign-invested enterprise and is subject to laws and regulations applicable to foreign investment in China and, in particular, laws applicable to foreign-invested enterprises. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions under the civil law system may be cited for reference but have limited precedential value.

Over the past three decades, the PRC government has enacted legislation that has significantly enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully integrated legal system, and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, the interpretation and enforcement of these laws and regulations involve uncertainties. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy. These uncertainties may affect our judgment on the relevance of legal requirements and our ability to enforce our contractual or tort rights. In addition, the regulatory uncertainties may be exploited through unmerited or frivolous legal actions or threats in attempts to extract payments or benefits from us.

Furthermore, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all and may have retroactive effect. Regulatory authorities may also stretch the interpretations of existing laws and regulations. As a result, we may not be aware of our violation of any of these policies and rules until sometime after the violation or the stretched interpretation, which may subject us to liabilities and can materially and adversely affect our business. In addition, any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention.

We believe that our patents, trademarks, trade secrets, copyrights, and other intellectual property are important to our business. We rely on a combination of patent, trademark, copyright and trade secret protection laws in China and other jurisdictions, as well as confidentiality procedures and contractual provisions to protect our intellectual property and our brand. Protection of intellectual property rights in China may not be as effective as in the United States or other jurisdictions, and as a result, we may not be able to adequately protect our intellectual property rights, which could adversely affect our revenues and competitive position.

We may be adversely affected by the complexity, uncertainties and changes in PRC regulations of internet-related business 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. 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:

- We only have contractual control over our resource discovery network and cloud computing. We do not own the resource discovery network and cloud computing due to the restriction of foreign investment in businesses providing value-added telecommunication services in China, including internet content provision or CDN services. This may significantly disrupt our business, subject us to sanctions, compromise enforceability of related contractual arrangements, or have other harmful effects on us.

- There are uncertainties relating to the regulation of the internet business in China, including evolving licensing practices and the requirement for real-name registrations. This means that permits, licenses or operations at some of our companies may be subject to challenge, or we may fail to obtain permits or licenses that may be deemed necessary for our operations or we may not be able to obtain or renew certain permits or licenses. If we fail to maintain any of these required licenses or approvals, we may be subject to various penalties, including fines and discontinuation of or restriction on our operations. Any such disruption in our business operations may have a material and adverse effect on our results of operations.

- New laws and regulations may be promulgated that will regulate internet activities, including live streaming, online games and online advertising businesses. If these new laws and regulations 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.

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, internet businesses in China, including our business. For example, in September 2009, GAPPRFT and the National Office of Combating Pornography and Illegal Publications jointly published a notice, or Circular 13, which expressly prohibits foreign investors from participating in online game operating business via wholly owned, equity joint venture or cooperative joint venture investments in China, and from controlling and participating in such businesses directly or indirectly through contractual or technical support arrangements. Other government agencies with substantial regulatory authority over online game operations and foreign investment entities in China, such as MIIT and MOCT, did not join GAPPRFT in issuing Circular 13. While Circular 13 is applicable to us and our online game business on an overall basis, to date, GAPPRFT or SAPPRFT has not issued any interpretation of Circular 13 and, to our knowledge, has not taken any enforcement action under Circular 13 against any company that relies on contractual arrangements with affiliated entities to operate online games in China. We cannot assure you that we have obtained all the permits or licenses required for conducting our business in China or will be able to maintain our existing licenses or obtain any new licenses required under any new laws or regulations. There are also risks that we may be found to violate the existing or future laws and regulations given the uncertainty and complexity of China's regulation of internet business.

Subject to interpretation by the relevant authorities, it may not be possible for us to determine in all cases the type of content that could result in liability for us, especially if the Chinese government continues to maintain or strengthen its heightened scrutiny on internet content in China. We may not be able to control or restrict all of the digital media content generated. transmitted or placed on our network by our users, despite our attempt to monitor and filter such content. To the extent that regulatory authorities find any portion of our content on our network or website objectionable or requiring any license or permit that we have not obtained, they may require us to limit or eliminate the dissemination of such information or otherwise curtail the nature of such content, and keep records and report to relevant authorities, which may reduce our user traffic. In addition, we may be subject to significant penalties for violations of those regulations arising from prohibited content displayed on, retrieved from or uploaded to our network or website, including a suspension or shutdown of our operations. The enforcement activities may be intensified in connection with any ongoing government campaigns. In addition, while we maintain a regular internal monitoring and compliance protocol, we cannot ascertain that we would not fall foul of any changing or new government regulations or standards in the future. If we receive a public warning from the relevant government authorities or our licenses for acceleration services are revoked, our reputation would be harmed and if the operation of our acceleration services or other products is suspended or shut down entirely or in part, our revenues and results of operation may be materially and adversely affected. Furthermore, the internal compliance investigation and the removal of content may have a material impact on our cloud acceleration services, which in turn may lead to a decrease in users and have an adverse effect on our revenues and results of operations. To date, we have not been able to quantify the magnitude and extent of such impact.

We may be sued by our game players and held liable for losses of virtual assets by such players, which may negatively affect our reputation and business, financial condition and results of operations.

While playing online games or participating in other online activities, players acquire and accumulate some virtual assets, such as special equipment and other accessories. Such virtual assets may be important to online game players and have monetary value and, in some cases, are sold for actual money. In practice, virtual assets can be lost for various reasons, often through unauthorized use of the game account of one user by other users and occasionally through data loss caused by a delay of network service, a network crash or hacking activities.

Under the Civil Code of the People's Republic of China, effective in January 2020, where any laws provide for the protection of data and network virtual property, such laws shall apply. However, currently, there is no PRC law or regulation specifically governing virtual asset property rights. As a result, there is uncertainty as to who the legal owner of virtual assets is, whether and how the ownership of virtual assets is protected by law, and whether an operator of online games such as us would have any liability to game players or other interested parties (whether in contract, tort or otherwise) for loss of such virtual assets. Based on recent PRC court judgments, the courts have typically held online game operators liable for losses of virtual assets by game players, and ordered online game operators to return the lost virtual items to game players or pay damages and losses, as well as required the game operators to provide well-developed security systems to protect such virtual assets owned by game players. In case of a loss of virtual assets, we may be sued by our game players or users and held liable for damages, which may negatively affect our reputation and business, financial condition and results of operations.

Non-compliance with the laws or regulations governing virtual currency may result in penalties that could have a material adverse effect on our live streaming business and results of operations.

The Notice on the Reinforcement of the Administration of Online Games issued by the Ministry of Culture and other governmental authorities on February 15, 2007 directs the People's Bank of China to strengthen the administration of virtual currency to avoid any adverse impact on the PRC economic and financial system. This notice provides that the total amount of virtual currency issued by an operator and the amount of purchased by individual users should be strictly limited, with a strict and clear division between virtual transactions and real transactions carried out by way of electronic commerce. This notice also provides that virtual currency should only be used to purchase virtual items. We created virtual currency "Golden Coins" for the operation of our live streaming services. Users can purchase "Golden Coins" from us so that they can purchase virtual gifts on our living streaming platforms to reward broadcasters they like. "Golden Coins" can also be used to purchase other value-added services on our live streaming platforms. Other than virtual gifts and value-added services, "Golden Coins" cannot be used for any other purposes.

On June 4, 2009, the Ministry of Culture and the MOFCOM jointly issued the Notice on Strengthening the Administration of Online Game Virtual Currency, or the Virtual Currency Notice. The Virtual Currency Notice requires that the operators who engage in issuance of online game virtual currency or offering of online game virtual currency transaction services shall apply for approval from the MOC through its provincial branches. The term "virtual currency" is widely used in the live streaming industry, such term as used in the live streaming industry does not fall under the definition under the Virtual Currency Notice. Although we do not think Virtual Currency Notice applies to the operation of our live streaming platform, given the wide discretion of relevant governmental authorities and uncertainties in the regulatory environment, we cannot assure you that relevant governmental authorities will not in the future interpret the Virtual Currency Notice in a different way and subject our operation to the scope of the Virtual Currency Notice or issue new rules to regulate the virtual currency in our industry. In that case, our operation may be adversely affected.

Intensified government regulation of the internet industry in China could restrict our ability to maintain or increase our user base.

The PRC government has, in recent years, intensified regulation on various aspects of the internet industry in China. For example, in January 2011, MIIT and seven other PRC central government authorities jointly issued a circular entitled Implementation Scheme regarding Parental Guardianship Project for Minors Playing Online Games, under which online game operators are required to adopt various measures to maintain a system to communicate with the parents or other guardians of minors playing their online games and are required to monitor online game activities of minors and suspend the accounts of minors if so required by their parents or guardians. In October 2019, General Administration of Press and Publication issued the Anti-indulgence Notice which imposed an array of restrictions on online game operators to prevent underage users from indulging in online games. The Anti-indulgence Notice also requires online game operators to take effective measures to restrict minors from using paid services that are inconsistent with their capacity for civil conduct. See "Item 4. Information on the Company—B. Business Overview—Regulation—Regulation on anti-fatigue system, real-name registration system and parental guardianship project." While we support these measures, these restrictions could also limit our ability to grow our user base for our online game business. Furthermore, if these restrictions are expanded to apply to adult game players in the future, our ability to grow our user base could be further limited and online games business could be materially and adversely affected.

Further, the PRC government has tightened its regulation of internet cafes in recent years. In particular, a large number of unlicensed internet cafes have been closed. The PRC government has imposed higher capital and facility requirements for the establishment of internet cafes. Furthermore, the PRC government's policy, which encourages the development of a limited number of national and regional internet cafe chains and discourages the establishment of independent internet cafes, may slow down the growth of internet cafes in China. In June 2002, the Ministry of Culture, together with other government authorities, issued a joint notice, and in February 2004, the State Administration for Industry and Commerce issued another notice, suspending the issuance of new internet cafe licenses. In May 2007, the State Administration for Industry and Commerce reiterated its position not to register any new internet cafes in 2007. In 2008, 2009 and 2010, the Ministry of Culture, the State Administration for Industry and Commerce and other relevant government authorities, individually or jointly, issued several notices that provide various ways to strengthen the regulation of internet cafes, including investigating and punishing internet cafes that accept minors, cracking down on internet cafes without sufficient and valid licenses, limiting the total number of internet cafes and approving internet cafes within the planning made by relevant authorities, screening unlawful and adverse games and websites, and improving the coordination of regulation over internet cafes and online games. Although currently most of our users access and consume our products and services from their own devices, if internet cafes become one of the main venues for our users to access our website or online games, any reduction in the number, or any slowdown in the growth, of internet cafes in China could limit our ability to maintain or increase our user base.

In addition, the Chinese government has in recent years intensified its efforts to remove inappropriate content disseminated over the internet and wireless networks. In April 2014, the Chinese government initiated a campaign to enhance and enforce its scrutiny over internet content in China, particularly for pornographic content, and various websites were subject to penalties and in some cases outright suspension of website operations. In August 2017, the CAC promulgated the Provisions on the Administration of Internet Comments Posting Services, and the Provisions on the Administration of Internet Forum and Community Services, both of which require providers of relevant services to establish information review and inspection mechanism. As we implemented programs to comply with these regulations, we saw our subscriber numbers decline and may see more subscriber or user decline in the future. See "—Regulation and censorship of information disseminated over the internet in China have adversely affected our business and may continue to adversely affect our business, and we may be liable for the digital media content on our platform."

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

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

Our financial statements are expressed in U.S. dollars, and most of our assets, costs and expenses are denominated in Renminbi. Substantially all of our revenues were denominated in Renminbi. Any significant appreciation or depreciation of the RMB may materially and adversely affect our revenues, earnings and financial positions, and the value of, and any dividends payable on, our ADSs in U.S. dollars. For example, to the extent that we need to convert U.S. dollars into RMB to pay our operating expenses, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount we would receive from the conversion. Conversely, if we decide to convert our RMB into U.S. dollars for the purpose of making payments for dividends on our common shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the RMB would have a negative effect on the U.S. dollar amount available to us. In addition, a significant appreciation or depreciation in the value of the RMB relative to U.S. dollars would significantly reduce the U.S. dollar equivalent of our earnings regardless of any underlying change in our business or results of operations, which in turn could adversely affect the price of our ADSs.

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

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

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in Renminbi. Under our current corporate structure, our Cayman Islands holding company primarily relies on dividend payments from our wholly owned PRC subsidiaries, to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior SAFE approval by complying with certain procedural requirements. However, approval from or registration with appropriate government authorities is required where the 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. Specifically, under the existing exchange restrictions, without prior approval of SAFE, cash generated from the operations of our PRC subsidiaries in China may be used to pay dividends by our PRC subsidiaries to our company and pay employees of our PRC subsidiaries who are located outside China in a currency other than the Renminbi. With prior approval from or registration with SAFE, cash generated from the operations of our PRC subsidiaries and affiliated entity may be used to pay off debt in a currency other than the Renminbi owed by our PRC subsidiaries and variable interest entity and its subsidiaries to entities outside China, and make other capital expenditures outside China in a currency other than the Renminbi. If any of our variable interest entity or its subsidiaries liquidates, the proceeds from the liquidation of its assets may be used outside of the PRC or be given to investors who are not PRC nationals. However, we may not be able to do so due to foreign exchange control imposed by the PRC government, which may 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 demand, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

Certain regulations in the PRC may make it more difficult for us to pursue growth through acquisitions.

Among other things, the M&A Rules and certain 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 Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise or a foreign company with substantial PRC operations, if certain thresholds under the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings, issued by the State Council on August 3, 2008 and amended by the State Council on September 18, 2018, are triggered. Moreover, the Anti-Monopoly Law promulgated by the SCNPC on August 30, 2007 and took effect on 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 Ministry of Commerce before they can be completed. In addition, according to the Implementing Rules Concerning Security Review on the Mergers and Acquisitions by Foreign Investors of Domestic Enterprises issued by the Ministry of Commerce in August 2011, mergers and acquisitions by foreign investors involved in an industry related to national security are subject to strict review by the Ministry of Commerce. These rules also prohibit any transactions attempting to bypass such security review, including by controlling entities through contractual arrangements. We believe that our business is not in an industry related to national security. However, we cannot preclude the possibility that the Ministry of Commerce or other government agencies may publish interpretations contrary to our understanding or broaden the scope of such security review in the future. Although we have no current definitive plans to make any acquisitions, we may elect to grow our business in the future in part by directly acquiring complementary businesses in China. Complying with the requirements of these regulations to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the Ministry of Commerce, may delay or inhibit our ability to complete such transactions.

PRC regulations relating to the establishment of offshore SPVs by PRC residents may subject our PRC resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to increase their registered capital or distribute profits to us, or may otherwise adversely affect us.

SAFE has promulgated several regulations that require PRC residents and PRC corporate entities to register with local branches of SAFE in connection with their direct or indirect offshore investment activities. These regulations apply to our shareholders who are PRC residents and may apply to any offshore acquisitions that we make in the future. SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE No. Circular No. 37, on July 4, 2014. SAFE Circular No. 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular No. 37 as a "special purpose vehicle." The term "control" under SAFE Circular No. 37 is broadly defined as the operation rights, beneficiary rights or decision-making rights acquired by the PRC residents in the offshore special purpose vehicles or PRC companies by such means as acquisition, trust, proxy, voting rights, repurchase, convertible bonds or other arrangements. SAFE Circular No. 37 further requires amendment to the registration in the event of any changes with respect to the basic information of the special purpose vehicle, such as changes in a PRC resident individual shareholder, name or operation period; or any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. If the shareholders of an offshore holding company who are PRC residents do not complete their registration with the local SAFE branches, the PRC subsidiaries of the offshore holding company may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to the offshore company, and the offshore company may be restricted in its ability to contribute additional capital to its PRC subsidiaries. Moreover, failure to comply with SAFE registration and amendment requirements described above could result in liability under PRC law for evasion of applicable foreign exchange restrictions. In addition, on February 13, 2015, SAFE issued SAFE Circular No. 13, which took effect on June 1, 2015. SAFE Circular No. 13 delegates to the qualified banks the authority to register all PRC residents' investment in "special purpose vehicle" pursuant to SAFE Circular No. 37, except that those PRC residents who have failed to comply with SAFE Circular No. 37 will continue to fall within the jurisdiction of the relevant local SAFE branches and must continue to make their supplementary registration applications with the such local SAFE branches.

We have requested PRC residents holding direct or indirect interest in our company to our knowledge to make the necessary applications, filings and amendments as required under SAFE regulations. Mr. Sean Shenglong Zou, Mr. Hao Cheng and Ms. Fang Wang have completed the initial registration with the local SAFE branch as required by the SAFE regulations. However, we cannot assure you that these shareholders have completed and will complete all subsequent amendment registrations as required by the SAFE regulations as we do not have control over these shareholders. We may also not be informed of the identities of all the PRC residents holding direct or indirect interest in our company, and we cannot provide any assurances that these PRC residents will comply with our request to make or obtain any applicable registrations or comply with other requirements required by SAFE regulations since we do not have control over these the PRC resident shareholders. The failure or inability of our PRC resident shareholders or our future PRC resident shareholders to make any required registrations or comply with other requirements under SAFE regulations may subject such PRC residents or our PRC subsidiaries to fines and legal sanctions and may also limit our ability to raise additional financing and contribute additional capital into or provide loans to (including using the proceeds from our initial public offering) our PRC subsidiaries, limit our PRC subsidiaries' ability to pay dividends or otherwise distribute profits to us, or otherwise adversely affect us.

Furthermore, because of the uncertainty over how the SAFE regulations will be interpreted and implemented, and how SAFE will apply them to us, we cannot predict how these regulations will affect our business operations or future strategies. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign-currency-denominated borrowings, which may adversely affect our financial condition and results of operations. In addition, if we decide to acquire a PRC domestic company, we cannot assure you that we or the owners of such company, as the case may be, will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the foreign exchange regulations. This may restrict our ability to implement our acquisition strategy and could adversely affect our business and prospects.

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.

In December 2006, the People's Bank of China promulgated the Administrative Measures of Foreign Exchange Matters for Individuals, which set forth the respective requirements for foreign exchange transactions by individuals (both PRC or non-PRC citizens) under either the current account or the capital account. On February 15, 2012, 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 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 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 are subject to these regulations. Failure by us or our PRC stock option holders to comply with the SAFE regulations may subject us or 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.

We face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.

The State Administration of Taxation, or the SAT, has issued several rules and notices to tighten its scrutiny over acquisition transactions in recent years, including the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises issued in December 2009, or SAT Circular 698, the Notice on Several Issues Regarding the Income Tax of Non-PRC Resident Enterprises issued in March 2011, or SAT Circular 24, and the Notice on Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-PRC Resident Enterprises issued in February 2015, or SAT Circular 7. Pursuant to these rules and notices, if a non-PRC resident enterprise indirectly transfers PRC taxable properties, which refer to properties of an establishment or a place in the PRC, real estate properties in the PRC or equity investments in a PRC tax resident enterprise, by disposing of equity interest in an overseas non-public holding company without a reasonable commercial purpose and resulting in the avoidance of PRC enterprise income tax, such indirect transfer should be deemed a direct transfer of PRC taxable properties, and gains derived from such indirect transfer may be subject to the PRC withholding tax at a rate of up to 10%. SAT Circular 7 sets out several factors to be taken into consideration by tax authorities in determining whether an indirect transfer has a reasonable commercial purpose. An indirect transfer satisfying all the following criteria will be deemed to lack reasonable commercial purpose and be taxable under PRC law: (i) 75% or more of the equity value of the intermediary enterprise being transferred is derived directly or indirectly from the PRC taxable properties; (ii) at any time during the one-year period before the indirect transfer, 90% or more of the asset value of the intermediary enterprise (excluding cash) is comprised directly or indirectly of investments in the PRC, or 90% or more of its income is derived directly or indirectly from the PRC; (iii) the functions performed and risks assumed by the intermediary enterprise and any of its subsidiaries that directly or indirectly hold the PRC taxable properties are limited and are insufficient to prove their economic substance; and (iv) the foreign tax payable on the gain derived from the indirect transfer of the PRC taxable properties is lower than the potential PRC enterprise income tax on the direct transfer of such assets. Nevertheless, the indirect transfer falling into the safe harbor available under SAT Circular 7 may not be subject to PRC tax and the scope of the safe harbor includes qualified group restructuring, public market trading and tax treaty exemptions. On October 17, 2017, the SAT issued the Public Notice on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source, or SAT Public Notice 37, which took effect on December 1, 2017. SAT Public Notice 37 replaced a series of important circulars, including but not limited to SAT Circular 698 and amended the rules governing the administration of withholding tax on China-source income derived by the non-resident enterprise. SAT Public Notice 37 also introduced certain key changes to the current withholding regime, such as (i) non-resident enterprise's withholding obligation for dividend was changed to arise on the date the payment is actually made as opposed to dividend declaration date; and (ii) non-resident enterprise's obligation to self-report tax within seven days upon withholding agent's failure to withhold was removed.

Under SAT Circular 7 and SAT Public Notice 37, the entities or individuals obligated to pay the transfer price to the transferor are the withholding agents and must withhold the PRC enterprise income tax from the transfer price. If the withholding agent fails to do so, the transferor should report to and pay the PRC enterprise income tax to the PRC tax authorities. In the event that neither the withholding agent nor the transferor fulfills their obligations under SAT Circular 7 and SAT Public Notice 37, apart from imposing penalties such as late payment interest on the transferor, the tax authority may also hold the withholding agent liable and impose a penalty of 50% to 300% of the unpaid tax on the withholding agent. The penalty imposed on the withholding agent may be reduced or waived if the withholding agent has submitted the relevant materials in connection with the indirect transfer to the PRC tax authorities in accordance with SAT Circular 7.

However, there is a lack of clear statutory interpretation of these rules and notices, we face uncertainties on the reporting and consequences on future 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. Our Cayman Islands holding company and other non-resident enterprises in our company may be subject to filing obligations or may be taxed if our Cayman Islands holding company and other non-resident enterprises in our company are transferors in such transactions, and may be subject to withholding obligations if our Cayman Islands holding company and other non-resident enterprises in our company are transferees in such transactions. For the transfer of shares in our Cayman Islands holding company by investors that are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist in the filing under the rules and notices. As a result, we may be required to expend valuable resources to comply with these rules and notices or to request the relevant transferors from whom we purchase taxable assets to comply, or to establish that our Cayman Islands holding company and other non-resident enterprises in our company should not be taxed under these rules and notices, which may have a material adverse effect on our financial condition and results of operations. There is no assurance that the tax authorities will not apply the rules and notices to our offshore restructuring transactions where non-PRC resident investors were involved if any of such transactions were determined by the tax authorities to lack reasonable commercial purpose. As a result, we and our non-PRC resident investors may be at risk of being taxed under these rules and notices and may be required to comply with or to establish that we should not be taxed under such rules, which may have a material adverse effect on our financial condition and results of operations or such non-PRC resident investors' investments in us. We have conducted acquisition transactions in the past and may conduct additional acquisition transactions in the future. We cannot assure you that the PRC tax authorities will not, at their discretion, adjust any capital gains and impose tax return filing obligations on us or require us to provide assistance for the investigation of PRC tax authorities with respect thereto. Heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.

Discontinuation or reduction of any of the preferential tax treatments or other government incentives available to us in the PRC, or imposition of any additional PRC taxes could adversely affect our financial condition and results of operations.

Under the PRC Enterprise Income Tax Law, or the EIT Law, the statutory enterprise income tax rate is 25%. Under certain circumstances, preferential tax rates may be applied if an enterprise meets the corresponding standards and qualifications and completes certain procedures. See "Item 5. Operating and Financial Overview and Prospects—A. Operating Results—Taxation" for details of tax benefits applicable to us. Preferential tax treatment and other government incentives granted to our VIE and subsidiaries are subject to review and may be adjusted or revoked at any time. The discontinuation or reduction of any preferential tax treatment currently available to us and our wholly owned PRC subsidiaries will cause our effective tax rate to increase, which could have a material adverse effect on our financial condition and results of operations. We cannot assure you that we will be able to maintain our current effective tax rate in the future.

Our global income may be subject to PRC taxes under the PRC EIT Law, which may have a material adverse effect on our results of operations.

Under the EIT Law and its implementation rules, an enterprise established outside of the PRC with a "de facto management body" within the PRC is considered a resident enterprise and will be subject to the enterprise income tax at the rate of 25% on its global income. The implementation rules define the term "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." On April 22, 2009, the SAT issued a circular, 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. See "Item 4. Information on the Company—B. Business Overview—Regulation—Regulation on Tax—PRC enterprise income tax." Although SAT Circular 82 applies only to offshore enterprises controlled by PRC enterprises or PRC enterprise groups and not to those controlled by PRC individuals or foreigners, the determining criteria set forth in the SAT Circular 82 may reflect the SAT's general position on how the "de facto management body" test should be applied in determining the tax resident status of all offshore enterprises.

According to SAT Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group 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 worldwide income only if all of the following conditions set forth in the SAT Circular 82 are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise's financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholder resolutions are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

Xunlei Limited is not controlled by a PRC enterprise or PRC enterprise group and we do not believe that Xunlei Limited meets all of the conditions above. Xunlei Limited is a company incorporated outside the PRC. As a holding company, certain of Xunlei Limited's key assets, including a significant amount of cash, are located, and records (including the resolutions of its board of directors and the resolutions of its shareholders) are maintained, outside the PRC. Therefore, we do not believe Xunlei Limited should be treated as a "resident enterprise" for PRC tax purposes if the criteria for "de facto management body" as set forth in the relevant SAT Circular 82 were deemed applicable to us. 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" as applicable to Xunlei Limited, we may be considered a resident enterprise and may therefore be subject to the enterprise income tax at 25% on our global income. If we are considered a resident enterprise and earn income other than dividends from our PRC subsidiaries, a 25% enterprise income tax on our global income could increase our tax burden and adversely affect our cash flow and profitability. In addition to the uncertainty regarding how the new "resident enterprise" classification may apply, it is also possible that the rules may change in the future, possibly with retroactive effect.

Dividends paid by us to our foreign investors and gains on the sale of our ADSs or common shares by our foreign investors may be subject to taxes under PRC tax laws.

Under the EIT Law and its implementation regulations issued by the State Council, a 10% PRC withholding tax is applicable to dividends paid to investors that are "non-resident enterprises," which do not have an establishment or place of business in the PRC or which have such establishment or place of business but the dividends are not effectively connected with such establishment or place of business, to the extent such dividends are derived from sources within the PRC. Any gain realized on the transfer of ADSs or common shares by such investors is subject to PRC tax, at a rate of 10% unless otherwise reduced or exempted by relevant tax treaties, if such gain is regarded as income derived from sources within the PRC. If we are deemed a "PRC resident enterprise," dividends paid on our common shares or ADSs, and any gain realized from the transfer of our common shares or ADSs, may be treated as income derived from sources within the PRC and may as a result be subject to PRC taxation (which in the case of dividends would be withheld at source). It is unclear whether our non-PRC individual investors would be subject to any PRC tax in the event we are deemed a "PRC resident enterprise." If any PRC tax were to apply to such dividends or gains of non-PRC individual investors, it would generally apply at a rate of 20% (unless a reduced rate is available under an applicable tax treaty). It is also unclear whether, if we are considered a PRC "resident enterprise," holders of our ADSs or common shares would be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas (and we do not expect to withhold at treaty rates if any withholding is required). If dividends payable to our non-PRC investors, or gains from the transfer of our common shares or ADSs by such investors are subject to PRC tax, the value of your investment in our common shares or ADSs may be adversely affected.

Increases in labor costs and enforcement of stricter labor laws and regulations in the PRC may adversely affect our business and our profitability.

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

In addition, we have been subject to stricter regulatory requirements in terms of entering labor contracts with our employees and paying various statutory employee benefits, including pensions, housing fund, medical insurance, work-related injury insurance, unemployment insurance and childbearing insurance to designated government agencies for the benefit of our employees. Pursuant to the PRC Labor Contract Law, or the Labor Contract law, that became effective in January 2008, as amended on December 28, 2012 and effective as of July 1, 2013, and its implementation rules that became effective in 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 SCNPC 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.

As the interpretation and implementation of labor-related laws and regulations are still evolving, we cannot assure you that our employment practice 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.

Our ADSs may be delisted under the Holding Foreign Companies Accountable Act if the PCAOB is unable to inspect auditors who are located in China. The delisting of our ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment. Additionally, the inability of the PCAOB to conduct inspections deprives our investors with the benefits of such inspections.

The Holding Foreign Companies Accountable Act, or the HFCA Act, was enacted on December 18, 2020. The HFCA Act states if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspection by the PCAOB for three consecutive years beginning in 2021, the SEC shall prohibit our shares or ADSs from being traded on a national securities exchange or in the over the counter trading market in the U.S.

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

On March 24, 2021, the SEC adopted interim final rules relating to the implementation of certain disclosure and documentation requirements of the HFCA Act. We will be required to comply with these rules if the SEC identifies us as having a "non-inspection" year under a process to be subsequently established by the SEC. The SEC is assessing how to implement other requirements of the HFCA Act, including the listing and trading prohibition requirements described above.

The SEC may propose additional rules or guidance that could impact us if our auditor is not subject to PCAOB inspection. For example, on August 6, 2020, the President's Working Group on Financial Markets, or the PWG, issued the Report on Protecting United States Investors from Significant Risks from Chinese Companies to the then President of the United States. This report recommended the SEC implement five recommendations to address companies from jurisdictions that do not provide the PCAOB with sufficient access to fulfil its statutory mandate. Some of the concepts of these recommendations were implemented with the enactment of the HFCA Act. However, some of the recommendations were more stringent than the HFCA Act. For example, if a company was not subject to PCAOB inspection, the report recommended that the transition period before a company would be delisted would end on January 1, 2022.

The SEC has announced that the SEC staff is preparing a consolidated proposal for the rules regarding the implementation of the HFCA Act and to address the recommendations in the PWG report. It is unclear when the SEC will complete its rulemaking and when such rules will become effective and what, if any, of the PWG recommendations will be adopted. The implications of this possible regulation in addition the requirements of the HFCA Act are uncertain. Such uncertainty could cause the market price of our ADSs to be materially and adversely affected, and our securities could be delisted or prohibited from being traded "over-the-counter" earlier than would be required by the HFCA Act. If our securities are unable to be listed on another securities exchange by then, such a delisting would substantially impair your ability to sell or purchase our ADSs when you wish to do so, and the risk and uncertainty associated with a potential delisting would have a negative impact on the price of our ADSs.

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

In May 2013, the PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the CSRC and the PRC Ministry of Finance, which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations undertaken by the PCAOB in the PRC or by the CSRC or the PRC Ministry of Finance in the United States. The PCAOB continues to be in discussions with the CSRC and the PRC Ministry of Finance to permit joint inspections in the PRC of audit firms that are registered with the PCAOB and audit Chinese companies that trade on U.S. exchanges.

Proceedings instituted by the SEC against PRC affiliates of the "big four" 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.

Starting in 2011 "big four" PRC-based accounting firms, including our independent registered public accounting firm, were affected by a conflict between U.S. and Chinese law. Specifically, for certain U.S.-listed companies operating and audited in mainland China, the SEC and the PCAOB sought to obtain from the Chinese firms access to their audit work papers and related documents. The firms were, however, advised and directed that under Chinese law, they could not respond directly to the U.S. regulators on those requests, and that requests by foreign regulators for access to such papers in China had to be channeled through the China Securities Regulatory Commission, or the CSRC.

In late 2012, this impasse led the SEC to commence administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the Chinese accounting firms, including our independent registered public accounting firm. A first instance trial of the proceedings in July 2013 in the SEC's internal administrative court resulted in an adverse judgment against the firms. The administrative law judge proposed penalties on the firms including a temporary suspension of their right to practice before the SEC, although that proposed penalty did not take effect pending review by the Commissioners of the SEC. On February 6, 2015, before a review by the Commissioner had taken place, the firms reached a settlement with the SEC. Under the settlement, the SEC accepted that future requests by the SEC for the production of documents will normally be made to the CSRC. The firms were to receive matching Section 106 requests, and were required to abide by a detailed set of procedures with respect to such requests, which in substance require them to facilitate production via the CSRC. If they failed to meet specified criteria, the SEC retained authority to impose a variety of additional remedial measures on the firms depending on the nature of the failure. Under the terms of the settlement, the underlying proceeding against the four China-based accounting firms was deemed dismissed with prejudice four years after entry of the settlement. The four-year mark occurred on February 6, 2019. While we cannot predict if the SEC will further challenge the four China-based accounting firms' compliance with U.S. law in connection with U.S. regulatory requests for audit work papers or if the results of such a challenge would result in the SEC imposing penalties such as suspensions. If additional remedial measures are imposed on the "big four" PRC-based accounting firms, including our independent registered public accounting firm, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act.

In the event the "big four" PRC-based accounting firms become subject to additional legal challenges by the SEC or the PCAOB, 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 China, 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 any such future proceedings against these audit firms may cause investor uncertainty regarding China-based, U.S.-listed companies and the market price of our common stock may be adversely affected.

If our independent registered public accounting firm was 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 financial statements, our financial statements could be determined not to be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to the delisting of the ADSs from the U.S. national securities exchanges or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of the ADSs in the United States.

Risks Related to Our ADSs

The market price for our ADSs may be volatile.

The trading prices of our ADSs are likely to be volatile and could fluctuate widely due to factors beyond our control. This may happen because of broad market and industry factors, like 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 price declines in the trading prices of their securities. The trading performances of these Chinese companies' securities after their offerings, including companies in the internet businesses, may affect the attitudes of investors toward Chinese companies listed in the United States, which consequently may impact the trading performance of our 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, which may have a material adverse effect on the market price of our ADSs.

The market price for our ADSs is likely to be highly volatile and subject to wide fluctuations in response to factors including the following:

- regulatory developments affecting us, our advertisers or our industry;
- announcements of studies and reports relating to our services or those of our competitors;
- changes in the economic performance or market valuations of other internet companies in China;
- actual or anticipated fluctuations in our quarterly results of operations and changes of our expected results;
- changes in financial estimates by securities research analysts;
- conditions in the internet or online advertising industry in China;
- announcements by us or our competitors of new services, acquisitions, strategic relationships, joint ventures or capital commitments;
- additions to or departures of our senior management;
- fluctuations of exchange rates between the Renminbi and the U.S. dollar;

- release or expiry of lock-up or other transfer restrictions on our outstanding shares or ADSs; and
- sales or perceived potential sales of additional shares or ADSs.

In addition, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of any particular companies. These market fluctuations may also have a material adverse effect on the market price of our ADSs.

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

The trading market for our ADSs will be influenced by research or reports that industry or securities analysts publish about our business. If one or more analysts who cover us downgrade our ADSs, the market price for our 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 our ADSs to decline.

As we do not expect to pay dividends in the foreseeable future, you must rely on price appreciation of our 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. Subject to our ongoing financial performance, cash position, budget and business plan and market conditions, we may consider paying special dividends. However, we do not plan to pay dividends in the foreseeable future and you should not rely on an investment in our ADSs as a source for any future dividend income.

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

Substantial future sales or perceived potential sales of our ADSs in the public market could cause the price of our ADSs to decline.

Sales of our ADSs in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. As of March 31, 2021, we had 334,651,981 common shares outstanding, which excludes (i) 9,519,144 common shares held by Leading Advice Holdings Limited, a share incentive awards holding platform, and (ii) 24,706,080 common shares, consisting of shares issued to our depositary bank for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under our share incentive plans and shares repurchased by us but not yet cancelled. All our outstanding common shares represented by ADSs were freely transferable by persons other than our “affiliates” without restriction or additional registration under the Securities Act of 1933, as amended, or Securities Act. The remaining common shares will be available for sale subject to volume and other restrictions as applicable under Rules 144 and 701 under the Securities Act. Certain holders of our common shares have the right to cause us to register under the Securities Act the sale of their shares. Registration of these shares under the Securities Act would result in ADSs representing these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. Sales of these registered shares in the form of ADSs, in the public market could cause the price of our ADSs to decline.

Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings, and you may not receive cash dividends if it is impractical to make them available to you.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the United States unless we register both the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Under the deposit agreement, the depositary will not make rights available to you unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective and we may not be able to establish a necessary exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

The depositary of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on our common shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of common shares your ADSs represent. However, the depositary may, at its discretion, decide that it is inequitable or impractical to make a distribution available to any holders of ADSs. For example, the depositary may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the cost of mailing them. In these cases, the depositary may decide not to distribute such property to you.

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 transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary deems it 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.

The voting rights of holders of ADSs are limited by the terms of the deposit agreement, and you may not be able to exercise your right to direct how the common shares which are represented by your ADSs are voted.

Holders of ADSs do not have the same rights as our registered shareholders. As a holder of the ADSs, you will not have any direct right to attend general meetings of our shareholders or to cast any votes at such meetings. You will only be able to exercise the voting rights which are carried by the underlying common shares represented by your ADSs indirectly by giving voting instructions to the depositary in accordance with the provisions of the deposit agreement. Under the deposit agreement, you may vote only by giving voting instructions to the depositary. If we instruct the depositary to ask for your instructions, then upon receipt of your voting instructions, the depositary will try, as far as is practicable, to vote the underlying common shares which are represented by your ADSs in accordance with your instructions. If we do not instruct the depositary to ask for your instructions, the depositary may still vote in accordance with instructions you give under specific circumstances when it is not required to do so. You will not be able to directly exercise your right to vote with respect to the underlying common shares represented by your ADSs unless you withdraw such common shares and become the registered holder of such common shares prior to the record date for the general meeting. When a general meeting is convened, you may not receive sufficient advance notice of the meeting to withdraw the underlying common shares represented by your ADSs and become the registered holder of such common shares to allow you to attend the general meeting and to vote directly with respect to any specific matter or resolution to be considered and voted upon at the general meeting. In addition, under our memorandum and articles of association, for the purposes of determining those shareholders who are entitled to attend and vote at any general meeting, our directors may close our register of members and/or fix in advance a record date for such meeting, and such closure of our register of members or the setting of such a record date may prevent you from withdrawing the common shares underlying your ADSs and becoming the registered holder of such shares prior to the record date, so that you would not be able to attend the general meeting or to vote directly. If we ask for your instructions, the depositary will, at the sole discretion of the depositary and as soon as practicable, notify you of the upcoming vote and will arrange to deliver our voting materials to you. We have agreed to give the depositary at least 30 days' prior notice of shareholder meetings. Nevertheless, we cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote the underlying common shares represented by your ADSs.

You may face difficulties in protecting your interests, and your ability to protect your rights through the U.S. federal courts may be limited because we are incorporated under Cayman Islands law, we conduct substantially all of our operations in China and substantially all of our directors and officers reside outside the United States.

We are incorporated in the Cayman Islands and conduct substantially all of our operations in China through our PRC subsidiaries and variable interest entity and its subsidiaries. Substantially all of our directors and officers reside outside 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 Cayman Islands or in the United States in the event that you believe that your rights have been infringed under the U.S. 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 is uncertainty as to whether Cayman Islands courts or PRC courts would:

- recognize or enforce judgments of courts of the United States obtained against us based on certain civil liability provisions of U.S. securities laws; or

- entertain original actions brought in the Cayman Islands or the PRC against us, based on certain civil liability provisions of U.S. securities laws.

Although there is no statutory enforcement in the Cayman Islands of judgments obtained in the federal or state courts of the United States, (and the Cayman Islands are not a party to any treaties for the reciprocal enforcement or recognition of such judgments), the courts of the Cayman Islands will, at common law, recognize and enforce a foreign money judgment of a foreign court of competent jurisdiction without any reexamination of the merits of the underlying dispute based on the principle that a judgment of a competent foreign court imposes upon the judgment debtor an obligation to pay the liquidated sum for which such judgment has been given, provided such judgment (i) is final and conclusive, (ii) is not in respect of taxes, a fine or a penalty; and (iii) was not obtained in a manner and is not of a kind the enforcement of which is contrary to natural justice or the public policy of the Cayman Islands. However, the Cayman Islands courts are unlikely to enforce a judgment obtained from the U.S. courts under civil liability provisions of the U.S. federal securities law if such judgment is determined by the courts of the Cayman Islands to give rise to obligations to make payments that are penal or punitive in nature. A Cayman Islands court may stay enforcement proceedings if concurrent proceedings are being brought elsewhere.

The recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between China and the country where the judgment is made or on principles of reciprocity between jurisdictions. China does not have any treaties with the United States or the Cayman Islands that provide for the enforcement of foreign judgments and PRC courts strictly adopt the principle of reciprocity in judicial practice. In addition, according to the PRC Civil Procedures Law, courts in the PRC will not enforce a foreign judgment against us or our directors and officers if they decide that the judgment violates the basic principles of PRC law or national sovereignty, security, or public interest. As a result, it is uncertain whether and on what basis a PRC court would enforce a judgment rendered by a court in the United States or in the Cayman Islands.

Our corporate affairs are governed by our memorandum and articles of association, as amended and restated from time to time, and by the Companies Act (As Revised) and common law of the Cayman Islands. The rights of shareholders to take legal action against us and our directors, actions by minority shareholders and the fiduciary duties of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which provides persuasive, but not binding, authority in 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 precedents in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States and provides significantly less protection to investors. In addition, shareholders in Cayman Islands companies may not have standing to initiate a shareholder derivative action in U.S. federal courts.

It is also difficult or impossible for you to bring an action against us or against our directors and officers in China. Under the PRC Civil Procedures Law, foreign shareholders may bring an action based on PRC law against a company in China for disputes if they can establish sufficient nexus to the PRC for a PRC court to have jurisdiction, and meet other procedural requirements, including, among others, the plaintiff must have a direct interest in the case, and there must be a concrete claim, a factual basis and a cause for the suit. It will be, however, difficult for U.S. shareholders to bring actions against us in the PRC in accordance with PRC laws because we are incorporated under the laws of the Cayman Islands and it will be difficult for U.S. shareholders, by virtue only of holding the ADSs or ordinary shares, to establish a connection to the PRC for a PRC court to have jurisdiction as required under the PRC Civil Procedures Law.

As a result, our public shareholders may have more difficulty in protecting their interests through actions against us, our management, our directors or our controlling shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States.

Our memorandum and articles of association contains anti-takeover provisions that could adversely affect the rights of holders of our common shares and ADSs.

Our currently effective memorandum and articles of association contains certain provisions that could limit the ability of others to acquire control of our company, including a provision that grants authority to our board directors to establish from time to time one or more series of preferred shares without action by our shareholders. The provisions could have the effect of depriving our shareholders of the opportunity to sell their shares at a premium over the prevailing market price by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transactions.

Our corporate actions are substantially controlled by our directors, executive officers and other principal shareholders, who can exert significant influence over important corporate matters, which may reduce the price of our ADSs and deprive you of an opportunity to receive a premium for your shares.

As of March 31, 2021, our directors, executive officers and existing principal shareholders beneficially owned approximately 47.7% of our outstanding common shares. These shareholders, if acting together, could exert substantial influence over matters such as electing directors and approving material mergers, acquisitions or other business combination transactions. This concentration of ownership may also discourage, delay or prevent a change in control of our company, which could have the dual effect of depriving our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and reducing the price of our ADSs. These actions may be taken even if they are opposed by our other shareholders. In addition, these persons could divert business opportunities away from us to themselves or others.

We incur increased costs as a result of being a public company, particularly after we have ceased to qualify as an "emerging growth company."

As a public company in the United States, we incur significant accounting, legal and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act, as well as rules subsequently implemented by the Securities and Exchange Commission and the NASDAQ Global Select Market, require significantly heightened corporate governance practices of public companies, including Section 404 relating to internal control over financial reporting. We expect these rules and regulations to increase our legal and financial compliance costs and to make some corporate activities more time-consuming and costly. In particular, as we are no longer an "emerging growth company," we expect to incur significant expenses and devote substantial management efforts in assessing our internal control over financial reporting and comply with the auditor attestation requirement under Section 404 of the Sarbanes-Oxley Act of 2002. Compliance with these rules and requirements may be especially difficult and costly for us because we may have difficulty locating sufficient personnel in China with experience and expertise relating to U.S. GAAP and U.S. public company reporting requirements, and such personnel may command high salaries relative to similarly experienced personnel in the United States. If we cannot employ sufficient personnel to ensure compliance with these rules and regulations, we may need to rely more on outside legal, accounting and financial experts, which may be costly. If we fail to comply with these rules and requirements, or are perceived to have weaknesses with respect to our compliance, we could become the subject of a governmental enforcement action and investor confidence could be negatively impacted and the market price of our ADSs could decline. In addition, we will incur additional costs associated with our public company reporting requirements. We are currently evaluating and monitoring developments with respect to these rules and regulations, and we cannot predict or estimate with reasonable certainty the amount of additional costs we may incur or the timing of such costs.

We were named as a defendant in putative shareholder class action lawsuits in the United States, and we may be involved in more class action lawsuits in the future. Such lawsuits 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 lawsuits. 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.

We believe we were a passive foreign investment company for our taxable year ended December 31, 2020, which could subject United States investors in the ADSs or common shares to significant adverse United States federal income tax consequences.

Based on the market price of our ADSs and the composition of our assets (in particular the retention of a substantial amount of cash), we believe that we were a "passive foreign investment company," (or a "PFIC"), for United States federal income tax purposes for our taxable year ended December 31, 2020, and we will very likely be a PFIC for our current taxable year ending December 31, 2021 unless the market price of our ADSs increases and/or we invest a substantial amount of the cash and other passive assets we hold in assets that produce or are held for the production of active income. In addition, it is possible that one or more of our subsidiaries may be or become classified as a PFIC for United States federal income tax purposes. A non-U.S. corporation will be classified as a PFIC for any taxable year if either (1) 75% or more of its gross income consists of certain types of passive income or (2) 50% or more of the value of its assets (generally determined on the basis of a quarterly average) during such year is attributable to assets that produce or are held for the production of passive income.

If we are classified as a PFIC for any taxable year during which a U.S. Holder (as defined in Item 10. Additional Information—E. Taxation—United States Federal Income Tax Considerations) holds our ADSs or common shares, such U.S. Holder may incur significantly increased United States federal income tax on gain recognized on the sale or other disposition of the ADSs or common shares and on the receipt of distributions on the ADSs or common shares to the extent such gain or distribution is treated as an "excess distribution" under the United States federal income tax rules. Further, if we are classified as a PFIC for any year during which a U.S. Holder holds our ADSs or common shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. Holder holds our ADSs or common shares ("PFIC Tainted Shares") even if, we, in fact, cease to be a PFIC in subsequent taxable years. Accordingly, a U.S. Holder of our ADSs or common shares is urged to consult its tax advisor concerning the United States federal income tax considerations related to holding and disposing of ADSs or common shares (including, to the extent an election is available, making a "mark-to-market" election to avoid owning PFIC-Tainted Shares and the unavailability of an election to treat us as a qualified electing fund). For more information, see the section titled "Item 10. Additional Information—E. Taxation—United States Federal Income Tax Considerations—Passive Foreign Investment Company Considerations."

Item 4. Information on the Company

A. History and Development of the Company

We commenced operations in January 2003 through the establishment of Shenzhen Xunlei, which currently, together with its various subsidiaries in the PRC, operates our Xunlei internet platform.

In February 2005, we established Xunlei Limited as our holding company in the Cayman Islands. Xunlei Limited directly owns Giganology Shenzhen, our wholly owned subsidiary in China established in June 2005. Giganology Shenzhen primarily engages in the research and development of new technologies.

Giganology Shenzhen has entered into a series of contractual arrangements with Shenzhen Xunlei and its shareholders. These contractual arrangements enable us to exercise effective control over Shenzhen Xunlei and receive substantially all of the economic benefits of Shenzhen Xunlei. As a result, Shenzhen Xunlei is our variable interest entity and we have consolidated the financial results of Shenzhen Xunlei and its subsidiaries in our consolidated financial statements in accordance with U.S. GAAP. The existing principal subsidiaries of Shenzhen Xunlei include the following:

- Shenzhen Xunlei Wangwenhua Co., Ltd. (formerly known as "Shenzhen Fengdong Networking Technologies Co., Ltd."), or Wangwenhua, which was established in December 2005 and primarily engages in software development, technical consulting and other related technical services.

- Shenzhen Zhuolian Software Co., Ltd. (formerly known as "Xunlei Software (Shenzhen) Co., Ltd."), which was established in January 2010 and primarily engages in the development of software technology and the development of computer software.

- Xunlei Games Development (Shenzhen) Co., Ltd., or Xunlei Games, which was established in February 2010 and primarily engages in the development of online game and computer software and advertising services.

- Shenzhen Onething Technologies Co., Ltd., or Shenzhen Onething, which was established in September 2013 and primarily engages in cloud computing technology development and related services.

- Beijing Xunjing Technology Co., Ltd. (formerly known as "Wangxin Century Technologies (Beijing) Co., Ltd."), or Beijing Xunjing, which was established in October 2015 and currently a subsidiary of Wangwenhua. Beijing Xunjing primarily engages in technology development and related services.

- Shenzhen Crystal Interactive Technologies Co., Ltd., which was established in May 2016 and currently a subsidiary of Shenzhen Onething, and primarily engages in development of computer software and provision of information technology services.

- Beijing Onething Technologies Co., Ltd., which was established in January 2017 and primarily engages in development of computer software and provision of information technology service.

- Henan Tourism Information Co., Ltd., which we acquired 80% of the total equity interest from an independent third party in June 2018 and primarily engages in computer software development, information consultation, entertainment services, advertising, and certain information services under Type II value-added telecommunication businesses.

- Jiangxi Node Technology Services Co. Ltd., which was established in July 2020 and primarily engages in bandwidth purchasing.

In February 2011, we established a direct wholly owned subsidiary, Xunlei Network Technologies Limited, or Xunlei Network BVI, in the British Virgin Islands. In March 2011, we established Xunlei Network Technologies Limited, or Xunlei Network HK, in Hong Kong, which is the direct wholly owned subsidiary of Xunlei Network BVI. Xunlei Network HK primarily engages in the development of computer software. In November 2011, we established Xunlei Computer in China, which is the direct wholly owned subsidiary of Xunlei Network HK. Xunlei Computer primarily engages in the development of computer software and information technology services.

In May 2018, Xunlei Network HK acquired all equity interest of HK Onething Technologies Limited, or Onething HK. Onething HK operates our cloud computing business in Hong Kong, including selling our cloud computing device, Onething Cloud in Hong Kong and business development for international markets. In July 2018, Onething HK, together with a Thai individual and a Thai company, established Onething Co., Ltd. (Thailand), or Onething Thailand, in Thailand. Onething HK holds 49% of the total equity interest of Onething Thailand while has 90.57% of the total voting power of all equity interest of Onething Thailand. Onething Thailand primarily engages in cloud computing and blockchain business in Thailand, including selling our cloud computing device, Onething Cloud and providing blockchain services in Thailand.

In June 2014, we completed the initial public offering of our ADSs, which are listed on the NASDAQ Global Select Market under the symbol "XNET."

In September 2014, we, through Shenzhen Xunlei Networking Technologies Co., Ltd., acquired from subsidiaries of Kingsoft Corporation Limited Kuaipan Personal and Kansunzi, both software services in support of cloud-sourced storage and sharing, and their related business and assets, for an aggregate cash consideration of US$33 million. In August 2016, we discontinued our Kuaipan Personal services due to a change of business focus.

In July 2015, we completed the sale of our entire stake in Xunlei Kankan to Beijing Nesound International Media Corp., Ltd., an independent third party, for a consideration of RMB130.0 million. As of December 31, 2019, Beijing Nesound International Media Corp., Ltd. had fully paid the whole consideration of RMB130.0 million to us. This sale is part of our strategy to streamline our business and continue our transition into mobile internet.

Our principal executive offices are located at: 21-23/F, Block B, Building No. 12, No.18 Shenzhen Bay ECO-Technology Park, Keji South Road, Yuehai Street, Nanshan District, Shenzhen, the People's Republic of China. Our telephone number at this address is +86 755-8633-8443. Our registered office in the Cayman Islands is located at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

See "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Capital Expenditures" for a discussion of our capital expenditures.

B. Business Overview

Overview

We are a leading innovator in shared cloud computing and blockchain technology in China. We operate a powerful internet platform in China based on cloud technology to enable our users to quickly access, manage, and consume digital media content on the internet. In recent years, we have expanded our products and services from PC-based devices to mobile devices in part through pre-installed acceleration products in mobile phones to further enlarge our user base and offer our users a wider range of access points. We provide a wide range of products and services across cloud acceleration, blockchain, shared cloud computing and digital entertainment to deliver an efficient, smart and safe internet environment.

To address deficiencies of digital media transmission over the internet in China, such as low speed and high delivery failure rates, we provide users with quick and easy access to online digital media content through core products and services below:

- Xunlei Accelerator, our most popular and free product, which enables users to accelerate digital transmission over the internet and has approximately 52 million monthly unique visitors in December 2020, according to our internal record; and

- Cloud acceleration subscription services, which are delivered through our product, Green Channel, and offer users premium services for speed and reliability.

In addition to our core product, Xunlei Accelerator, we have also developed cloud computing and other internet value-added services to speed up corporate development and to keep pace with the latest industry trend and users' changing needs. These value-added services and products primarily include live streaming services and online game services, which provide us with synergies in our business operations.

As a part of our cloud-based mobile strategies, we launched Mobile Xunlei, a mobile app that allows users to search, download and consume digital media content on their mobile devices in a user friendly way, in 2012 as an important step in expanding our services to mobile devices. Mobile Xunlei gained popularity while bigger screen phones with enhanced storage capacity changed mobile phone users' behavior in accessing and consuming digital media content. Based on our own record, the monthly average daily active user of this application was about five million in 2020. Mobile Xunlei is also one of the most downloaded applications in its category. In the fourth quarter of 2015, we started to monetize our mobile traffic through advertising sales and generated our first mobile advertising revenues. Mobile Xunlei supplements our existing subscriptions business, enabling us to reach a wider scope of user base and expand our services to additional devices of a user who has multiple devices.

Our mobile initiatives also benefit from our relationship with Xiaomi, one of our previous strategic shareholders. Since 2014, we have entered into a pre-installing services agreement with a Xiaomi group company which manufactures Xiaomi phones, a well-recognized brand of smart phones in China. Pursuant to the agreement, we agree to provide our Mobile Xunlei acceleration plug-in, and the mobile phone manufacturer agrees to install such plug-in on its phones, free of charge. Such pre-installment arrangement provides mobile phone users with access to our acceleration services, which we believe enhances our ability to generate more user traffic. Our mobile acceleration software has been officially adopted by Xiaomi's operating systems MIUI6, MIUI7, MIUI8, MIUI9, MIUI10, MIUI11 and MIUI12.5 and the software has been installed on Xiaomi phones sold in China, including both new phones shipments and system upgrades from existing Xiaomi phones.

Another key part of our strategies is to continue our innovation in crowdsourcing of idle bandwidth capacity and potential storage from users of our cloud computing hardware devices so that we can continuously deliver computing resources to third parties, such as internet content providers, through our CDN services. We started to generate revenue from selling crowdsourced uplink capacity we collected from users of our cloud computing services to third parties in the third quarter of 2015. To further develop our cloud computing business, we launched our decentralized cloud computing product, OneThing Cloud, in 2017. OneThing Cloud is essentially a cloud-based storage and sharing device that allows users to share their idle internet bandwidth and storage resources with our content delivery networks. The third parties that purchased our cloud computing services mainly include internet content providers such as iQiyi and Xiaomi. In 2020, we launched our own reward program, which allows users of OneThing Cloud to share crowdsources idle uplink capacities and external storage with us in exchange for a small amount of cash rewards.

In 2018, we launched StellarCloud, a shared cloud computing platform that upgraded our existing content delivery network (CDN) services to Infrastructure as a Service (IaaS). It provides powerful and cost-effective cloud computing solutions and shares its extensive node distribution with its enterprise users, enabling efficient and cost-effective access. StellarCloud also offers edge computing, function computing and shared CDN (SCDN) solutions to our enterprise users. Our customers of our StellarCloud include some of the leading internet companies in China.

In 2018, we launched ThunderChain, an open platform that enables our enterprise users to develop and manage blockchain applications. It represents our first accomplishment after we shift our focus from developing application products based on blockchain technology to the research and development of blockchain infrastructures.

In September 2020, we launched a BaaS (Blockchain as a Service) platform, which is a high-performance blockchain technology platform based on the infrastructure of ThunderChain. With one-stop blockchain service solutions, it is designed to liberate enterprises and developers from complex technical issues in blockchain infrastructure and to drive innovation and productivity. In the current stage, our Baas Platform on ThunderChain covers five modules including application, access, service, key technology and resources. The BaaS Platform possesses the following features to fully meet users' business-driven demands for blockchain applications: one-stop blockchain service solutions, resource-based pricing, cost-effectiveness, user-friendliness and blockchain application interchangeability.

We generated revenues by monetizing our large user base, primarily through the following services:

- Cloud acceleration subscription services. We provide premium cloud acceleration services to subscribers to enable faster and more reliable access to digital media content;

- Online advertising services (including mobile advertising). We offer advertising services by providing marketing opportunities on our websites, mobile Xunlei application and platform to our advertisers;

- Cloud computing and other internet value-added services. We offer cloud computing services and multiple other value-added services to our users and customers, such as live streaming services and online game services; and

- Sales of our cloud computing devices. We sell hardware devices that provide our users with easy access to our cloud computing services such as OneThing Cloud. In 2020, we generated a small amount of revenues from selling OneThing Cloud device to our users.

Our revenues decreased from US$232.1 million in 2018 to US$181.3 million in 2019, and then increased to US$186.7 million in 2020. We had a net loss attributable to Xunlei Limited of US$39.3 million in 2018, US$53.2 million in 2019 and US$13.8 million in 2020.

Our platform

On our platform, users can accelerate internet content transmission, develop and operate blockchain-based services and applications and enjoy popular forms of internet-based entertainment, such as watching live online performance and playing online games.

Cloud-based acceleration

We provide data transmission acceleration services based on cloud computing technology to internet users. Our cloud computing technology utilizes a network of computers hosted on the internet to store, manage, and process data, thus providing our users with acceleration in internet data transmission and improves their download success rates. We provide our acceleration services to internet users with the following products and services.

Accelerator

We launched our core product, Xunlei Accelerator, in 2004 to address deficiencies of digital media content transmission over internet in China, such as low speed and high delivery failure rates. Xunlei Accelerator allows users to accelerate digital transmission over the internet for free. Xunlei Accelerator also bridges users with diverse needs to other services we offer, such as: Xunlei Media Player, which supports both online and offline video watching, and our various online games, by recommending and providing links to these services on its user interface.

Xunlei Accelerator is designed to provide an effective digital media content transmission solution to our users. In addition to our featured transmission acceleration function, we have integrated certain features into the interface of Xunlei Accelerator to enhance the overall user experience while helping users transmit their desired content efficiently. For example, Xunlei Accelerator provides a platform to integrate other third-party plug-in applications. Users can add application tabs to create shortcuts to various services that are provided by us, third-party application developers and application venders who have business relationships with us. Xunlei Accelerator also has a task management console to allow users to track and manage their transmissions in progress, to manage and prioritize cloud-based data transmission tasks, or manage and synchronize transmitted content across multiple internet-enabled devices.

In 2020, we further tapped into our existing acceleration capacity and expanded the digital media content transmission solution provided by our Xunlei Accelerator to cover business users, in particular, online game companies. Depending on specific demands of online game companies, we are able to formulate individualized acceleration solutions tailored to such online game companies and help them better connect with target users of their online games.

In 2020, we also upgraded our Xunlei Accelerator by providing our users with personal cloud storage resources through launching Xunlei Cloud Drive. Instead of stretching increasingly inadequate local storage resources, Xunlei Cloud Drive allows users to save documents, files and other internet contents they downloaded on the cloud server. Users can also upload documents and files on Xunlei Cloud Drive with security control and provides real-time back-ups. Our Xunlei Cloud Drive offers each user a free storage space of 2 TB. Users can retrieve the internet contents they stored on Xunlei Cloud Drive whenever they want through different terminals including tablets, smartphones and desktops. Xunlei Cloud Drive also allows users to share the data saved on the cloud server among each other. Users are able to access our Xunlei Cloud Drive service for free through our Xunlei Accelerator. Subscribers of our premium cloud acceleration service will be able to enjoy a cloud storage space of 3 to 6 TB.

Mobile acceleration plug-in

We offer a mobile acceleration plug-in, which provides mobile device users with benefits of download speed acceleration and download success rate improvements similar to those offered by the PC-based Xunlei Accelerator. Our mobile acceleration plug-in has been adopted by Xiaomi, a Chinese smartphone maker, on its operating systems MIUI6, MIUI7, MIUI8, MIUI9, MIUI10, MIUI11 and MIUI12.5. Xiaomi installs our mobile acceleration plug-in on all of its new phones sold in China free of charge and adds such plug-in to the existing ones via system upgrade. Xiaomi phone users thus have access to our acceleration services.

Subscription services

We charge monthly or annual fees for our premium cloud acceleration subscription services. The benefits and services within the subscription package, which typically include incrementally larger bandwidth and faster acceleration speed, are upgraded according to the VIP levels. Our cloud acceleration subscription services are delivered through our major premium acceleration product, Green Channel. It allows our subscribers to transmit digital media files from the internet, which significantly improves speed and reliability of such transmission. This is particularly helpful when subscribers need to transmit files that are only available from slow or unreliable data transmission sources, or to transmit a group of files while having only limited internet connectivity time. In addition to our major premium acceleration product, our product, Fast Bird, also accelerates our subscribers' internet access by increasing the bandwidth of the network system provided by telecommunications service providers.

We adopted different strategies and various promotion programs for each VIP level. For example, when we discovered that some of our users were not aware of our subscription services, we provided users with greater exposure to our subscription services in different parts of our platform and promoted products with significant potential interests to specific users. We use our powerful digital data analysis capabilities to explore different areas of user needs previously unmet by existing functions and research and develop relevant functions based on such analysis. We offer users promotional measures, such as providing some free trials of premium acceleration services, to show the differences in the data transmission speeds to demonstrate how our premium services tremendously enhance data delivery speed and overall subscriber experience. In order to promote customer loyalty, we may elevate the VIP levels of our subscribers if they actively engage in our services. Once upgraded to certain higher VIP levels, our subscribers may be offered additional independent accounts, internally termed as sub-accounts, at no additional charges. Such sub-accounts allow users to access our premium acceleration services, at no additional charge. Starting from September 2016, we have ceased to provide new sub-accounts to users with upgraded VIP levels. Users with existing independent accounts are still able to use such accounts.

We had a subscriber base of 3.8 million, 4.0 million and 3.8 million as of December 31, 2018, 2019 and 2020, respectively. In this annual report, the number of subscribers as of a given day excludes any sub-accounts.

Mobile Xunlei

Mobile Xunlei is a mobile application that allows users to search, download and consume digital media content on their mobile devices. The monthly average daily active user of this product was about five million in 2020. We monetize our mobile traffic through advertising sales. Moreover, this mobile application also supplements our existing subscriptions business. Many of our mobile application users also became users of our PC-based Xunlei Accelerator.

Cloud computing

We launched our cloud computing project in 2014, which crowdsources idle uplink capacity from internet users who have bought and connected our proprietary hardware, Zhuanqianbao, or ZQB, to their network router. Our ZQB devices can allocate those users' idle uplink capacity to us. We pay users of our ZQB devices for the use of their idle uplink capacity.

To further develop our cloud computing business and at the same time explore emerging blockchain technology, we launched our decentralized cloud computing product, OneThing Cloud, in 2017. OneThing Cloud is a cloud-based storage and sharing device, which crowdsources idle uplink capacity from our users who have bought and connected their OneThing Cloud devices to their network router. Similar to ZQB, users of OneThing Cloud can voluntarily share their idle computing resources to us. Through our proprietary technologies, we crowdsource idle computing resources contributed by users and convert them into cloud computing resources to be provided to our customers, such as internet content providers, through our CDN services. Users of OneThing Cloud can also voluntarily participate in our cash reward program and receive a small amount of cash while contributing idle uplink capacity to us.

In 2018, we further advanced our cloud computing business and launched StellarCloud. StellarCloud is a distributed cloud computing platform that integrates the idea of shared economy and blockchain technology with cloud computing technology. Leveraging our proprietary technologies, such as stellar scheduling, weak network acceleration and network dynamic defense, and the advantages of extensive distribution of nodes over traditional cloud vendors, StellarCloud provides powerful and cost-effective cloud computing solutions, such as edge computing, function computing and shared CDN (SCDN) and shares its extensive node distribution with its enterprise users. In 2019, we further expanded our CDN network by jointly establishing dozens of distributed cloud computing node rooms across China with local IDC and ISP service providers. We installed our OneThing Cloud devices in these locations while local IDC and ISP service providers provide us with internet access and data center management services. By cooperating with these IDC and ISP service providers, we are able to collect idle bandwidth, storage space and other resources.

The crowdsourced uplink capacities are valuable resources that we target to commercialize with potential customers such as streaming websites and app stores. Depending on our own needs, we also utilize those crowdsourced uplink capacities for our business from time to time, reducing our purchase of bandwidth from traditional third-party carriers. In addition, relying on a large number of distributed cloud computing nodes, we are researching and developing advanced edge computing applications in anticipation of a rising new industry.

ThunderChain

We rolled out our first blockchain infrastructure product, ThunderChain, in May 2018. ThunderChain is an open platform that enables our users to develop and manage blockchain applications. We are dedicated to exploring practical adoptions of blockchain in various industries and sectors, and providing tools, frameworks, and guidelines for blockchain development. Through our ThunderChain open platform, we provide smart contract development services, blockchain implementation services, and blockchain commercial ecosystem establishment services. In December 2019, we updated ThunderChain's portfolio of products across six major industry sectors, i.e. financial services, livelihood matters, justice, healthcare, government services and industries. With this set of releases, ThunderChain now can offer a wide range of effective blockchain product solutions.

Our ThunderChain platform addresses the difficulties that both enterprise users and developers face in applying blockchain in an all-dimensional approach. For example, our ThunderChain platform has a strong concurrent processing capability. It is able to process over a million transactions per second. By using dual consensus algorithm (DPoA+PBFT), our ThunderChain platform is also able to realize low latency, data consistency and avoid bifurcation of data. Our ThunderChain platform supports several programming languages such as solidity, C, and C++. Developers do not have to learn new languages to develop ThunderChain-based blockchain applications. In addition, blockchain applications that are developed based on our ThunderChain generally have a good scalability as our ThunderChain platform supports configurable consensus algorithm and underlying storage system replacement, which facilitates the upgrade of ThunderChain-based blockchain applications based on different application scenarios. In terms of data security and privacy, our ThunderChain platform provides several advanced privacy protection solutions and supports multiple cryptographic algorithms. With these difficulties solved, enterprise users and developers are able to focus on application innovations and function developments.

Based on ThunderChain, we launched BaaS (Blockchain as a Service) platform in 2020, which offers one-click deployment service and further lowers the thresholds for enterprise users and developers to develop blockchain-based products. The BaaS platform further frees enterprise users and developers from hassles in dealing with complex technical problems in developing blockchain-based products and enables enterprise users and developers to focus more on the functionality and business rationale of their products.

Live streaming services

We launched our live streaming services in 2016 and adjusted our business model in 2017. Through our Xunlei Live website and mobile app, users are able to access our live video streaming services. While viewing live online performance delivered by broadcasters, users may interact with broadcasters, purchase virtual items from us to reward broadcasters they like. In May 2018, we supplemented our live streaming business by launching a live audio streaming product, PeiWan, through which users and broadcasters may interact with each other through audio streaming and purchase virtual items from our platform to reward each other. In September 2019, we further expanded our live video streaming services and started to operate another live video streaming product, BuOu Live, developed by a third party. Similar with Xunlei Live, users can purchase virtual items from us to reward broadcasters they like. The third party cooperating with us will be entitled to a small portion of the revenue generated from BuOu Live based on the cooperation agreement we entered into with such third party.

Xunlei Media Player

Xunlei Media Player, which we launched in 2008, is a supplementary tool that helps to deliver a more comprehensive viewing experience of digital media content to the users of Xunlei Accelerator. Xunlei Media Player is our proprietary product that supports both online and offline play of digital media content as well as simultaneous play of digital media content while it is being transmitted by Xunlei Accelerator.

Online game services

To better serve our users, we partnered with third-party online game developers or service providers to offer our users an array of online games through our online game website and mobile app. Such game play platform helps raise the average spending of our subscribers. Online game players can play the games free of charge, but are offered the opportunity to purchase in-game virtual items for a fee to enhance their game-playing experience. We typically enter into cooperation agreements with third-party online game developers or service providers and share revenues generated from online game operations pursuant to revenue sharing arrangements in the agreements.

After we disposed of our web game business and discontinued PC-based MMOGs business in 2018, we only operated mobile game business under our online game business. Since 2019, we started to cooperate with third parties to operate web game business under a business model different from that of our previous web game business. In 2019, we collaborate with a third-party online game provider to provide our users with an array of web games on our Xunlei game center website. In 2020, we partnered with additional third-party online game providers to operate web games. After logging into their Xunlei accounts, our users are able to play these web games provided by the third-party online game providers. Our users are also able to purchase virtual items in those web games using a payment channel provided by us. Mobile games developed by third-party online game developers are available on our mobile app as usual. Users can download mobile games they are interested in through our mobile app and login the games by using their Xunlei account.

In addition to the above value-added services, we may also from time to time offer other ancillary services to cater to users' needs and to supplement the major services we provide.

Advertising services

We provide advertising services primarily through various forms of advertisements placed on our PC websites and mobile platform. We experienced a decline in revenue from mobile advertising in 2019 and 2020, primarily due to a generally decreased demand for our online advertising services. With a view to improving the competitiveness of our advertising services, we entered into an advertising revenue sharing agreement with Itui, our largest shareholder, and outsourced our advertising business to it. Itui has developed a precision customer target algorithm, and by cooperating with them, we hope to improve advertisement placement and improve revenues as a result. Pursuant to the agreement, Itui will be responsible for operating our advertising services and share a portion of revenue generated from placing advertisements on our PC websites and mobile platform.

Technology

We provide accelerated data transmission services, available on PC and mobile devices, based on our distributed file locating system, designed to utilize our proprietary file indexing technology.

Indexing technology

Key elements of our file indexing technology include:

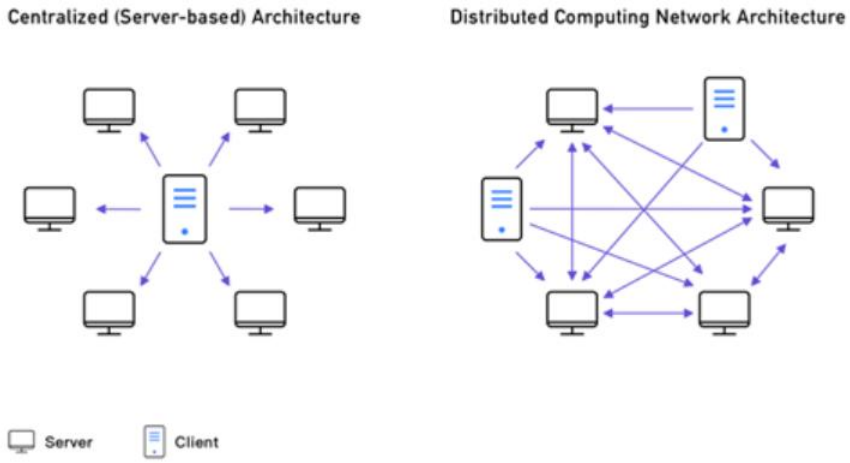
File indexing. We have created, and continue to maintain, a proprietary file index database that stores a massive index of unique file signatures representing all digital media content file that Xunlei Accelerator has found across the internet. Each file signature uniquely identifies the index of a given file. We store a list of each unique file's available data transmission locations from across the internet, which may include both peer and server computers, along with the estimated speed and reliability of each location.

Data mining. We also employ data mining algorithms, studying user habits in order to maximize the speed of our data delivery by ranking the keyword indexes that users search for and placing digital media content more likely to be searched by users in the more easily accessible locations in our network for optimal delivery speed.

Distributed internet crawling techniques. Our Xunlei Accelerator network acts as a system of distributed spiders to crawl the internet to search for digital media content files. Whenever the user initiates data transmission by using our Xunlei Accelerator, the URL of the data transmission location is uploaded to our server. We then use that URL to traverse and locate any other digital media content files that may also be available from the URL's internet page repositories. We then update our file index according to each traversal result.

Distributed file locating system

Our distributed file locating system is based on distributed computing architecture, which consists of all Xunlei Accelerator clients that are running and connected to the internet at a given time, along with the server addresses stored in our file index database. When users launch Xunlei Accelerator on a network-connected device, they are automatically connected to our distributed file locating system and contribute their bandwidth and computing power to our distributed file locating system, which enables users to locate and connect efficiently.



Key technologies include:

Multi-protocol file transfer technology. Our multi-protocol file transfer technology allows our product client to transmit, in parallel, from multiple sources that may use different file transfer protocols. Our multi-protocol file transfer technology significantly increases the number of data transmission sources available to further enhance data transmission performance.

Distributed file locating system. Our distributed file locating system helps users discover the best data transmission locations from across the internet, where a particular file may be transmitted or streamed for optimal performance. When a user requests data transmission using our Xunlei Accelerator, distributed file locating system will algorithmically prioritize and select from among the file's available data transmission locations an optimized subset of URLs based on their respective transmit speed and reliability, which is estimated through real-time collaborative interactions between our file index server and our massive network of active Xunlei Accelerator clients across the internet.

Network transport and traversal optimization. Our proprietary software algorithms perform dynamic internet bandwidth and throughput assessments across the Xunlei network and optimization of traffic routing to identify the most efficient path for data transport. These algorithms are designed to maximize delivery speed, reliability and efficiency, and support significant growth in network usage.

Cloud-based implementation for subscription services

We provide cloud acceleration subscription services powered by our indexing technology and distributed file locating system. Our platform is compatible with different operating systems and hardware devices. As part of the infrastructure for the subscription services, except for proprietary load balancing and resource optimization algorithms, we maintain a virtual private network consisting of 65 co-location centers, over one million third-party servers and over 6,200 servers that we own located throughout China.

We maintain proprietary load balancing and resource optimization algorithms, both of which help enhance our mass data mining on user habits to compile and maintain information on users' data transmission acceleration needs and requirements. As a cloud service provider, we use data mining for user habit prediction and co-location purposes. In user habit prediction, we analyze, sample and index user behavior data to help predict user acceleration needs and requirements. For co-location purposes, our program finds the most efficient and stable connection in our network for each transmission task. We also cooperate with telecom operators, maintaining logics and algorithms for our co-location centers in each telecom operator's network to enable real-time dynamic allocation of our servers and bandwidth to support user acceleration requirements. Our system automatically optimizes user connections based on key factors such as provincial network, firewall penetration and interconnection among various telecom operators.

Additionally, we entered into a framework service agreement with Alibaba Cloud Computing Co., Ltd., or Ali Cloud, in December 2018. Since then, Ali Cloud has provided us with cloud computing products and services. As of December 31, 2020, we were using 2,045 cloud servers and 8,010 cloud services provided by Ali Cloud through its six central nodes and 25 edge nodes.

Shared cloud computing model for edge computing services

We created a shared computing model and network by encouraging millions of personal users to share idle resources such as computing power, storage and bandwidth by deploying sharing economy smart devices such as OneThing Cloud and ZQB. With the shared cloud computing model, Xunlei provides high-quality, cost-effective cloud services for corporate clients. StellarCloud is a shared cloud computing platform which expands Xunlei's existing CDN services to a novel cloud computing service stack, offering edge computing, function computing and shared CDN solutions.

StellarCloud edge computing service allows users to deploy their own applications in the form of containers on shared nodes widely distributed on the internet, and make use of a considerable amount of resources such as computing power, storage and bandwidth on all these nodes. The key technology underlying the edge computing service is the container management system that we developed in-house. Unlike the mainstream container solutions designed for IDC environment, the system adopts a lightweight and highly fault-tolerant design that optimized for network and performance diversity of shared nodes, thus enables an efficient and reliable deployment and monitoring of containers among all the nodes.

StellarCloud CDN service is a distributed CDN service that integrates traditional cloud computing data centers and shared node networks. It provides common CDN capabilities such as video on demand, live video streaming, and file distribution. The system splits and encodes the data into segments and deploy them to multiple shared nodes according to a certain strategy. An end user requesting these data gets nearby nodes from our scheduling system, then establishes multiple peer-to-peer connections to fetch data segments concurrently and reassembles them into the original data. Combining our industry-leading peer-to-peer technology and the scheduling mechanism that has been improved for years, StellarCloud CDN moves data distribution from IDC to cost-effective shared nodes, cutting bandwidth costs without compromising the quality of service.

Blockchain platform

We launched ThunderChain, a high-performance blockchain infrastructure product, which can concurrently process millions of transactions per second. Based on our proprietary homogeneous multi-chain framework, ThunderChain is designed to realize confirmation and interaction among homogeneous chains and enable multiple transactions to be executed on different chains in parallel. ThunderChain adopts DPoA+PBFT dual consensus algorithm, which results in low latency and makes it possible to generate one block per second. PBFT, as a consistency algorithm, is also able to avoid soft fork. ThunderChain supports smart contracts written in solidity language and is compatible with Ethereum virtual machine, making it easy to migrate applications from other blockchain platforms.

Marketing

We built up our reputation and maintain our popularity primarily through word-of-mouth. We believe satisfied users and customers are more likely to recommend our services to others. Thus, we continue to focus on improving our services and enhancing our user experience. In the meanwhile, we also invest in a variety of marketing activities to further promote our brand awareness among existing and potential users as well as other customers. For example, we host or attend various public relations events, such as seminars, conferences and trade shows, in the advertising, online video and online game industries to attract users and advertisers. To retain and drive the growth of our subscribers, we market our premium paid services and place subscription advertisements at prominent locations throughout our integrated service offerings.

Intellectual property

Protection of our intellectual property

Our patents, copyrights, trademarks, trade secrets and other intellectual property rights are critical to our business. We rely on a combination of patent, copyright, trademark, trade secret and other intellectual property-related laws in the PRC and contractual restrictions to establish and protect our intellectual property rights. In addition, we require all of our employees to enter into agreements requiring them to keep confidential all information they obtain during the course of their employment relating to our technology, methods, business practices, customers and trade secrets. As of December 31, 2020, we had 113 patents granted in the PRC and four granted in the United States, while another 551 patent applications are being examined by the State Intellectual Property Office of the PRC. We also seek to vigorously protect our Xunlei brand and the brands of our other services. As of December 31, 2020, we have applied to register 944 trademarks, of which we have received 507 registered trademarks in different applicable trademark categories including one trademark registered with World Intellectual Property Organization.

Digital media data monitoring and copyright protection

We take initiatives to protect third-party copyrights. The internet industry in China suffers from copyright infringement issues and online digital media content providers are frequently involved in litigation based on allegations of infringement or other violations of copyrights. Assisted by an intellectual property team dedicated to copyright protection, we have implemented internal procedures pursuant to the legal requirements under relevant PRC laws and regulations to promptly disenable the download URL of contents for which we receive notice of infringement from the legitimate rights holder, and we work closely with the relevant regulatory authorities in China to ensure compliance with all relevant rules and regulations. We seek assurances in our contracts with digital media content providers that (i) they have the legal right to license the digital media data for the uses we require; (ii) the digital media content itself as well as the authorization or rights granted to us neither breach any applicable law, regulations or public morals, nor impair any third-party rights; and (iii) they will indemnify us for losses resulting from both the non-compliance of such digital media content with the laws and claims from third parties.

As of the date of this annual report, we had implemented several initiatives to further commit to copyright protection. For example, we require our third-party content providers to provide relevant contents that they are duly authorized to provide and do not infringe intellectual property rights of any other parties. We also make available on our websites and mobile applications reporting channels so that we can timely remove contents that infringe intellectual property rights of other parties. Despite the fact that we put in place preventive measures, we may still be subject to copyright infringement suits. As of the date of this annual report, we were involved in 19 copyright lawsuits. See “Item 3. Key Information—D. Risk Factors—Risks related to our business—We face and expect to continue to face copyright infringement claims and other related claims, including claims based on content available through our services, which could be time-consuming and costly to defend and may result in damage awards, injunctive relief and/or court orders, divert our management’s attention and financial resources and adversely impact our business” and “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings.”

User data safety

User data safety is a significant advantage we offer to our users. We try to improve user experience by usually maintaining two to four copies of one specific user file for data recovery in extreme circumstances such as system shutdown, private transmission backbone network problems and/or other contingencies beyond our control. The read and write characteristics of our distributed file locating system is identical to those of hard disks, and our unique user file decomposition and encryption algorithm enables us to maintain high standards for user data safety.

Competition

Due to our multiple service offerings, we face competition in several aspects of the internet services market in China. We believe that the key competitive factors in the overall internet services market in China include brand recognition, user traffic, technology platform and monetization abilities. We also face competition for the advertisement budgets of our advertisers from other internet companies and other forms of media.

Regulation

This section sets forth a summary of the most significant rules and regulations that affect our business activities in China.

Regulation on catalogue relating to foreign investment

The establishment, operation and management of corporate entities in the PRC are governed by the Company Law of the PRC, or the Company Law, which was promulgated by the Standing Committee of the National People’s Congress, or the SCNPC, on December 29, 1993 and last amended and became effective on October 26, 2018. A foreign-invested company is also subject to the Company Law unless otherwise provided in the foreign investment laws.

The establishment and operations of wholly foreign-owned enterprises were mainly governed by the Law of the PRC on Wholly Foreign-Owned Enterprises and its implementation rules, which had been repealed by the Foreign Investment Law of the PRC enacted by the National People's Congress, or the NPC, on March 15, 2019 and became effective on January 1, 2020. On December 26, 2019, the State Council promulgated the Detailed Rules for the Implementation of the Foreign Investment Law of the PRC, which became effective on January 1, 2020.

Investment activities in the PRC by foreign investors and foreign-invested enterprises were regulated by the Catalogue of Industries for Guiding Foreign Investment, last repealed by the Special Management Measures (Negative List) for the Access of Foreign Investment (2019 Version), or the Negative List (2019 Version), and the Catalogue of Industries for Encouraging Foreign Investment (2019 Version), or Encouraging Catalogue (2019 Version), which were promulgated by the National Development and Reform Commission, or NDRC, and the Ministry of Commerce on June 30, 2019 and became effective on July 30, 2019. In June 2020, the MOFCOM and the NDRC promulgated the Negative List (2020 Version), which became effective on July 23, 2020 and replaced the Negative List (2019 Version). In December 2020, the MOFCOM and the NDRC promulgated the Encouraging Catalogue (2020 Version), which became effective on January 27, 2021 and replace the Encouraging Catalogue (2019 Version). Pursuant to the Encouraging Catalogue (2020 Version) and the Negative List (2020 Version), foreign-invested projects are categorized as encouraged, restricted and prohibited. Foreign-invested projects that are not listed in the Negative list are permitted foreign invested projects.

Establishment of wholly foreign-owned enterprises is generally allowed in industries not included in the Negative List. For the restricted industries within the Negative List, some of the industries are limited to equity or contractual joint ventures, while in some cases Chinese partners are required to hold the majority interests in such joint ventures. In addition, restricted category projects are subject to government approvals and certain special requirements. Foreign investors are not allowed to invest in industries in the prohibited category. The provision of value-added telecommunications services falls in the restricted category and the percentage of foreign ownership cannot exceed 50% (excluding e-commerce). The provision of internet cultural operating service (including online game operation services), internet publication service and online transmission of audio-visual programs service fall in the prohibited category and the foreign investors are prohibited to engage in such services. We conduct our operations in China principally through contractual arrangements among Giganology Shenzhen, our wholly owned PRC subsidiary, and Shenzhen Xunlei, our VIE, and its shareholders. Shenzhen Xunlei or its relevant subsidiary, holds the licenses and permits necessary to conduct our resource discovery network, cloud computing, online advertising, online games and related businesses in China and holds various operating subsidiaries that conduct a majority of our operations in China. Shenzhen Onething has obtained an updated VATS License to cover CDN service for our cloud computing business. Both of Giganology Shenzhen and Xunlei Computer, another wholly owned PRC subsidiary of ours, engage in the development of computer software, technical consulting and other related technical services and businesses, none of which falls into any of restricted or prohibited categories under the Catalogue. Hence, these activities operated by Giganology Shenzhen and Xunlei Computer are deemed to be permitted and open to foreign investment.

The establishment and change of foreign-invested enterprises was subject to record-filing procedures pursuant to the Interim Measures for Record-filing Administration of the Establishment and Change of Foreign-invested Enterprises, or FIE Record-filing Interim Measures, effective on the same day. Pursuant to FIE Record-filing Interim Measures, requirements, provided that the establishment if the establishment or change of FIE matters involve the special entry administration measures, the approval of the Ministry of Commerce or its local counterparts is still required. In December 2019, the Ministry of Commerce and the State Administration for Market Regulation issued Measures for the Reporting of Foreign Investment Information, effective on January 1, 2020, which repealed the FIE Record-filing Interim Measures. Pursuant to the Measures, where foreign investors carry out investment activities directly or indirectly within China, foreign investors or foreign-funded enterprises shall report investment information to relevant commerce departments.

Regulation on telecommunications and internet information services

The telecommunications industry, including the internet sector, is highly regulated in the PRC. Regulations issued or implemented by the State Council, MIIT, and other relevant government authorities cover many aspects of operation of telecommunications and internet information services, including entry into the telecommunications industry, the scope of permissible business activities, licenses and permits for various business activities and foreign investment.

The principal regulations governing the telecommunications and internet information services we provide in the PRC include:

- *Telecommunications regulations* (2016, revised), or the Telecom Regulations. The Telecom Regulations categorize all telecommunications businesses in the PRC as either basic or value-added. Value-added telecommunications services are defined as telecommunications and information services provided through public network infrastructures. The "Catalogue of Telecommunications Business," an attachment to the Telecom Regulations and updated by MIIT's Notice on Adjusting the Catalogue of Telecommunications Business effective from April 1, 2003 and amended on March 1, 2016, categorizes various types of telecommunications and telecommunications-related activities into basic or value-added telecommunications services, according to which, internet content provider services, or ICP services, are classified under the second category of value-added telecommunications businesses and the CDN services, the internet access services and the internet data center services are classified under the first category of value-added telecommunications business. Under the Telecom Regulations, commercial operators of value-added telecommunications services must obtain the VATS License covering the business classified under the relevant category from MIIT or its provincial level counterparts.

- *Administrative measures on internet information services* (2011, revised), or the Internet Measures. According to the Internet Measures, a commercial ICP service operator must obtain a VATS License from the relevant government authorities before engaging in any commercial ICP service within the PRC. When the ICP service involves areas of news, publication, education, medical treatment, health, pharmaceuticals, medical equipment and other industry and if required by law or relevant regulations, prior approval from the respective regulating authorities must be obtained prior to applying for the VATS License covering the ICP services from MIIT or its local branch at the provincial level. Moreover, an ICP service operator must display its ICP License number in a conspicuous location on its website and must monitor its website to remove categories of harmful content that are broadly defined.

- *Administrative measures for telecommunications business operating license* (2017, revised), or the Telecom License Measures. The Telecom License Measures set forth more specific provisions regarding the types of licenses required to operate value-added telecommunications services, the qualifications and procedures for obtaining such licenses and the administration and supervision of such licenses. For example, an ICP service operator conducting business within a single province must apply for the VATS License from MIIT's applicable provincial level counterpart, while an ICP service operator providing ICP services across provinces must apply for a Trans-regional VATS License directly from MIIT. The appendix to the VATS License must detail the permitted activities to be conducted by the ICP service operator. An approved ICP service operator must conduct its business in accordance with the specifications recorded on its VATS License. The VATS License is subject to annual report requirement. An ICP service operator shall report certain information to the issuing authorities through the administrative platform in the first quarter every year. Such information includes the business performance of the telecommunications business in the previous year, service quality, the actual implementation of the network and information security guarantee systems and measures, among others. ICP service operator shall be responsible for the truthfulness of the information in the annual report.

- *Detailed rules on the administration of internet websites* (2005), which set forth that the website operator is required to apply for the ICP filing from MIIT or its local branches at the provincial level on its own or through the access service provider.

- *Regulations for administration of foreign-invested telecommunications enterprises* (2016, revised), or the FITE Regulations. The FITE Regulations set forth detailed requirements with respect to, among others, capitalization, investor qualifications and application procedures in connection with the establishment of a foreign-invested telecommunications enterprise. Under the FITE Regulations, a foreign entity is prohibited from owning more than 50% of the total equity interest in any value-added telecommunications service business in the PRC and the major foreign investor in any value-added telecommunications service business in the PRC shall have good and profitable records and operating experiences in such industry.

- *Circular on strengthening the administration of foreign investment in and operation of value-added telecommunications business* (2006). Under this circular, a domestic PRC company that holds a VATS License is prohibited from leasing, transferring or selling the VATS License to foreign investors in any form, and from providing any assistance, including providing resources, sites or facilities, to foreign investors that conduct value-added telecommunications business illegally in the PRC. Further, the domain names and registered trademarks used by an operating company providing value-added telecommunications service shall be legally owned by such company and/or its shareholders. In addition, such company's operation premises and equipment should comply with the approved covering region on its VATS License, and such company should establish and improve its internal internet and information security policies and standards and emergency management procedures.

- *Circular of the Ministry of Industry and Information Technology on Clearing up and Regulating the Internet Access Service Market* (2017), which, among others, further strengthens the supervision and management of the applications of cloud computing, big data and other applications. For an enterprise that conducts the CDN business without a VATS License specifically covering such business, it must submit a written commitment to the original license issuing authority before March 31, 2017, undertaking that an eligible VATS License will be obtained by the end of 2017. If such enterprise fails to make the commitment on time, it must carry out business activities strictly in compliance with their existing licenses. Furthermore, if the enterprise fails to obtain the eligible VATS License as committed it should terminate the relevant business starting from January 1, 2018.

To comply with these PRC laws and regulations, we operate our websites through Shenzhen Xunlei, our PRC variable interest entity. We, through Shenzhen Xunlei, currently hold a VATS License covering its ICP services expiring on April 30, 2025 and another VATS License for its provision of could computing services including internet data center services and internet access services expiring on October 31, 2024, and own the essential trademarks and domain names in relation to our value-added telecommunications business. Shenzhen Onething and one of its subsidiaries have obtained VATS Licenses to cover the CDN service for our cloud computing business.

Under various laws and regulations governing ICP services, ICP services operators are required to monitor their websites. They may not produce, duplicate, post or disseminate any content that falls within the prohibited categories and must remove any such content from their websites, including any content that:

- opposes the fundamental principles determined in the PRC's Constitution;
- compromises state security, divulges state secrets, subverts state power or damages national unity;
- harms the dignity or interests of the State;
- incites ethnic hatred or racial discrimination or damages inter-ethnic unity;
- sabotages the PRC's religious policy or propagates heretical teachings or feudal superstitions;
- disseminates rumors, disturbs social order or disrupts social stability;
- propagates obscenity, pornography, gambling, violence, murder or fear or incites the commission of crimes;
- insults or slanders a third party or infringes upon the lawful rights and interests of a third party; or
- includes other content prohibited by laws or administrative regulations.

The PRC government may shut down the websites of VATS License holders that violate any of such content restrictions and requirement, revoke their VATS Licenses or impose other penalties pursuant to applicable law. To comply with these PRC laws and regulations, we have adopted internal procedures to monitor content displayed on our website.

Regulation on online transmission of audio-visual programs

On April 25, 2016, SAPPRFT issued the *Administrative Provisions on Audio-Visual Program Services through Private Network and Targeted Communication*, which replaced the Measures for the Administration of Publication of Audio-visual Programs through Internet or Other Information Network, or the 2004 Internet A/V Measures. Pursuant to these provisions, "audio-visual program services through private network and targeted communication" refer to radio, TV program and other audio-visual program services to a targeted audience with TV and all types of handheld electronic equipment as terminal recipients, and through setting up virtual private network through local networks and internet or with Internet and other information networks as targeted transmission channels, including the provision of contents, integrated broadcast control, transmission and distribution, and other activities conducted by such forms as Internet protocol television (IPTV), private network mobile TV, and Internet TV. Any provider who engages in aforesaid service must obtain a license from GAPPRFT. Wholly foreign-owned enterprises, Sino-foreign joint ventures and Sino-foreign cooperative enterprises are not allowed to engage in the above business. On April 13, 2005, the State Council promulgated the Certain Decisions on the Entry of the Non-State-owned Capital into the Cultural Industry. On July 6, 2005, MOC, GAPPRFT, the NDRC and the Ministry of Commerce, jointly adopted the Several Opinions on Canvassing Foreign Investment into the Cultural Sector. According to these regulations, non-State-owned capital and foreign investors are not allowed to conduct the business of transmitting audio-visual programs via information network.

On December 20, 2007, GAPPRFT and MIIT jointly promulgated the *Administrative Provisions on Internet Audio-visual Program Service*, or the Audio-visual Program Provisions, which came into effect on January 31, 2008 and was revised on August 28, 2015. The Audiovisual Program Provisions apply to the provision of audio-visual program services to the public via internet (including mobile network) within the territory of the PRC. Providers of internet audio-visual program services are required to obtain a License for Online Transmission of Audio-visual Programs issued by GAPPRFT or complete certain registration procedures with GAPPRFT. Providers of internet audio-visual program services are generally required to be either State-owned or State-controlled by the PRC government, and the business to be carried out by such providers must satisfy the overall planning and guidance catalog for internet audio-visual program services determined by GAPPRFT. In a press conference jointly held by GAPPRFT and MIIT to answer questions with respect to the Audio-visual Program Provisions in February 2008, GAPPRFT and MIIT clarified that providers of internet audio-visual program services who engaged in such services prior to the promulgation of the Audiovisual Program Provisions shall be eligible to register their business and continue their operation of internet audio-visual program services so long as those providers had not been in violation of the laws and regulations. On March 10, 2017, SAPPRFT promulgated the *Categories of the Internet Audio-Video Program Services*, which classifies internet audio-video programs into four categories.

On May 21, 2008, GAPPRFT issued a *Notice on Relevant Issues Concerning Application and Approval of License for Online Transmission of Audio-visual Programs*, which further sets forth detailed provisions concerning the application and approval process regarding the License for Online Transmission of Audio-visual Programs. The notice also provides that providers of internet audio-visual program services who engaged in such services prior to the promulgation of the Audio-visual Program Provisions shall also be eligible to apply for the license so long as their violation of the laws and regulations is minor and can be rectified timely and they have no records of violation during the latest three months prior to the promulgation of the Audio-visual Program Provisions.

On December 28, 2007, GAPPRFT issued the *Notice on Strengthening the Administration of TV Dramas and Films Transmitted via the Internet, or the Notice on Dramas and Films*. According to this notice, if audio-visual programs published to the public through an information network fall under the film and drama category, the requirements of the Permit for Issuance of TV Dramas, Permit for Public Projection of Films, Permit for Issuance of Cartoons or academic literature movies and Permit for Public Projection of Academic Literature Movies and TV Plays will apply accordingly. In addition, providers of such services should obtain prior consents from copyright owners of all such audio-visual programs.

Further, on March 31, 2009, GAPPRFT issued the *Notice on Strengthening the Administration of the Content of Internet Audio-visual Programs*, or the *Notice on Content of A/V Programs* which reiterates the requirement of obtaining the relevant permit of audio-visual programs to be published to the public through information network, where applicable, and prohibits certain types of internet audio-visual programs containing violence, pornography, gambling, terrorism, superstition or other hazardous factors. In addition, on August 14, 2009, GAPPRFT issued the *Notice on Relevant Issues Regarding Strengthening of the Administration of Internet Audio/visual Program Services Received by Television Terminals*, which specifies that prior to providing audio-visual program services for television terminals, an ICP service operator shall obtain the License for Online Transmission of Audio-visual Programs containing the scope of "Integration and Operation Services of Audiovisual Programs Received by Television Terminals." On March 10, 2017, SAPPRFT issued the *Internet Audio/Visual Program Services Categories (Provisional)*, or the Provisional Categories, which classified internet audio-visual programs into four categories.

On August 1, 2018, the MIIT, the Ministry of Public Security of the PRC and other government agency jointly issued the Notice on Strengthening the Administration of the Internet Live Streaming Service which requires the internet live streaming service providers shall go through the procedures of filing with the competent department of telecommunications. The internet live streaming service providers engaged in telecommunications business and internet news information, network performances and internet live streaming of audio-visual programs shall apply to the relevant departments for permission to operate such telecommunication business and shall perform the procedures of record-filing with the local public security department within 30 days after the live streaming service being operated.

To comply with these laws and regulations, Henan Tourism Information Co., Ltd., or Henan Tourism, one of our operating subsidiaries in the PRC, currently holds a License for Online Transmission of Audio-visual Programs with an effective period from February 2018 to February 2021. We are currently preparing materials to renew and expand the scope of the license. See "Item 3. Key Information—D. Risk factors—Risks related to our business—We are strictly regulated in China. Any lack of requisite licenses or permits applicable to our businesses or to our third-party services providers and any changes in government policies or regulations may have a material and adverse impact on our businesses, financial conditions and results of operations."

Regulation on online cultural activities

On February 17, 2011, the MOC promulgated the *Provisional Measures on Administration of Internet Culture*, or the Internet Culture Measures, which became effective as of April 1, 2011 and was amended on December 15, 2017. On March 18, 2011, the MOC issued the *Notice on Issues Relating to Implementing the Newly Amended Provisional Measures on Administration of Internet Culture*. The Internet Culture Measures regulates entities engaging in activities relating to "online cultural products." "Online cultural products" are defined as cultural products produced, disseminated and circulated via internet which mainly include: (i) online cultural products particularly produced for the internet, such as online music entertainment, network games, network performance programs, online performing arts, online artworks and online animation features and cartoons; and (ii) online cultural products converted from music entertainment, games, performance programs, performing arts, artworks and animation features and cartoons, and disseminated via the internet. Pursuant to these measures, entities are required to obtain relevant Online Culture Operating Permits from the applicable provincial level culture administrative authority if they intend to commercially engage in any of the following types of activities:

- production, duplication, importation, distribution or broadcasting of online cultural products;
- publication of online cultural products on the internet or transmission thereof via information networks such as the internet and the mobile networks to computers, fixed-line or mobile phones, television sets or gaming consoles for the purpose of browsing, reviewing, using or downloading such products by online users; or
- exhibitions or contests related to online cultural products.

On December 2, 2016, the MOC issued *the Administrative Measures for Business Activities of Online Performances*, which became effective on January 1, 2017. According to these measures, the business of transmitting in real time the content of online games presented or narrated via information networks such as the internet, mobile communication networks and mobile internet or uploading such contents for communication in the audio-visual form shall be administered as online performances. An operator of online performances shall apply for Online Culture Operating Permit with the competent provincial cultural administration department, and the business scope indicated on the Online Culture Operating Permit shall clearly include online performances. In addition, an operator of online performances shall present the number of its Online Culture Operating Permit in a prominent position on the homepage of its websites.

To comply with these then and currently effective laws and regulations, Shenzhen Xunlei obtained an Online Culture Operating Permit, which was last renewed in March 2019 with an effective period from March 16, 2019 to March 15, 2022 to offer music entertainment product online, operate online performance business and online shows business, and engage in the exhibition of online culture products and competition activities. Shenzhen Wangwenhua obtained an Online Culture Operating Permit with an effective period from November 11, 2020 to May 1, 2023 to operate online performance business and online shows business. In addition, Shenzhen Zhuolian Software Co., Ltd. obtained an Online Culture Operating Permit with an effective period from December 16, 2020 to January 8, 2024 to operate online performance business and online shows business.

Regulation on online games

MOCT (formerly the MOC) is the government agency primarily responsible for regulating online games in the PRC. On June 3, 2010, MOC promulgated the *Provisional Measures on the Administration of Online Games*, amended on December 15, 2017 and last repealed by the Decision of the Ministry of Culture and Tourism to Repeal the Measures for the Administration of Online Games and the Measures for the Administration of Tourism Development Plans, which became effective on July 10, 2019. Pursuant to the *Provisional Measures on the Administration of Online Games*, the contents of the online games are subject to the review of MOC. These measures set forth a series of prohibitions regarding the content of the online games, including but without limitation the prohibition on content that oppose the fundamental principles stated in the PRC Constitution, compromise state security, divulge state secrets, subvert state power or damage national unity, and content that is otherwise prohibited by laws or administrative regulations. Moreover, in accordance with these measures, ICP service operators engaging in any activities involving the operation of online games, issuance or trading of virtual currency must obtain the Online Culture Operating Permit and handle the censorship procedures for imported online games and the filing procedures for domestically developed online games with MOC and its provincial counterparts. The procedures for the censorship of imported online games must be conducted with MOC prior to the commencement date of the online operation and the filing procedures for domestic online games must be conducted with MOC within 30 days after the commencement date of the online operation or the occurrence date of any material alteration of such online games. Regarding virtual currency trading, ICP service operators can only issue virtual currency in exchange of the service provided by itself rather than trading for service or products provided by third parties. ICP service operators cannot appropriate the advance payment by the players and are not allowed to provide trading service of virtual currency to minors. All the transactions in the accounts shall be kept in records for a minimum of 180 days. To comply with these laws and regulations, Shenzhen Xunlei, Xunlei Games, and Shenzhen Wangwenhua have obtained an Online Culture Operating Permit for our operation of online games.

Further, the online publication of online games is subject to the regulation of SAPPRFT, formerly the GAPPRFT, under the *Administrative Provisions on Online Publishing Services* and ICP service operators must obtain the internet publishing services license prior to provision of any online game publishing services. On September 28, 2009, GAPPRFT, the National Copyright Administration and the National Office of Combating Pornography and Illegal Publications jointly published the *Notice Regarding the Consistent Implementation of the "Stipulations on 'Three Provisions' of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Internet Games and the Examination and Approval of Imported Internet Games*", or the Notice of Three Provisions and Internet Games, which expressly requires that all online games need to be screened by GAPPRFT through the advanced approvals before they are operated online, and any updated online game versions or any change to the online games shall be subject to further advanced approvals before they can be operated online. In addition, foreign investors are prohibited from operating online games by the forms of Sino-foreign joint ventures, Sino-foreign cooperatives and wholly foreign-owned enterprises. The indirect functions such as contractual control and technology supply are also prohibited.

Moreover, on December 1, 2016, MOC issued *the Circular of the Ministry of Culture on Regulating the Operations of Online Games and Strengthening Interim and Ex-Post Regulation*, which will become effective on May 1, 2017. MOC further clarified the scope of online game operation in the circular. If an enterprise conducts technical testing of online games by means of, among others, making the online games available for user registration, opening the fee-charging system of the online games or providing client-end software with direct server registration and log-in functions, such enterprise is deemed to be an online game operator. If an enterprise provides user systems, fee-charging systems, program downloading, publicity and promotion and other services for the online game products of another game operator and participates in sharing the revenue from the operations of online games, such enterprise is deemed as a joint operator, and must bear corresponding liabilities. In addition, enterprises engaging in online game operations must require users to register their real names by using valid identity documents and must limit the amount that a user may top up each time in a single game. In addition, the enterprises are required to send information that requires confirmation by users when they top up or make the payments, and the contact details for protecting users' rights and interests must be indicated conspicuously in an online game.

On May 14, 2019, the MOCT issued a notice announcing the adjustment of the scope of business activities that are subject to the MOCT's approval for Online Culture Operation License. Pursuant the notice, the MOCT will no longer be responsible for issuing Online Culture Operation License to companies operating online games and issuance and trading of virtual currency in connection with online game operations. On July 10, 2019, the MOCT abolished the Provisional Measures on the Administration of Online Games, which required online game operators to obtain Online Culture Operation License for operating online games and issuance and trading of virtual currency in connection with online game operations. As a result, Online Culture Operation License is no longer required for online game operators.

Our online game services are operated by Shenzhen Wangwenhua and Xunlei Games. Both entities have obtained the VATS License for operating online games, but do not possess the internet publishing services license. For risks relating to the internet publishing services license, see "Item 3. Key Information—D. Risk factors—Risks related to our business—We may not be able to successfully address the challenges and risks we face in the online games market, such as a failure to operate popular, high-quality games or to obtain all the licenses required to operate online games, which may subject us to penalties from relevant authorities, including the discontinuance of our online game business."

Regulation on anti-fatigue system, real-name registration system and parental guardianship project

In April 2007, GAPPRFT and several other government agencies issued a circular requiring the implementation of an anti-fatigue system and a real-name registration system by all PRC online game operators to curb addictive online game playing by minors. Under the anti-fatigue 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 to be "fatiguing," and five hours or more to be "unhealthy." Game operators are required to reduce the value of in-game benefits to a minor player by half if the minor has reached the "fatiguing" level, and to zero once reaching the "unhealthy" level.

To identify whether a game player is a minor and thus subject to the anti-fatigue system, a real-name registration system must be adopted to require online game players to register their real identity information before playing online games. The online game operators are also required to submit the identity information of game players to the public security authority for verification. In July 2011, GAPPRFT, together with several other government agencies, jointly issued the Notice on Initializing the Verification of Real-name Registration for the Anti-Fatigue System on Online Games, or the Real-name Registration Notice, to strengthen the implementation of the anti-fatigue and real-name registration system. The main purpose of the Real-name Registration Notice is to curb addictive online game playing by minors and protect their physical and mental health. This notice indicates that the National Citizen Identity Information Center of the Ministry of Public Security will verify identity information of game players submitted by online game operators. The Real-name Registration Notice also imposes stringent penalties on online game operators that do not implement the required anti-fatigue and real-name registration systems properly and effectively, including terminating their online game operations.

In January 2011, MOC, together with several other government agencies, jointly issued a Circular on Printing and Distributing Implementation Scheme regarding Parental Guardianship Project for Minors Playing Online Games to strengthen the administration of online games and protect the legitimate rights and interests of minors. This circular indicates that online game operators must have person in charge, set up specific service webpages and publicize specific hotlines to provide parents with necessary assistance to prevent or restrict minors' improper game playing behavior. Online game operators must also submit a report regarding its performance under the Parental Guardianship Project to the local MOC office each quarter.

In October 2019, General Administration of Press and Publication issued the Anti-indulgence Notice, under which the total period of time for underage users to play online games is strictly restricted. For example, from 22:00 p.m. each day to 8:00 a.m. of the next day, game operators are not allowed to provide underage users with any form of access to online games they operate, and the total length of time for game operators to provide underage users with access to online games cannot exceed three hours a day during statutory holidays or 1.5 hours a day on days other than statutory holidays. The Anti-indulgence Notice also requires game operators to implement the real-name registration system for players of online games and take effective measures to restrict underage players from using paid services that are inconsistent with their capacity for civil conduct.

For the online games on our platform, we have implemented a real-name registration system for our online games. For game players who do not provide verified identity information, we assume that they are minors under 18 years of age. Online game operators or developers rely on the identify information provide by us to implement their anti-indulgence measures. With respect to anti-indulgence measures, we have cooperated with third parties in developing anti-indulgence measures and are currently working with our third-party online game providers to implement anti-indulgence measures pursuant to the Anti-indulgence Notice. We are currently preparing application materials and working on connecting to the national anti-indulgence and real-name registration system. See "Item 3. Key Information—D. Risk Factors—Risks related to our business—We may not be able to successfully address the challenges and risks we face in the online games market, such as a failure to operate popular, high-quality games or to obtain all the licenses required to operate online games, which may subject us to penalties from relevant authorities, including the discontinuance of our online game business."

Regulation on online game virtual currency

On February 15, 2007, MOC, the People's Bank of China and other relevant government authorities jointly issued the *Notice on Further Strengthening Administrative Work on the Internet Cafes and Online Games*, or the Internet Cafes Notice, pursuant to which the People's Bank of China is directed to strengthen the administration of virtual currency in online games to avoid any adverse impact on the economy and financial system. This notice provides that the total amount of virtual currency issued by online game operators and the amount purchased by individual game players should be strictly limited, with a strict and clear division between virtual transactions and real transactions carried out by way of electronic commerce. It also provides that virtual currency shall only be used to purchase virtual items. On June 4, 2009, MOC and Ministry of Commerce jointly issued the *Notice on Strengthening the Administrative Work on Virtual Currency of Online Games*, pursuant to which no enterprise may concurrently provide both virtual currency issuance service and virtual currency transaction service. In addition, the Provisional Measures on the Administration of Online Games require companies that (i) issue online game virtual currency (including prepaid cards and/or pre-payment or prepaid card points) or (ii) offer online game virtual currency transaction services to apply for the Online Culture Operating Permit from provincial branches of MOC. The regulations prohibit companies that issue online game virtual currency from providing services that would enable the trading of such virtual currency. Any company that fails to submit the requisite application will be subject to sanctions, including but not limited to termination of operation, confiscation of incomes and fines. The regulations also prohibit online game operators from allocating virtual items or virtual currency to players based on random selection through lucky draw, wager or lottery that involves cash or virtual currency directly paid by the players. In addition, companies that issue online game virtual currency must comply with certain specific requirements, for example, online game virtual currency can only be used for products and services related to the issuance company's own online games.

On May 14, 2019, the MOCT issued a notice announcing the adjustment of the scope of business activities that are subject to the MOCT's approval for Online Culture Operation License. Pursuant the notice, the MOCT will no longer be responsible for issuing Online Culture Operation License to companies operating online games and issuance and trading of virtual currency in connection with online game operations. On July 10, 2019, the MOCT abolished the Provisional Measures on the Administration of Online Games, which required online game operators to obtain Online Culture Operation License for operating online games and issuance and trading of virtual currency in connection with online game operations. As a result, Online Culture Operation License is no longer required for online game operators.

Since Online Culture Operation License is no longer required for the issuance and trading of virtual currency in connection with online game operations, Xunlei Games did not renew its Online Culture Operation Licenses after expiration.

Regulation on internet publication

SAPPRFT (formerly the GAPPRFT) is the government agency responsible for regulating publication activities in the PRC. On June 27, 2002, MIIT and GAPPRFT jointly promulgated the Tentative Administration Measures on Internet Publication, or the Internet Publication Measures, which took effect on August 1, 2002. The Internet Publication Measures require internet publishers to secure approval, or the Internet Publication License, from GAPPRFT to conduct internet publication activities. In February 2016, the SAPPRFT and the MIIT jointly issued the *Administrative Measures on Network Publication*, which took effect in March 2016 and replaced the Internet Publication Measures. Pursuant to the Administrative Measures on Network Publication, Internet publishers shall be approved by and obtain an internet publishing services from GAPPRFT to engage in network publication service. The network publication services refer to the activities of providing network publications to the public through information networks; and the network publications refer to the digitalized works with the publishing features such as editing, producing and processing. The Administrative Measures on Network Publication also provide the detailed qualifications and application procedures for obtaining an internet publishing services license. The Notice of Three Provisions and Internet Games issued jointly by GAPPRFT and other relevant administrations confirmed that the entities operating internet games must obtain the Internet Publication License. On February 21, 2008, the GAPPRFT promulgated the *Rules for the Administration of Electronic Publication*, or the Electronic Publication Rules, which took effect on April 15, 2008 and was amended on August 28, 2015. Under the Electronic Publication Rules and other regulations issued by the GAPPRFT, 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. Pursuant to the Electronic Publication Rules, if a PRC company is contractually authorized to publish foreign electronic publications, it must obtain the approval of, and register the copyright license contract with, the GAPPRFT.

Shenzhen Xunlei holds an Internet Publication License for the publication of internet games with an expiry date of September 17, 2022. See “Item 3. Key Information—D. Risk factors—We may not be able to successfully address the challenges and risks we face in the online games market, such as a failure to acquire and operate popular, high-quality games or to obtain all the licenses required to operate online games, which may subject us to penalties from relevant authorities, including the discontinuance of our online game business.”

Regulation on internet privacy

The PRC Constitution states that PRC law protects the freedom and privacy of communications of citizens and prohibits infringement of such rights. In recent years, PRC government authorities have enacted legislation on internet use to protect personal information from any unauthorized disclosure. The Internet Measures prohibit ICP service operators from insulting or slandering a third party or infringing upon the lawful rights and interests of a third party. Pursuant to the BBS Measures, ICP service operators that provide electronic messaging services must keep users' personal information confidential and must not disclose such personal information to any third party without the users' consent, unless such disclosure is required by law. The regulations further authorize the relevant telecommunications authorities to order ICP service operators to rectify unauthorized disclosure. ICP service operators are subject to legal liability if the unauthorized disclosure results in damages or losses to users. The PRC government, however, has the power and authority to order ICP service operators to turn over personal information if an internet user posts any prohibited content or engages in illegal activities on the internet. Under the *Several Provisions on Regulating the Market Order of Internet Information Services* issued by MIIT on December 29, 2011, without the consent of a user, an ICP operator may not collect any user personal information or provide any such information to third parties. An ICP service operator shall expressly inform the users of the method, content and purpose of the collection and processing of such user personal information and may only collect such information necessary for the provision of its services. An ICP service operator is also required to properly keep the user personal information, and in case of any leak or likely leak of the user personal information, the ICP service operator shall take immediate remedial measures and in severe consequences, to make an immediate report to the telecommunications regulatory authority. In addition, pursuant to the *Decision on Strengthening the Protection of Online Information* issued by the SCNPC of the PRC on December 28, 2012, or the Decision, and the *Order for the Protection of Telecommunication and Internet User Personal Information* issued by MIIT on July 16, 2013, or the Order, any collection and use of user personal information shall be subject to the consent of the user, abide by the principles of legality, rationality and necessity and be within the specified purposes, methods and scopes. An ICP service operator shall also keep such information strictly confidential, and is further prohibited from divulging, tampering or destroying of any such information, or selling or proving such information to other parties. Any violation of the Decision or the Order may subject the ICP service operator to warnings, fines, confiscation of illegal gains, revocation of licenses, cancellation of filings, closedown of websites or even criminal liabilities.

Pursuant to the Ninth Amendment to the Criminal Law of the PRC issued by the SCNPC on August 29, 2015, any internet service provider that fails to fulfill the obligations related to internet information security as required by applicable laws and refuses to take corrective measures, will be subject to criminal liability for (i) any large-scale dissemination of illegal information; (ii) any severe effect due to the leakage of users' personal information; (iii) any serious loss of evidence of criminal activities; or (iv) other severe situations, and any individual or entity that (a) sells or provides personal information to others unlawfully or (b) steals or illegally obtains any personal information will be subject to criminal liability in severe situations.

The SCNPC promulgated the Cybersecurity Law of the PRC, or the Cybersecurity Law, on November 7, 2016. Pursuant to the Cybersecurity Law, network operators shall follow their cybersecurity obligations according to the requirements of the classified protection system for cybersecurity, including: (a) formulating internal security management systems and operating instructions, determining the persons responsible for cybersecurity, and implementing the responsibility for cybersecurity protection; (b) taking technological measures to prevent computer viruses, network attacks, network intrusions and other actions endangering cybersecurity; (c) taking technological measures to monitor and record the network operation status and cybersecurity incidents; (d) taking measures such as data classification, and back-up and encryption of important data; and (e) other obligations provided by laws and administrative regulations. In addition, network operators shall follow the principles of legitimacy to collect and use personal information and disclose their rules of data collection and use, clearly express the purposes, means and scope of collecting and using the information, and obtain the consent of the persons whose data is gathered.

On November 28, 2019, the Secretary Bureau of the Cyberspace Administration of China, the General Office of the Ministry of Industry and Information Technology, the General Office of the Ministry of Public Security and the General Office of the State Administration for Market Regulation promulgated the Identification Method of Illegal Collection and Use of Personal Information Through App, which provides guidance for the regulatory authorities to identify the illegal collection and use of personal information through mobile apps, and for the app operators to conduct self-examination and self-correction and for other participants to voluntarily monitor compliance.

The National Information Security Standardization Technical Committee issued the latest *Standard of Information Security Technology—Personal Information Security Specification*, which came into effect in March, 2020 and replaced the 2017 version. Under such standard, a personal information controller should follow the principles of legality, justification and necessity in handling personal information, obtain a consent from personal information providers and provide the personal information providers an independent choice when the product or service provided by the personal information controller has multiple functions.

To comply with these laws and regulations, we have established information security systems to protect user's privacy. However, our system may not be compliant with relevant laws and regulations in all respects. We have been ordered to rectify our app as it failed to explicitly inform users the purpose, method, and scope regarding personal data collection. We will continue to review and amend our privacy policies on our websites and mobile applications periodically based on the development and changes of our business operations so that we obtain proper consents from our users for collecting and using their personal information. See "Item 3. Key Information—D. Risk factors—Risks related to our business—Concerns about collection and use of personal data could damage our reputation, deter current and potential users from using our services and substantially harm our business and results of operations."

Regulation on internet medicine information service

The State Food and Drug Administration, or the SFDA, promulgated the Administration Measures on Internet Medicine Information Service on July 8, 2004, which was amended in November 2017, and certain implementing rules and notices thereafter. These measures set out regulations governing the classification, application, approval, content, qualifications and requirements for internet medicine information services. An ICP service operator that provides information regarding medicine or medical equipment must obtain an Internet Medicine Information Service Qualification Certificate from the applicable provincial level counterpart of SFDA. Shenzhen Xunlei has obtained a Medicine Information Service Qualification Certificate from Guangdong Food and Drug Administration for the provision of internet medical information services with an expiry date of August 21, 2023. Shenzhen Wangwenhua has also obtained a Medicine Information Service Qualification Certificate from Guangdong Food and Drug Administration for the provision of internet medical information services with an expiry date of September 17, 2022.

Regulation on advertising business

The State Administration for Industry and Commerce, or the SAIC, is the government agency responsible for regulating advertising activities in the PRC.

According to the PRC laws and regulations, companies that engage in advertising activities must obtain from SAIC or its local branches a business license which specifically includes operating an advertising business within its business scope. 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 law or regulation. PRC advertising laws and regulations set forth certain content requirements for advertisements in the PRC 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 by PRC advertising laws and regulations to ensure that the content of the advertisements they prepare or distribute is true and in full compliance with applicable law. In providing advertising services, advertising operators and advertising distributors must review the supporting documents provided by advertisers for advertisements and verify that the content of the advertisements complies with applicable PRC laws and regulations. Prior to distributing advertisements that are subject to government censorship and approval, advertising distributors are obligated to verify that such censorship has been performed and approval has been obtained. The release or delivery of advertisements through the Internet shall not impair the normal use of the network by users. The advertisements released in pop-up form on the webpage of the Internet and other forms shall indicate the close flag in prominent manner and ensure one-key close. 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. In circumstances involving serious violations, SAIC or its local branches may revoke violators' licenses or permits for their advertising business operations.

In July 2016, the SAIC issued *the Interim Measures for the Administration of Internet Advertising to regulate internet advertising activities*. According to these measures, no advertisement of any medical treatment, medicines, food for special medical purpose, medical apparatuses, pesticides, veterinary medicines, dietary supplement or other special commodities or services subject to examination by an advertising examination authority as stipulated by laws and regulations may be published unless the advertisement has passed such examination. In addition, no entity or individual may publish any advertisement of over-the-counter medicines or tobacco on the internet. An internet advertisement must be identifiable and clearly identified as an "advertisement" to the consumers. Paid search advertisements are required to be clearly distinguished from natural search results. In addition, the following internet advertising activities are prohibited: providing or using any applications or hardware to intercept, filter, cover, fast forward or otherwise restrict any authorized advertisement of other persons; using network pathways, network equipment or applications to disrupt the normal data transmission of advertisements, alter or block authorized advertisements of other persons or load advertisements without authorization; or using fraudulent statistical data, transmission effect or matrices relating to online marketing performance to induce incorrect quotations, seek undue interests or harm the interests of others. Internet advertisement publishers are required to verify relevant supporting documents and check the content of the advertisement and are prohibited from publishing any advertisement with unverified content or without all the necessary qualifications. Internet information service providers that are not involved in internet advertising business activities but simply provide information services are required to block any attempt to publish an illegal advisement that they are aware of or should reasonably be aware of through their information services.

Since we have outsourced our advertising business to Itui in 2020, we do not operate advertising business on our own. We have required Itui to set up an effective review mechanism for each advertisement it places on our websites and platform, and to ensure the contents are truthful, accurate, and in full compliance with relevant laws and regulations. See "Item 3. Key Information—D. Risk factors—Risks related to our business—Advertisements displayed on our platform may subject us to penalties and other administrative actions."

Regulation on information security and censorship

The applicable PRC laws and regulations specifically prohibit the use of internet infrastructure where it may breach public security, provide content harmful to the stability of society or disclose state secrets. According to these regulations, it is mandatory for internet companies in the PRC to complete security filing procedures and regularly update information security and censorship systems for their websites with the local public security bureau. In addition, the amended Law on Preservation of State Secrets which became effective on October 1, 2010 provides that whenever an internet service provider detects any leakage of state secrets in the distribution of online information, it should stop the distribution of such information and report to the authorities of state security and public security. As per request of the authorities of state security, public security or state secrecy, the internet service provider should delete any content on its website that may lead to disclosure of state secrets.

On June 28, 2016, the CAC issued the *Administrative Provisions on Mobile Internet Applications Information Services*, which became effective on August 1, 2016, to further strengthen the administration over the mobile internet application information services. Pursuant to these provisions, owners or operators of mobile internet applications that provide information services are required to be responsible for information security management, which, among others, includes the following:

- certifying the identification information of the registered users;
- establishing and improving the protective mechanism for users information, following the principle of legality, rightfulness and necessity, and expressly stating the purpose, method and scope of, and obtaining user consent to, the collection and use of users' personal information; and
- establishing and improving the verification mechanism for the content, taking measures against any illegal content, keeping the relevant records and reporting such content to relevant competent authorities.

On November 7, 2016, the SCNPC promulgated the *Cyber Security Law of the People's Republic of China*, or Cyber Security Law, which became effective on June 1, 2017 to protect cyberspace security and order. Pursuant to the Cyber Security Law, any individual or organization using the network must comply with the constitution and the applicable laws, follow the public order and respect social moralities, and must not endanger cyber security, or engage in activities by making use of the network that endanger the national security, honor and interests, or infringe on the fame, privacy, intellectual property and other legitimate rights and interests of others. In addition, the new Cyber Security Law requires network operators must not collect personal information irrelevant to their services. The network operators are required to strictly keep confidential users' personal information that they have collected and to establish and improve user information protective mechanism. In the event of any unauthorized disclosure, damage or loss of collected personal information, network operators must take immediate remedial measures, notify the affected users and report the incidents to the relevant authorities in a timely manner.

On August 25, 2017, the CAC promulgated the Provisions on the Administration of Internet Comments Posting Services, which became effective on October 1, 2017. According to such provisions, internet comments posting services refer to the services of publishing transcripts, symbols, expressions, pictures, audio and video and other information offered by Internet websites, applications, interactive communication platforms and other types of communication platforms with news and public opinion property and social mobilization function by way of post, reply, message, bullet screen and using other means. Providers of the internet comments posting services shall strictly assume the primary responsibilities and discharge the following obligations accordingly:

- verify the real identity information of registered users following the principle of using real name at foreground and volunteering to do so at background and forbid the provision of internet comments posting services for users whose real identity information is not verified;
- establish and improve a user information protection system;

- establish a system to review new comments before they are published when providing internet comments posting services;

- establish and improve an internet comments posting review and management, real-time check, emergency response and other information security management systems, timely identify and process illicit information and submit a report to the relevant competent authorities;

- develop information protection and management technologies for the internet comments posting, timely identify security flaws and bugs and other risks in internet comments posting services, take remedial measures and submit a report to the relevant competent authorities; and

- set up a reviewing and editing team and improve the professionalism of editors.

In addition, on August 25, 2017, the CAC promulgated the *Administrative Provisions on Internet Forum and Community Services*, which became effective on October 1, 2017, pursuant to which the internet forum and community service providers shall assume the primary responsibility for establishing and improving the information inspection and verification, public information real-time check, emergency response and personal information protection and other information security management systems, put in place safe and controllable preventative measures, employ professionals based on service scope, and provide necessary technical support for the relevant departments in performing duties according to the law. The internet forum and community service providers shall not use internet forum and community services to publish or disseminate information banned by laws, regulations and the relevant provisions of the state. Where the internet forum and community service providers identify any aforementioned information, they shall cease the transmission of such information forthwith, delete and take other measures, retain the relevant records and timely submit a report to the CAC or its local branches.

Violation of these laws and provisions may result in penalties, including fines, confiscation of illegal income. In the case of serious violations, the competent telecommunication authority, public security authority and other relevant authorities may suspend relevant business, rectification or close down the website, or revoke licenses or permits for their business operations.

We are subject to the laws and regulations relating to information security and censorship. To comply with these laws and regulations, we have completed the mandatory security filing procedures with the local public security authorities, and regularly updates its information security and content-filtering systems with newly issued content restrictions as required by the relevant laws and regulations. Although instances in the past have suggested that our information security and content-filtering systems may not be compliant with relevant laws and regulations in all respects, we strive to improve our systems by continuously implementing additional protective and examining measures to reduce the risk of cyber-incidents and to detect improper or illegal contents. See "Item 3. Key Information-D. Risk factors-Risks related to our business-System failure, interruptions and downtime, including those caused by cyber-attacks or security breaches, can result in user dissatisfaction, adverse publicity or leakage of confidential information of our users and customers, and our business, financial condition, results of operations may be materially and adversely affected."

Regulation on torts

The Tort Law was promulgated by the SCNPC on December 26, 2009 and became effective on July 1, 2010. In May 2020, the NPC promulgated the Civil Code of the People's Republic of China, which became effective on January 1, 2021 and replaced the Tort Law. Under Civil Code of the People's Republic of China, internet users and internet service providers shall bear tortious liability in the event they infringe upon other people's civil rights and interests through the internet. Where an internet user is infringing upon the civil rights or interests of another person via internet, the injured party shall have the right to demand the relevant internet service provider to take necessary measures such as deleting the infringing content, etc. by serving the internet service provider a notice. Where the internet service provider fails to take any necessary measures, it shall be jointly and severally liable with the internet user for any additional injury or damage incurred thereafter. Under the circumstance that the internet service provider is aware that an internet user is infringing upon the civil rights or interests of another person and fails to take necessary measures, the internet service provider shall be jointly liable for such infringement with such internet user.

Regulation on intellectual property rights

The PRC has adopted comprehensive legislation governing intellectual property rights, including copyrights, patents, trademarks and domain names.

Copyright law

Under the Copyright Law (1990), as revised in 2001, 2010 and 2020, and its related Implementing Regulations (2002), as revised in 2013, creators of protected works enjoy personal and property rights, including, among others, the right of dissemination via information network of the works. The term of a copyright, other than the rights of authorship, alteration and integrity of an author which shall be unlimited in time, is life plus 50 years for individual authors and 50 years for corporations.

To address the problem of copyright infringement related to content posted or transmitted on the internet, the PRC National Copyright Administration and 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, without editing, amending or selecting any transmitted content. When imposing administrative penalties upon the act which infringes upon any users' right of communication through information networks, the *Measures for Imposing Copyright Administrative Penalties*, promulgated in 2009, shall be applied.

Pursuant to the *Regulation on Protection of the Right of Communication through Information Network (2006)*, as amended in 2013, an ICP service provider may be exempted from indemnification liabilities under certain circumstances:

- any ICP service provider, who provides automatic internet access service upon instructions of its users or provides automatic transmission service of works, performance and audio-visual products provided by its users, will not be required to assume the indemnification liabilities if (i) it has not chosen or altered the transmitted works, performance and audio-visual products; and (ii) it provides such works, performance and audio-visual products to the designated user and prevents any person other than such designated user from obtaining the access.

- any ICP service provider who, for the sake of improving network transmission efficiency, automatically provides to its own users, based on the technical arrangement, the relevant works, performances and audio-visual products obtained from any other ICP service providers will not be required to assume the indemnification liabilities if (i) it has not altered any of the works, performance or audiovisual products that are automatically stored; (ii) it has not affected such original ICP service provider in grasping the circumstances where the users obtain the relevant works, performance and audio-visual products; and (iii) when the original ICP service provider revises, deletes or shields the works, performance and audio-visual products, it will automatically revise, delete or shield the same based on the technical arrangement.

- any ICP service provider, who provides its users with information memory space for such users to provide the works, performance and audio-visual products to the general public via the information network, will not be required to assume the indemnification liabilities if (i) it clearly indicates that the information memory space is provided to the users and publicizes its own name, contact person and web address; (ii) it has not altered the works, performance and audio-visual products that are provided by the users; (iii) it is not aware of or has no reason to know the infringement of the works, performance and audio-visual products provided by the users; (iv) it has not directly derived any economic benefit from the provision of the works, performance and audio-visual products by its users; and (v) after receiving a notice from the right holder, it has deleted such works, performance and audio-visual products as alleged for infringement pursuant to such regulation.

- any ICP service provider, who provides its users with search services or links, will not be required to assume the indemnification liabilities if, after receiving a notice from the rights holder, it has deleted the works, performance and audio-visual products as alleged for copyright infringement pursuant to this regulation. However, the ICP service provider shall be subject to joint liabilities for copyright infringement if it is aware of or has reason to know the infringement of the works, performance and audio-visual products to which it provides links.

In December 2012, the Supreme People's Court of China promulgated the *Provisions on Certain Issues Related to the Application of Law in the Trial of Civil Cases Involving Disputes over Infringement of the Right of Dissemination through Information Networks*, which provides that the courts will require ICP service providers to remove not only links or content that have been specifically mentioned in the notices of infringement from rights holders, but also links or content they "should have known" to contain infringing content. The provisions further provide that where an ICP service provider has directly obtained economic benefits from any content made available by an internet user, it has a higher duty of care with respect to internet users' infringement of third-party copyrights.

To comply with these laws and regulations, we have implemented internal procedures to monitor and review the contents on our websites and platforms and remove any infringing content promptly after we receive notice of infringement from the legitimate rights holder.

Patent law

The NPC adopted the Patent Law in 1984, and amended it in 1992, 2000, 2008 and 2020, 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 or designs that are mainly used for marking the pattern, color or combination of these two of prints. The State Intellectual Property Office under the State Council is responsible for receiving, examining and approving patent applications. A patent is valid for a twenty-year term in the case of an invention and a ten-year term in the case of a utility model or design, starting from the application date. A third-party user must obtain consent or a proper license from the patent owner to use the patent except for certain specific circumstances provided by law. Otherwise, the use will constitute an infringement of the patent rights. As of December 31, 2020, we had 94 registered patents in the PRC and 522 patent applications were being examined by the State Intellectual Property Office of the PRC.

Trademark law

Registered trademarks are protected under the Trademark Law adopted in 1982 and amended in 1993, 2001 2013 and 2019 and its implementation rules. The PRC Trademark Office of SAIC is responsible for the registration and administration of trademarks throughout the PRC. The Trademark Law has adopted a "first-to-file" principle with respect to trademark registration. Where a trademark for which a registration has been made is identical or similar to another trademark that has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark shall not prejudice the existing right of others obtained by priority, nor shall any person register in advance a trademark that has already been used by another person and has already gained "sufficient degree of reputation" through that person's use. After receiving an application, the PRC Trademark Office will make a public announcement if the relevant trademark passes the preliminary examination. Within three months after such public announcement, any person may file an opposition against a trademark that has passed a preliminary examination. The PRC Trademark Office's decisions on rejection, opposition or cancellation of an application may be appealed to the PRC Trademark Review and Adjudication Board, whose decision may be further appealed through judicial proceedings. If no opposition is filed within three months after the public announcement period or if the opposition has been overruled, the PRC Trademark Office will approve the registration and issue a registration certificate, upon which the trademark is registered and will be effective for a renewable ten-year period, unless otherwise revoked. As of December 31, 2020, we had applied for registration of 944 trademarks, of which 507 had been successfully registered in different applicable trademark categories, including one trademark registered with World Intellectual Property Organization.

Domain name

The domain names are protected under the *Administrative Measures on the Internet Domain Names* promulgated by MIIT on August 24, 2017 and effective on November 11, 2017. MIIT is the major regulatory body responsible for the administration of the PRC internet domain names, under supervision of which China Internet Network Information Center, or CNNIC, is responsible for the daily administration of CN domain names and Chinese domain names. On June 18, 2019, CNNIC issued the *Implementing Rules of National Top-Level Domain Names Registration*, Pursuant to the *Administrative Measures on the Internet Domain Names* and the *Implementing Rules of National Top-Level Domain Names Registration*, the registration of domain names adopts the "first to file" principle and the registrant shall complete the registration via the domain name registration service institutions. In the event of a domain name dispute, the disputed parties may lodge a complaint to the designated domain name dispute resolution institution to trigger the domain name dispute resolution procedure in accordance with the *CNNIC Measures on Resolution of the Top Level Domains Disputes*, file a suit to the People's Court or initiate an arbitration procedure. We have registered www.xunlei.com and other domain names.

Regulation on tax

PRC enterprise income tax

The PRC enterprise income tax is calculated based on the taxable income determined under the PRC laws and accounting standards. On March 16, 2007, the NPC enacted a new *PRC Enterprise Income Tax Law*, or the EIT Law, which became effective on January 1, 2008 and last revised on December 2018. On December 6, 2007, the State Council promulgated the Implementation Rules to the PRC Enterprise Income Tax Law, or the Implementation Rules, which also became effective on January 1, 2008. On December 26, 2007, the State Council issued the Notice on Implementation of Enterprise Income Tax Transition Preferential Policy under the PRC Enterprise Income Tax Law, or the Transition Preferential Policy Circular, which became effective simultaneously with the EIT Law. The EIT Law imposes a uniform enterprise income tax rate of 25% on all domestic enterprises, including foreign-invested enterprises unless they qualify for certain exceptions, and terminates most of the tax exemptions, reductions and preferential treatments available under previous tax laws and regulations. Under the EIT Law and the Transition Preferential Policy Circular, enterprises that were established before March 16, 2007 and already enjoyed preferential tax treatments will continue to enjoy them (i) in the case of preferential tax rates, for a period of five years from January 1, 2008; during the five-year period, the tax rate will gradually increase from 15% to 25%, or (ii) in the case of preferential tax exemption or reduction for a specified term, until the expiration of such term. In addition, the EIT Law and its implementation rules permit qualified high and new technology enterprises, or HNTEs, to enjoy a reduced enterprise income tax rate of 15%.

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 therefore subject to PRC enterprise income tax at the rate of 25% on their worldwide income. The Implementation Rules define the term "de facto management body" as the management body that exercises full and substantial control and overall management over the business, productions, personnel, accounts and properties of an enterprise. In addition, the *Circular Related to Relevant Issues on the Identification of a Chinese holding Company Incorporated Overseas as a Residential Enterprise under the Criterion of De Facto Management Bodies* issued by the SAT on April 22, 2009 provides that a foreign enterprise controlled by a PRC enterprise or a PRC enterprise group will be classified as a "resident enterprise" with its "de facto management bodies" located within China if the following requirements are satisfied: (i) the senior management and core management departments in charge of its daily operations function mainly in the PRC; (ii) its financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (iii) 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 (iv) at least half of the enterprise's directors or senior management with voting rights reside in the PRC. Although the circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups and not those controlled by PRC individuals or foreigners, the determining criteria set forth in the circular may reflect the SAT's general position on how the "de facto management body" text should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises, individuals or foreigners.

In April 2020, the Ministry of Finance, the State Taxation Administration and the National Development and Reform Commission issued the Announcement on Continuing the Enterprise Income Tax Policies for the Large-Scale Development of Western China, which became effective on January 1, 2021, allowing enterprises operated in an encouraged industry that is established in western China to pay the enterprise income tax at a reduced rate of 15% from January 1, 2021 to December 31, 2030.

Although we are not controlled by a PRC enterprise or PRC enterprise group and we do not believe that we meet all of the above-mentioned conditions, substantial uncertainty exists as to whether we will be deemed a PRC resident enterprise for enterprise income tax purpose. 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, but the dividends that we receive from our PRC subsidiaries would be exempt from the PRC withholding tax since such income is exempted under the PRC Enterprise Income Tax Law for a PRC resident enterprise recipient. See "Item 3. Key Information—D. Risk factors—Risks related to doing business in China—Our global income may be subject to PRC taxes under the PRC EIT Law, which may have a material adverse effect on our results of operations."

Under applicable PRC tax laws and regulations, arrangements and transactions among related parties may be subject to audit or scrutiny by the PRC tax authorities within ten years after the taxable year when the arrangements or transactions are conducted. We could face material and adverse tax consequences if the PRC tax authorities were to determine that the contractual arrangements among Giganology Shenzhen, our wholly owned subsidiary in China and Shenzhen Xunlei, our variable interest entity in China and its shareholders were not entered into on an arm's-length basis and therefore constituted unfavorable transfer pricing arrangements. Unfavorable transfer pricing arrangements could, among other things, result in an upward adjustment to the tax liability of Shenzhen Xunlei, and the PRC tax authorities may impose interest on late payments on Shenzhen Xunlei for the adjusted but unpaid taxes. Our results of operations may be materially and adversely affected if Shenzhen Xunlei's tax liabilities increase significantly or if it is required to pay interest on late payments.

PRC value added tax

On May 24, 2013, the Ministry of Finance, or the MOF, and the SAT 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. On March 23, 2016, the MOF and the SAT jointly issued the Circular on the Pilot Program for Overall Implementation of the Collection of Value Added Tax Instead of Business Tax, or Circular 36, which took effect on May 1, 2016. Pursuant to the Circular 36, all of the companies operating in construction, real estate, finance, modern service or other sectors which were required to pay business tax are required to pay VAT, in lieu of business tax. The VAT rate is 6%, except for rate of 11% for real estate sale, land use right transferring and providing service of transportation, postal sector, basic telecommunications, construction, real estate lease; rate of 17% for providing lease service of tangible property; and rate of zero for specific cross-bond activities.

On April 4, 2018, the Ministry of Finance and the State Administration of Taxation issued *the Circular on Adjustment of VAT Rates*, which became effective on May 1, 2018. According to *the Circular on the Adjustment of VAT Rates*, relevant VAT rates have been reduced since May 1, 2018, such as (i) VAT rates of 17% and 11% applicable to the taxpayers who have VAT taxable sales activities or imported goods are adjusted to 16% and 10%, respectively; and (ii) VAT rate of 11% originally applicable to the taxpayers who purchase agricultural products is adjusted to 10%.

On March 20, 2019, the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs of the PRC issued *the Circular on Adjustment of VAT Rates*, which became effective on April 1, 2019. According to *the Circular on the Adjustment of VAT Rates*, starting from April 1, 2019, the VAT rate of 10% was adjusted to 9% while the VAT rate of 16% was adjusted to 13%.

PRC dividend withholding tax

Under the PRC tax laws effective prior to January 1, 2008, dividends paid to foreign investors by foreign-invested enterprises were exempt from PRC withholding tax. Pursuant to the EIT Law and the Implementation Rules, dividends generated after January 1, 2008 and payable by a foreign-invested enterprise in China to its foreign enterprise investors are subject to a 10% withholding tax, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. Under the China-HK Taxation Arrangement, income tax on dividends payable to a company resident in Hong Kong that holds more than a 25% equity interest in a PRC resident enterprise may be reduced to a rate of 5%. In February 2018, the SAT issued a new circular on issues relating to "beneficial owner" in tax treaties, or Circular No. 9, which will become effective on April 1, 2018 and replace Circular No. 601. Circular No. 9 provides a more flexible guidance to determine whether the applicant engages in substantive business activities. Furthermore, under the *Administrative Measures for Non-Resident Enterprises to Enjoy Treatments under Tax Treaties*, non-resident taxpayers which satisfy the criteria for entitlement to tax treaty benefits may, at the time of tax declaration or withholding declaration through a withholding agent, enjoy the tax treaty benefits and are subject to further regulation by the tax authorities. If non-resident taxpayers fail to claim the tax treaty benefits with the withholding agent, or the materials and the information contained in the relevant reports and statements provided to the withholding agent do not satisfy the criteria for entitlement to tax treaty benefits, the withholding agent shall withhold tax pursuant to the provisions of PRC tax laws. In addition, according to a tax circular issued by SAT in February 2009, if the main purpose of an offshore arrangement is to obtain a preferential tax treatment, the PRC tax authorities have the discretion to adjust the preferential tax rate enjoyed by the relevant offshore entity. Although Xunlei Computer is currently wholly owned by Xunlei Network HK, we cannot assure you that we will be able to enjoy the preferential withholding tax rate of 5% under the China-HK Taxation Arrangement.

Regulation on labor laws and social insurance

Pursuant to the PRC Labor Law and the PRC 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 sanitation, strictly abide by 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 liabilities. Criminal liability may arise for serious violations.

In addition, employers in China are obliged to provide employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, work-related injury insurance, medical insurance and housing funds.

To comply with these laws and regulations, we have caused all of our full-time employees to enter into labor contracts and provide our employees with the proper welfare and employment benefits.

Regulation on foreign exchange control and administration

Foreign exchange regulation in the PRC is primarily governed by the following regulations:

- *Foreign Exchange Administration Rules*, or the Exchange Rules, promulgated by the State Council on January 29, 1996, which was amended on January 14, 1997 and on August 5, 2008 respectively; and

- *Administration Rules of the Settlement, Sale and Payment of Foreign Exchange*, or the Administration Rules promulgated by the People's Bank of The PRC on June 20, 1996.

Under the Exchange Rules, Renminbi is convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. As for capital account items, such as direct investments, loans, security investments and the repatriation of investment returns, however, the conversion of foreign currency is still subject to the approval of, or registration with, SAFE or its competent local branches; while for the foreign currency payments for current account items, the SAFE approval is not necessary for the conversion of Renminbi except as otherwise explicitly provided by laws and regulations. Under the Administration Rules, enterprises may only buy, sell or remit foreign currencies at banks that are authorized to conduct foreign exchange business after the enterprise provides valid commercial documents and relevant supporting documents and, in the case of certain capital account transactions, after obtaining approval from SAFE or its competent local branches. Capital investments by enterprises outside of the PRC are also subject to limitations, which include approvals by or registration with the Ministry of Commerce, SAFE and the National Development and Reform Commission, or their respective competent local branches. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a band against a basket of certain foreign currencies.

On August 29, 2008, SAFE issued 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 No. 142. Pursuant to Circular No. 142, the Renminbi capital from the settlement of foreign currency capital of a foreign-invested enterprise must be used within the business scope as approved by the applicable government authority and unless it is otherwise provided by law, such Renminbi capital cannot be used for domestic equity investment. Documents certifying the purposes of the settlement of foreign currency capital into Renminbi, including a business contract, must also be submitted for the settlement of the foreign currency. In addition, SAFE strengthened its oversight of the flow and use of the Renminbi capital converted from foreign currency registered capital of a foreign-invested company. The use of such Renminbi capital may not be altered without the SAFE's approval, and such Renminbi capital may not be used to repay Renminbi loans if such loans have not been used. Violations of the Circular No. 142 could result in severe monetary fines or penalties. In March 2015, SAFE issued SAFE Circular No. 19, which took effect on June 1, 2015 and replaced SAFE Circular No. 142 and subsequently issued the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Policy on the Management of Foreign Exchange Settlement under Capital Account, or SAFE Circular No. 16 on June 9, 2016. Although SAFE Circular No. 19 and SAFE Circular No. 16 allow the use of RMB converted from the foreign currency-denominated capital for equity investments in the PRC, the restrictions continue to apply as to foreign-invested enterprises' use of the converted RMB for purposes beyond the business scope, issuing loans to non-associated companies (except the cases expressly allowed in the business scope), or issuing inter-company RMB loans.

On November 19, 2012, SAFE promulgated the *Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment*, or Circular 59, which became effective on December 17, 2012. Circular 59 substantially amends and simplifies the current foreign exchange procedure. The major developments under Circular 59 are that the opening of various special purpose foreign exchange accounts (e.g. pre-establishment expenses account, foreign exchange capital account, guarantee account) no longer requires the approval of SAFE. Furthermore, multiple capital accounts for the same entity may be opened in different provinces, which was not possible before the issuance of Circular 59. Reinvestment of RMB proceeds by foreign investors in the PRC no longer requires SAFE approval or verification, and remittance of foreign exchange profits and dividends by a foreign-invested enterprise to its foreign shareholders no longer requires SAFE approval.

On May 10, 2013, SAFE promulgated the *Circular on Printing and Distributing the Provisions on Foreign Exchange Administration over Domestic Direct Investment by Foreign Investors and the Supporting Documents*, which specifies that the administration by SAFE or its local branches over direct investment by foreign investors in the PRC shall be conducted by way of registration. Institutions and individuals shall register with SAFE and/or its branches for their direct investment in the PRC. Banks shall process foreign exchange business relating to the direct investment in the PRC based on the registration information provided by SAFE and its branches.

In February 2015, SAFE promulgated the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Policies Concerning Foreign Exchange Control on Direct Investment, or SAFE Circular No. 13, which took effect on June 1, 2015. SAFE Circular No. 13 delegates the authority to enforce the foreign exchange registration in connection with the inbound and outbound direct investment under relevant SAFE rules to certain banks and therefore further simplifies the foreign exchange registration procedures for inbound and outbound direct investment. On April 26, 2016, SAFE issued the Circular of the State Administration of Foreign Exchange on Further Promoting Trade and Investment Facilitation and Improving Authenticity Review, which provides that for outward remittances of the profit equivalent of more than US$ 50,000 (exclusive) by domestic institutions, banks shall review the relevant board resolution (or the partnership resolution) on profit distribution, the original copies of tax return forms and the financial statements evidencing the profits, in accordance with the principle of authentic transactions.

In January 2017, SAFE promulgated *the Circular on Further Improving the Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification*, or SAFE Circular 3, which provides several capital control measures with respect to the outbound remittance of profit from domestic entities to offshore entities, including (i) under the principle of genuine transaction, banks should check board resolutions regarding profit distribution, the original version of tax filing records and audited financial statements; and (ii) domestic entities should hold income to account for previous years' losses before remitting the profits. Furthermore, according to SAFE Circular 3, domestic entities should make detailed explanations of the sources of capital and utilization arrangements, and provide board resolutions, contracts and other proof when completing the registration procedures in connection with an outbound investment.

On October 23, 2019, SAFE promulgated the Circular on Further Facilitating Cross-border Trade and Investment, or SAFE Circular 28. Pursuant to SAFE Circular 28, restrictions on domestic equity investments made with capital funds by non-investing foreign-funded enterprises and restrictions on the use of funds in domestic asset realization accounts for foreign exchange settlement are cancelled.

Regulation on foreign exchange registration of offshore investment by PRC residents

On October 21, 2005, SAFE issued the *Circular on Several Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investments via Overseas Special Purpose Companies*, or Circular No. 75, which went into effect on November 1, 2005. Circular No. 75 and related rules provide that if PRC residents establish or acquire direct or indirect interests of offshore special purpose companies, or offshore SPVs, for the purpose of financing these offshore SPVs with assets of, or equity interests in, an enterprise in the PRC, or inject assets or equity interests of PRC entities into offshore SPVs, they must register with local SAFE branches with respect to their investments in offshore SPVs. Circular No. 75 also requires PRC residents to file changes to their registration if their offshore SPVs undergo material events such as capital increase or decrease, share transfer or exchange, merger or division, long-term equity or debt investments, and provision of guaranty to a foreign party. SAFE promulgated *the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles*, or SAFE Circular No. 37, on July 4, 2014, which replaced the SAFE Circular No. 75. SAFE Circular No. 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular No. 37 as a "special purpose vehicle." The term "control" under SAFE Circular No. 37 is broadly defined as the operation rights, beneficiary rights or decision-making rights acquired by the PRC residents in the offshore special purpose vehicles or PRC companies by such means as acquisition, trust, proxy, voting rights, repurchase, convertible bonds or other arrangements. SAFE Circular No. 37 further requires amendment to the registration in the event of any changes with respect to the basic information of the special purpose vehicle, such as changes in a PRC resident individual shareholder, name or operation period, or any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. If the shareholders of the offshore holding company who are PRC residents do not complete their registration with the local SAFE branches, the PRC subsidiaries may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to the offshore company, and the offshore company may be restricted in its ability to contribute additional capital to its PRC subsidiaries. Moreover, failure to comply with SAFE registration and the amendment requirements described above could result in liability under PRC law for the evasion of applicable foreign exchange restrictions. On February 13, 2015, SAFE issued SAFE Circular No. 13, which took effect on June 1, 2015. SAFE Circular No. 13 has delegated to the qualified banks the authority to register all PRC residents' investment in "special purpose vehicle" pursuant to the SAFE Circular No. 37, except that those PRC residents who have failed to comply with the SAFE Circular No. 37 will continue to fall within the jurisdiction of the relevant local SAFE branches and must make their supplementary registration application with such local SAFE branches.

We have requested PRC residents holding direct or indirect interest in our company to our knowledge to make the necessary applications, filings and amendments as required under Circular No. 37 and other related rules. However, we may not be informed of the identities of all the PRC residents holding direct or indirect interest in our company, and we cannot provide any assurances that these PRC residents will comply with our request to make or obtain any applicable registrations or comply with other requirements required by Circular No. 37 or other related rules. The failure or inability of our PRC resident shareholders to make any required registrations or comply with other requirements under Circular No. 37 and other related rules may subject such PRC residents or our PRC subsidiaries to fines and legal sanctions and may also limit our ability to raise additional financing and contribute additional capital into or provide loans to (including using the proceeds from our initial public offering) our PRC subsidiaries, limit our PRC subsidiaries' ability to pay dividends or otherwise distribute profits to us, or otherwise adversely affect us.

Regulation on employee share options

On December 25, 2006, the People's Bank of China promulgated the *Administrative Measures for Individual Foreign Exchange*. On February 15, 2012, SAFE issued 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 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 according to the stock incentive plans are required to register with 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 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 SAFE or its local branches.

Our PRC citizen employees who have been granted share options or restricted shares, or PRC grantees, are subject to the Stock Option Rules. If we or our PRC grantees fail to comply with the Individual Foreign Exchange Rule and the Stock Option Rules, we and/or our PRC grantees may be subject to fines and other legal sanctions. We may also face regulatory uncertainties that could restrict our ability to adopt additional share incentive plans for our directors and employees under PRC law. In addition, the State Administration for Taxation has issued certain circulars concerning employee share awards. Under these circulars, our employees working in the PRC who exercise share options or hold the vested restricted shares will be subject to PRC individual income tax. Our PRC subsidiaries have obligations to file documents related to employee share awards with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options or hold the vested restricted shares. If our employees fail to pay or we fail to withhold their income taxes according to relevant laws and regulations, we may face sanctions imposed by the tax authorities or other PRC government authorities.

Regulation on dividend distributions

The Company Law primarily governs the distribution of dividends paid by wholly foreign-owned enterprises after the Foreign Investment Law of the People's Republic of China and Regulation on the Implementation of the Foreign Investment Law of the People's Republic of China came into effect. Under the Company Law, enterprises in the PRC may pay dividends only out of their accumulated profits, if any, as determined in accordance with PRC accounting standards and regulations. In addition, an enterprise in the PRC is required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its statutory common reserves until its cumulative total reserve funds reaches 50% of its registered capital.

Regulation on overseas listings

On August 8, 2006, six PRC regulatory agencies, namely, the Ministry of Commerce, the State Assets Supervision and Administration Commission, the State Administration for Taxation, SAIC, CSRC and SAFE, jointly adopted *the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors*, or the M&A Rules, which became effective on September 8, 2006 and were amended on June 22, 2009. The M&A Rules purport, among other things, to require that offshore special purpose vehicles, or SPVs, that are controlled by PRC companies or individuals and that have been formed for overseas listing purposes through acquisitions of PRC domestic interest held by such PRC companies or individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange. On September 21, 2006, the CSRC published a notice on its official website specifying documents and materials required to be submitted to it by SPVs seeking CSRC approval of their overseas listings. While the application of the M&A Rules remains unclear, our PRC legal counsel has advised us that based on its understanding of the current PRC laws, rules and regulations and the M&A Rules, prior approval from the CSRC is not required under the M&A Rules for the listing and trading of our ADSs on the NASDAQ Global Select Market given that (i) our PRC subsidiaries were directly established by us as wholly foreign-owned enterprises, and we have not acquired any equity interest or assets of a PRC domestic company owned by PRC companies or individuals as defined under the M&A Rules that are our beneficial owners after the effective date of the M&A Rules, and (ii) no provision in the M&A Rules clearly classifies the contractual arrangements as a type of transaction subject to the M&A Rules.

However, our PRC legal counsel has further advised us uncertainties still exist as to how the M&A Rules will be interpreted and implemented and its opinions summarized above are subject to any new laws, rules and regulations or detailed implementations and interpretations in any form relating to the M&A Rules. If CSRC or another PRC regulatory agency subsequently determines that prior CSRC approval was required for our initial public offering, we may face regulatory actions or other sanctions from CSRC or other PRC regulatory agencies. These regulatory agencies may impose fines and penalties on our operations, limit our operating privileges, delay or restrict the repatriation of the proceeds from our initial public offering into the PRC or payment or distribution of dividends by our PRC subsidiaries, or take other actions that could materially adversely affect our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ADSs. In addition, if CSRC later requires that we obtain its approval for our initial public offering, we may be unable to obtain a waiver of CSRC approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties or negative publicity regarding CSRC approval requirements could have a material adverse effect on the trading price of our ADSs.

Regulation on initial coin offerings

On September 4, 2017, People’s Bank of China, the Office of the Central Leading Group for Cyberspace Affairs, the MIIT, the State Administration for Industry and Commerce, the China Banking Regulatory Commission, the China Securities Regulatory Commission, and the China Insurance Regulatory Commission jointly promulgated the Announcement on Prevention of Token Fundraising Risks to strengthen the administration of the initial coin offerings activities. Pursuant to the announcement, “fundraising through token offerings” is referred to as a type of fundraising activities where an issuer raises “virtual currencies” such as Bitcoin or Ether from investors through the illegal issuance and subsequent circulation of tokens. Pursuant to the announcement, token fundraising activity is essentially an illegal public fundraising activity without obtaining government’s approval. It is a suspected illegal offering of tokens, illegal offering of securities, illegal fundraising, financial fraud, pyramid scheme, which are criminal offenses under the PRC law. The announcement prohibits fundraising activities through token issuance. In addition, the announcement also provides that token trading platform should not be engaged in (i) the exchange between any statutory currency with tokens and “virtual currencies,” (ii) the trading, either as a central counterparty or not, of the tokens or “virtual currencies,” and (iii) token or “virtual currency” pricing, information intermediary services or other services for tokens or “virtual currencies.”

We launched the LinkToken business in 2017 and disposed of such business to an independent third party in April 2019. We do not believe that we engaged in token fundraising activities by virtue of carrying out LinkToken operations prior to our disposal of such operations, nor do we believe that we would have been deemed to be a token trading platform, which is operated under a completely different business model. To date, no governmental financial regulators have imposed any administrative penalties against us relating to LinkTokens on the basis that we engaged in token fundraising activities. In April 2020, we launched our own reward program, which allows users to contribute their idle bandwidth capacity in exchange for a small amount of cash rewards. See "Item 4. Information on the Company—B. Business Overview—Our Platform—Cloud Computing" for more information on LinkToken and "Item 3. Key Information—D. Risk Factors—Regulatory uncertainties exist with respect to our previous LinkToken operations, which may have a material adverse effect on our business and results of operations" for regulatory uncertainties and risks relating to our previous LinkToken operations.

Regulation on blockchain information services

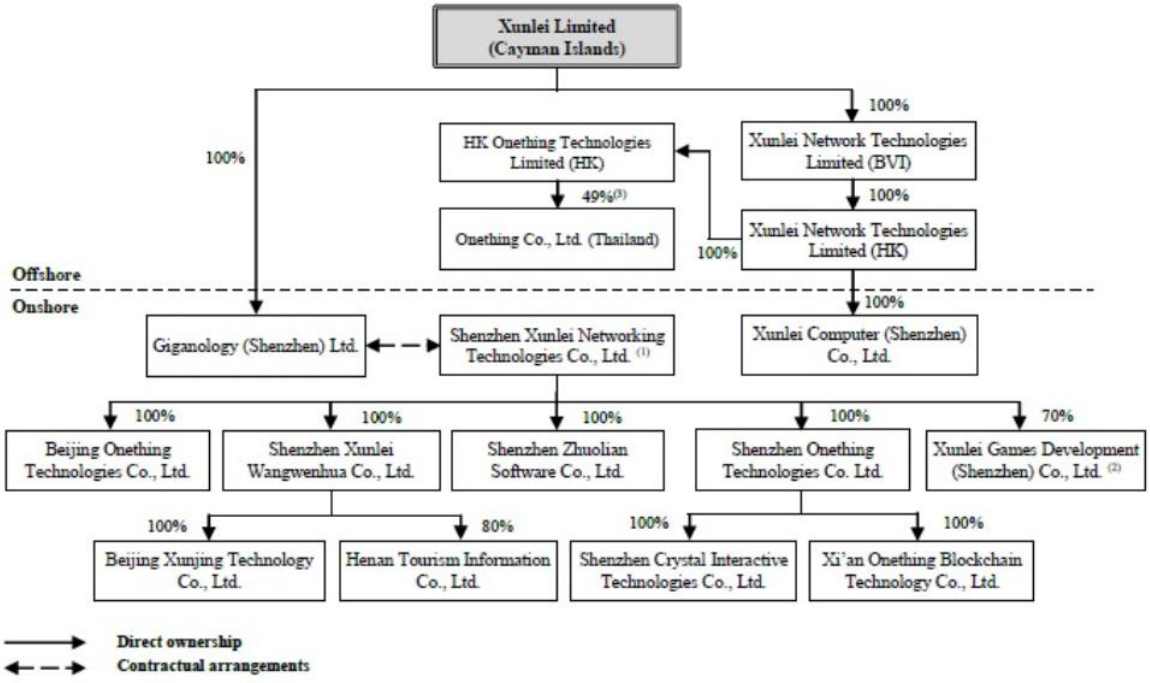
On January 10, 2019, the Cyberspace Administration of China, or CAC, issued the Provisions on the Administration of Blockchain Information Services, or the Blockchain Provisions, which came into effect on February 15, 2019. Pursuant to the Blockchain Provisions, a blockchain information service provider is required to file particulars of such service provider including its name, service category, service form, application field, and server address with the blockchain information service filing management system managed by the CAC and go through filing procedures within ten business days after it starts to provide services. After completing the filing procedure, the blockchain information service provider should display the filing number in a conspicuous position on the service provider's websites and applications through which it provides services. Service providers that had already started to provide blockchain information services before the Blockchain Provisions became effective are required to do make-up filings within 20 business days after the Blockchain Provisions became effective. As of the date of this annual report, we had obtained the initial record-filing number.

In addition, the Blockchain Provisions also imposed an array of obligations to the providers of blockchain information services. For example, blockchain information service providers are required to set up various rules and procedures in terms of user registration, information verification, emergency response, and safeguard measures. Blockchain information service providers are also required to formulate and publish blockchain platform management rules and enter into a service agreement with users of blockchain information services. In addition, blockchain information service providers are obligated to verify the real name of the users of blockchain information services and are prohibited to offer services to users who fail to provide information relating to their real identity. Failure to comply with relevant requirements in the Blockchain Provisions may subject blockchain information service providers to administrative penalties such as warning, being ordered to temporarily suspend relevant business operations to rectify within prescribed time period, or fines, or criminal liabilities, depending on which provisions are violated.

On October 24, 2019, the Political Bureau of the CPC Central Committee carried out the 18th collective learning on the current situation and trend of blockchain technology development, and President Xi Jinping emphasized that the integrated application of blockchain technology played an important role in new technological innovation and industrial transformation in China.

C. Organizational Structure

The following diagram illustrates our corporate structure, including our variable interest entity and our principal subsidiaries and principal subsidiaries of our variable interest entity, as of the date of this annual report on Form 20-F:



Notes:

(1) Shenzhen Xunlei is our variable interest entity. Mr. Sean Shenglong Zou, our co-founder and director, Mr. Hao Cheng, our co-founder and director, Mr. Jianming Shi, Guangzhou Shulian Information Investment Co., Ltd. and Ms. Fang Wang respectively own 76.0%, 8.3%, 8.3%, 6.7% and 0.7% of Shenzhen Xunlei's equity interests.

(2) The remaining 30% of the equity interest is owned by Mr. Hao Cheng.

(3) The 49% of the shares of Onething Co., Ltd. held by HK Onething Technologies Limited has 90.57% of the total voting power of all shares.

Contractual arrangements with Shenzhen Xunlei

Agreements that provide us effective control over Shenzhen Xunlei

Business operation agreement

Pursuant to the business operation agreement among Giganology Shenzhen, Shenzhen Xunlei and the shareholders of Shenzhen Xunlei, as amended, Shenzhen Xunlei's shareholders must appoint the candidates nominated by Giganology Shenzhen to be the directors on its board of directors in accordance with applicable laws and the articles of association of Shenzhen Xunlei, and must cause the persons recommended by Giganology Shenzhen to be appointed as its general manager, chief financial officer and other senior executives. Shenzhen Xunlei and its shareholders also agree to accept and strictly follow the guidance provided by Giganology Shenzhen from time to time relating to employment, termination of employment, daily operations and financial management. Moreover, Shenzhen Xunlei and its shareholders agree that Shenzhen Xunlei will not engage in any transactions that could materially affect its assets, business, personnel, liabilities, rights or operations, including but not limited to the amendment of Shenzhen Xunlei's articles of association, without the prior consent of Giganology Shenzhen and Xunlei Limited or their respective designees. For instance, in May 2011, Shenzhen Xunlei sought and obtained consent from Giganology Shenzhen and Xunlei Limited to increase its registered capital by RMB20 million and to revise its articles of association accordingly. This agreement will expire in 2026.

Equity pledge agreement

Pursuant to the equity pledge agreement between Giganology Shenzhen and the shareholders of Shenzhen Xunlei, as amended, the shareholders of Shenzhen Xunlei have pledged all of their equity interests in Shenzhen Xunlei to Giganology Shenzhen to guarantee Shenzhen Xunlei and its shareholders' performance of their respective obligations and any ensuing liabilities under the exclusive technology support and service agreement, as amended, the exclusive technology consulting and training agreement, as amended, the proprietary technology license agreement, the business operation agreement, as amended, the equity interests disposal agreement, as amended, the loan agreements, as amended, and the intellectual properties purchase option agreement, as amended. In addition, the shareholders of Shenzhen Xunlei have completed the registration of equity pledge under the equity pledge agreement with the competent governmental authority. If Shenzhen Xunlei and/or its shareholders breach their contractual obligations under those agreements, Giganology Shenzhen, as pledgee, will be entitled to certain rights, including the right to sell the pledged equity interests.

Powers of attorney

Pursuant to the irrevocable powers of attorney executed by each shareholder of Shenzhen Xunlei, each such shareholder appointed Giganology Shenzhen as its attorney-in-fact to exercise such shareholders' rights in Shenzhen Xunlei, including, without limitation, the power to vote on its behalf on all matters of Shenzhen Xunlei requiring shareholder approval in accordance with PRC laws and regulations and the articles of association of Shenzhen Xunlei. Each power of attorney will remain in force for 10 years from the date of execution unless the business operation agreement, as amended, among Giganology Shenzhen, Shenzhen Xunlei and the shareholders of Shenzhen Xunlei is terminated at an earlier date. The term may be extended at Giganology Shenzhen's discretion.

Agreements that transfer economic benefits to us

Exclusive technology support and services agreement

Pursuant to the exclusive technology support and services agreement between Giganology Shenzhen and Shenzhen Xunlei, as amended, Giganology Shenzhen has the exclusive right to provide to Shenzhen Xunlei technology support and technology services related to all technologies needed for its business. Giganology Shenzhen exclusively owns any intellectual property rights resulting from the performance of this agreement. The service fee payable by Shenzhen Xunlei to Giganology Shenzhen is a certain percentage of its earnings. This agreement will expire in 2025 and may be extended with Giganology Shenzhen's written confirmation prior to the expiration date. Giganology Shenzhen is entitled to terminate the agreement at any time by providing 30 days' prior written notice to Shenzhen Xunlei.

Exclusive technology consulting and training agreement

Pursuant to the exclusive technology consulting and training agreement between Giganology Shenzhen and Shenzhen Xunlei, as amended, Giganology Shenzhen has the exclusive right to provide to Shenzhen Xunlei technology consulting and training services related to its business. Giganology Shenzhen exclusively owns any intellectual property rights resulting from the performance of this agreement. The service fee payable by Shenzhen Xunlei to Giganology Shenzhen is a certain percentage of its earnings. This agreement will expire in 2025 and may be extended with Giganology Shenzhen's written confirmation prior to the expiration date. Giganology Shenzhen is entitled to terminate the agreement at any time by providing 30 days' prior written notice to Shenzhen Xunlei.

Proprietary technology license contract

Pursuant to the proprietary technology license contract between Giganology Shenzhen and Shenzhen Xunlei, Giganology Shenzhen grants Shenzhen Xunlei a non-exclusive and non-transferable right to use Giganology Shenzhen's proprietary technology. Shenzhen Xunlei can only use the proprietary technology to conduct its business within China. Giganology Shenzhen or its designated representative(s) owns the rights to any improvements developed based on the proprietary technology licensed pursuant to this contract. This agreement will expire in 2022 and, at Giganology Shenzhen's discretion, may be extended for an additional 10 years or for other time period as agreed by both Giganology Shenzhen and Shenzhen Xunlei.

Intellectual properties purchase option agreement

Pursuant to the intellectual properties purchase option agreement between Giganology Shenzhen and Shenzhen Xunlei, as amended, Shenzhen Xunlei irrevocably grants Giganology Shenzhen (or its designated representative(s)) an exclusive option to purchase certain specified intellectual properties that it owns for RMB1.0 or the minimum amount of consideration permitted under the PRC law. This agreement will expire in 2022 and may be automatically extended for an additional 10 years at each expiration date as long as these intellectual properties have not been transferred to Giganology Shenzhen and/or its designee and Shenzhen Xunlei then still exist.

Agreements that provide us the option to purchase the equity interest in Shenzhen Xunlei

Equity interests disposal agreement

Pursuant to the equity interests disposal agreement among Giganology Shenzhen, Shenzhen Xunlei and the shareholders of Shenzhen Xunlei, as amended, Shenzhen Xunlei's shareholders irrevocably grant Giganology Shenzhen (or its designated representative(s)) an exclusive option to purchase all or part of their equity interests in Shenzhen Xunlei for RMB1.0 or the minimum amount of consideration permitted under PRC law. This agreement will expire in 2026.

Loan agreements

Under the loan agreement between Giganology Shenzhen and Guangzhou Shulian Information Investment Co., Ltd., Sean Shenglong Zou, Hao Cheng, Fang Wang and Jianming Shi, as amended, Giganology Shenzhen made interest-free loans of approximately RMB1.8 million, RMB2.5 million, RMB2.3 million, RMB0.2 million and RMB2.3 million, respectively, to each of the above shareholders of Shenzhen Xunlei and all of these shareholders have used the full amount of loans to make capital contribution to Shenzhen Xunlei. The term of this agreement is two years from the date it was signed, and will be automatically extended afterwards on a yearly basis until each shareholder of Shenzhen Xunlei has repaid the loan in its entirety in accordance with the loan agreement. The loan for each shareholder will be deemed to be repaid under this agreement only when all equity interest held by the relevant shareholder in Shenzhen Xunlei has been transferred to Giganology Shenzhen or its designated parties. As of the date of this annual report, all the loans under the loan agreements remain outstanding. At any time during the term of the loan agreement, Giganology Shenzhen may, at its sole discretion, require any of the shareholders of Shenzhen Xunlei to repay all or any portion of his outstanding loan under the agreement.

In addition, following the loan agreement mentioned above, under a separate loan agreement between Giganology Shenzhen and Mr. Sean Shenglong Zou as a shareholder of Shenzhen Xunlei, as amended, Giganology Shenzhen made an additional interest-free loan of RMB20 million to Mr. Zou, the entire amount of which was used to contribute to the registered capital of Shenzhen Xunlei, increasing the registered capital of Shenzhen Xunlei to RMB30 million. The term of this agreement is two years from the date it was signed, and will be automatically extended afterwards on a yearly basis until Mr. Zou has repaid the loan in its entirety in accordance with the loan agreement. This loan will be deemed to be repaid under this agreement only when all equity interest held by the relevant shareholder in Shenzhen Xunlei has been transferred to Giganology Shenzhen or its designated parties. At any time during the term of the loan agreement, Giganology Shenzhen may, at its sole discretion, require all or any portion of the outstanding loan under the agreement to be repaid.

In the opinion of King & Wood Mallesons, our PRC legal counsel:

- the ownership structures of our variable interest entity and our subsidiaries in China comply all applicable PRC Laws and regulations currently in effect; and

- the contractual arrangements among Giganology Shenzhen, our PRC subsidiary, Shenzhen Xunlei and its shareholders governed by PRC law are valid, binding and enforceable in accordance with the contractual arrangements' terms, and will not result in any violation of PRC laws or regulations currently in effect.

We have been advised by King & Wood Mallesons, our PRC legal counsel, 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 to provide digital media data transmission and streaming services, online games and other value-added telecommunication services 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 related to our corporate structure—If the PRC government finds that the agreements that establish the structure for operating our businesses in China do not comply with PRC governmental restrictions on foreign investment in internet-related business and foreign investors' mergers and acquisition activities in China, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations."

D. Property, Plant and Equipment

Our principal executive offices are located at 21-23/F Block B, Building No.12, No.18 Shenzhen Bay ECO-Technology Park, Keji South Road, Yuehai Street, Nanshan District, Shenzhen, the People's Republic of China, which comprises approximately 7,575 square meters of office space. In addition to other offices in Shenzhen, we also have offices in Beijing, totaling approximately 9,510 square meters. Our leased premises are leased from unrelated third parties who have valid title to the relevant properties. The lease for our principal executive offices will expire in December 2021, and the other leases typically have terms of one to three years. Our servers are primarily hosted at internet data centers owned by major domestic internet data center providers. The hosting services agreements typically have one-year terms and are renewed upon expiration. We believe that we will be able to obtain adequate facilities to accommodate our future expansion plans. In addition, we expect to complete the construction of our headquarters building by the end of 2021 or early 2022 and relocate our principal executive offices to the new building afterwards.

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 on Form 20-F. This report contains forward-looking statements. See "Forward-looking Information." 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 on Form 20-F. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties. Unless otherwise specified, the results presented in this annual report do not include Xunlei Kankan and web game business, which have been classified as discontinued operations. In 2019, we started to operate web game business again under a different business model by cooperating with a third party. Revenues from web game business has been included in the continuing operations.

A. Operating Results

Overview

We operate a powerful internet platform in China based on cloud computing to enable our users to quickly access, manage and consume digital media content on the internet. In recent years, we have expanded our products and services from PC-based devices to mobile devices in part through pre-installed acceleration plug-ins on mobile phones to further enlarge our user base and offer our users a wider range of access points. In addition, we have also started to provide blockchain products and services since 2018.

We provide users with quick and easy access to digital media content on the internet through two core products and services, available to users for free and for a subscription fee, respectively. Our acceleration products and services include Xunlei Accelerator and our cloud acceleration-based subscription services (delivered through our product, Green Channel). Benefitting from the large user base accumulated by our core product, Xunlei Accelerator, we have further developed cloud computing services and various other value-added services to meet a fuller spectrum of our users' digital media content access and consumption needs. These value-added products and services primarily include our live streaming services and online game services. In July 2015, we completed the divesture of our entire stake in our online video streaming platform, Xunlei Kankan, to Beijing Nesound International Media Corp., Ltd., an independent third party.

We generate revenues primarily through the following services:

- *Service revenue*. We generate revenue from various services we offer to users and clients. The services we offer primarily include acceleration subscription services, online advertising services and other internet value-added services.

- *Subscription services*. We provide cloud acceleration subscription services for subscribers to enable faster and more reliable access to digital media content. Revenues from subscription services contributed to 45.1% of our revenue in 2020. Subscription fees are time-based and are primarily collected up-front from subscribers on a monthly or yearly basis.

- *Online advertising services (including mobile advertising)*. We provide marketing opportunities on our PC websites and mobile platform to advertisers. In May 2020, we have outsourced our advertising business to a subsidiary of Itui, our largest shareholder. Online advertising revenues contributed to 7.1% of our revenue in 2020. The revenues are derived principally from various forms of advertisements that were placed on our mobile platform.

- *Cloud computing and other internet value-added services*. Other internet value-added services primarily include live streaming services and online game services. Revenues from cloud computing and other internet value-added services accounted for 47.0% of our total revenue in 2020.

- *Product revenue*. We sell hardware devices mainly related to our cloud computing services, such as OneThing Cloud. Product revenue contributed 0.8% of our revenue in 2020.

Our revenues decreased from US$232.1 million in 2018 to US$181.3 million in 2019 and increased to US$186.7 million in 2020. We had a net loss attributable to Xunlei Limited of US$39.3 million, US$53.2 million and US$13.8 million in 2018, 2019 and 2020, respectively. Xunlei Kankan and web game business are accounted for as discontinued operations due to the sale of those two businesses and our consolidated statements of comprehensive income/(loss) in this annual report separately classify the discontinued operations from our remaining business operations for all years presented. Since 2019, we have started to operate web game business again under a different business model by cooperating with third parties. Revenues from web game business have been included in the continuing operations.

Major factors affecting our results of operations

Our business and operating results are subject to general factors affecting the internet industry in China, including overall economic growth, which has resulted in increases in disposable income and consumer spending, government and industry initiatives accelerating the technological advancement and growth of internet industry, the growth of internet usage and penetration rate in China, strong preference of Chinese consumers for accessing digital media content through the internet, the greater availability of digital media content on the internet, and the increasing acceptance of online advertising as part of advertisers' overall marketing strategy and spending. Our results of operations will continue to be affected by such general factors.

Our results of operations are also directly affected by a number of company-specific factors, including:

Our ability to continue to enhance and innovate our service offerings, including our mobile products and our cloud computing services.

As our industry evolves rapidly and user preference for our services may change quickly, our revenues and results of operations significantly depend on our ability to continue enhancing and expanding our service offerings to meet evolving user preference and market demand, and to broaden our user base. We have a proven track record of developing our service offerings to successfully address the preferences of China's internet users. To address deficiencies of digital media content transmission over the internet in China, we provide users with quick and easy access to digital media content on the internet through two core products and services, Xunlei Accelerator and our cloud acceleration subscription services, available to users for free and for a subscription fee, respectively. To meet our users' digital media content access and consumption needs, we have further developed various value-added services, including online game and live streaming services. Furthermore, we focus more on user behaviors and study users' life cycles on our platform, so that we can offer relevant services at the right time and encourage users to continue using our services.

An important part of our business plan is to continue transitioning to mobile internet. As an increasing number of users are accessing online services through mobile devices, we are increasingly expanding our services to mobile devices, particularly through cooperation with smartphone makers, including Xiaomi, which currently offers our mobile acceleration plug-in pre-installed on its new phones and as updates on its existing phones. We intend to further work with more smartphone makers in China so that a larger number of mobile users can benefit from our mobile products, including acceleration and higher downloading success rates.

We have also launched our cloud computing project to allocate idle uplink capacity to internet content providers and other internet users in need. We gather idle uplink capacity from internet users who have bought and connected our proprietary ZQB and OneThing Cloud devices to their network router. ZQB and OneThing Cloud devices can allocate those users' idle computing resources to us for our further allocation to internet content providers and other internet users. We pay users of our ZQB device for the use of their idle computing resources. Users of our OneThing Cloud can also receive a small amount of cash by participating in our own cash reward program, which allows us to crowdsource their idle computing resources. The computing resources gathered from ZQB and OneThing Cloud devices are valuable resources that we target to commercialize with potential customers such as streaming websites and app stores. Depending on our own needs, we also utilize those crowdsourced capacities for our own business from time to time, reducing our purchase of bandwidth from traditional third-party carriers.

Our ability to further monetize our user base.

Our revenues and results of operations depend on our ability to further monetize our user base, to convert more users to subscribers and to increase the spending of our subscribers. With enhanced knowledge of user behavior and preferences, we offer a diverse range of premium services tailored to their individual needs. For example, our cloud acceleration subscription services offer users value-added services for speed. We intend to further monetize our user base and aim to convert users to subscribers by expanding our offering of value-added services, such as cloud-based storage and mobile access. We plan to provide one-stop services for our users, in terms of accessing content and storage and synchronization of content across devices, including mobile devices and PC.

Our ability to maintain our technology leadership and cost-efficient infrastructure.

Our results of operations depend on our ability to maintain our technology leadership, with innovations such as our mobile technology, our uplink capacity crowdsourcing technology and our cloud acceleration technology. Our mobile technology allows users to access content from anywhere, our uplink capacity crowdsourcing technology enables us to utilize the idle capacity available from our large user base, and our cloud acceleration technology enables users to access content in an efficient manner. Our proprietary technology and highly scalable massive distributed computing network form our core competitive advantage, enabling us to deliver superior transmission acceleration services and enhanced user experience anywhere and with an efficient sort of acceleration. Our resource discovery network leverages our distributed computing power, computing and storage capacity and significantly reduces our reliance on servers operated by us. As part of our expansion strategy, we plan to devote substantial resources to research and development in order to better serve our users, particularly to our cloud computing services and mobile products and services. Therefore, the expenses associated with our research and development are expected to increase in the near future. However, we plan to continue to increase the uplink capacity we crowdsource through our cloud computing services, which is expected to reduce our bandwidth cost incurred in our purchase from traditional suppliers, contribute to the cost efficiency of our overall infrastructure and generate additional revenue when we sell those capacity to third parties.

Our ability to control our costs and operating expenses.

Our results of operations depend on our ability to control our costs and operating expenses. We expect our bandwidth costs to increase as we grow our business, in particular CDN business, although we expect such costs to be partly offset by the fact that we expect to source an increasing amount of bandwidth from our cloud computing services. In addition, our operating expenses are expected to increase in the future, since we expect an increase in marketing expense in a competitive environment and an increase in employee compensation to attract talents. We plan to continue to invest in research and development to maintain our technology leadership, especially to increase our research and development expenses and sales and marketing expenses in relation to our cloud computing services.

Description of certain statement of operations items

Revenues

We derive our revenues primarily from cloud acceleration subscription services, selling of cloud computing devices, online advertising services, and cloud computing and other internet value-added services, which consist primarily of cloud computing services, online games services, and live streaming services. The following table sets forth the principal components of our revenues by amounts and percentages of our revenues for the periods presented.

	For the Year Ended December 31,					
	2018		2019		2020	
	US$	%	US$	%	US$	%
	(in thousands, except for percentages)					
Continuing operations						
Subscriptions	81,877	35.3	81,532	45.0	84,299	45.1
Online advertising	27,781	12.0	15,643	8.6	13,206	7.1
Product revenue	54,604	23.5	8,269	4.6	1,412	0.8
Cloud computing and other internet value-added services	67,870	29.2	75,823	41.8	87,766	47.0
Total	232,132	100.0	181,267	100.0	186,683	100.0

Subscriptions. We introduced our cloud acceleration subscription services in March 2009. We generate revenues from providing our users with exclusive services, such as access to high-speed online transmission, premium acceleration or access privileges, for a time-based subscription fee. The standard subscription fee is RMB10 (US$1.4) per month or RMB99 (US$14.3) per year, and we also offer premium subscription packages with prices at RMB15 (US$2.2) per month or RMB149 (US$21.6) per year or RMB30 (US$4.3) per month or RMB288 (US$41.7) per year to cater to subscribers' different demand for acceleration speed and user experience, which are becoming increasingly popular among our subscribers. Our subscription revenues, as a percentage of our revenues, increased from 35.3% in 2018 to 45.0% in 2019 and further increased to 45.1% in 2020.

The most significant factor that directly affects our subscription revenues is the number of subscribers. We may maintain our subscriber base in the future by expanding our offering of fee-based services, but important factors outside of our control, such as the PRC government's regulation and censorship of information disseminated over the internet, may have a material adverse impact on our cloud acceleration services, which in turn may have an adverse effect on the number of our subscribers and on our revenues and results of operations. For example, in April 2014, the Chinese government initiated a campaign to enhance and enforce its scrutiny on internet content in China, particularly for pornographic content, and various websites were subject to penalties and in some cases outright suspension of website operations. We regularly conducted internal compliance investigation to ensure that the content transmitted by our products is in compliance with the strict standards set out by the authorities. We deleted millions of cached files, added thousands of keywords to our automatic keyword filtration system and permitted temporary suspension of services by approximately 175,000 existing subscribers as of the end of 2020. See "Item 3. Key Information—D. Risk Factors—Risks related to doing business in China—Regulation and censorship of information disseminated over the internet in China have adversely affected our business and may continue to adversely affect our business, and we may be liable for the digital media content on our platform." In the future, there may be other laws and regulations that lead to further voluntary or forced removal of content or other measures to ensure compliance with standards set out by relevant regulatory authorities, which may further reduce our subscriber base. To date, we have not been able to quantify the magnitude and extent of such impact.

Online advertising. Our online advertising revenues are derived from various forms of advertisements that were placed on our PC websites and mobile platform. A significant majority of our advertisers purchase our online advertising services through third-party advertising agencies. As it is customary in the advertising industry in China, we pay rebates to third-party advertising agencies and recognize revenues net of these rebates.

The revenues from our mobile advertising decreased from US$15.3 million in 2019 to US$13.2 million in 2020, accounting for 98.1% and 99.9% of the online advertising revenues in 2019 and 2020, respectively. We expect the revenues from mobile advertising will account for the majority of our advertising revenues in the future with our on-going transition to mobile internet. We do not expect to generate a significant amount of other advertising revenues in the foreseeable future. In May 2020, we outsourced our advertising business to Itui, our related party. See "Item 4. Information on the Company—B. Business Overview—Our platform—Advertising services."

Product revenue. Product revenue represents the revenue we generate primarily from the sales of hardware devices and OneThing Cloud, in relation to our cloud computing services. The product revenue decreased from US$8.3 million in 2019 to US$1.4 million in 2020, primarily because we were gradually phasing out the sales of this product while exploring alternative ways for developing distributed cloud computing nodes.

Cloud computing and other internet value-added services. We actively seek new business opportunities that complement our existing core acceleration business to further improve our users' overall experience. Revenues from cloud computing and other internet value-added services increased from US$67.9 million in 2018 to US$75.8 million in 2019 and further to US$87.8 million in 2020.

Revenues of cloud computing and other internet value-added services were generated primarily from our live streaming services, online game services and our cloud computing services. For live streaming services, users purchase virtual gifts from us and send the gifts they purchase to broadcasters to show their support. We recognized revenue from the sales of virtual gifts in an amount of US$20.9 million in 2020. Our online games business used to consist of web games, mobile games and PC-based MMOGs. In light of the overall decline in web game market and a shift of our strategy, we streamlined our business and disposed of our web game business in January 2018 and discontinued our PC-based MMOGs business in July 2018. In 2019, we started to operate web game business again under a business model different from our previous web game business. For cloud computing services, we recognize revenue when we provide bandwidth to our customers. We started to generate revenue from cloud computing services in 2015 and the revenue for the year ended December 31, 2020 increased by 51.4% on a year-over-year basis primarily due to an increased demand for your shared computing service. We expect the revenue from cloud computing and other internet value-added services to increase in the future.

Cost of revenues

Our cost of revenues consists primarily of (i) bandwidth costs, (ii) cost of inventories sold, (iii) cost of live streaming services, (iv) depreciation of servers and other equipment, (v) payment handling charges, and (vi) other costs, including write-down of inventory. The following table sets forth the components of our cost of revenues by amounts and percentages of our revenues for the periods presented:

	For the Year Ended December 31,					
	2018		2019		2020	
	US$	%	US$	%	US$	%
	(in thousands, except for percentages)					
Continuing operations						
Bandwidth costs	48,118	20.7	57,093	31.5	62,384	33.4
Cost of inventories sold	31,634	13.6	7,181	4.0	1,660	0.9
Cost of live streaming services	23,928	10.3	20,734	11.4	15,640	8.4
Depreciation of servers and other equipment	5,018	2.2	5,198	2.9	6,247	3.3
Payment handling charges	3,016	1.3	1,658	0.9	1,459	0.8
Other costs	3,953	1.7	8,049	4.4	5,247	2.8
Total	115,667	49.8	99,913	55.1	92,637	49.6

Bandwidth costs. Bandwidth costs consist of the fees we pay to telecommunications carriers and other service providers for telecommunications services and for hosting our servers at their internet data centers and the fees we compensate users of our ZQB and OneThing Cloud devices for the use of their idle uplink capacity. Bandwidth is a significant component of our cost of revenues. We expect our bandwidth costs to increase, but we expect the rate of increase or the costs as a percentage of revenues would decline as we expect to reply more on crowdsourced bandwidth and further diversify our procurement sources.

For details on our cloud computing services, see "Item 4. Information on the Company—B. Business Overview."

Cost of inventories sold. Cost of inventories sold mainly consists of the cost associated with the sale of hardware devices including OneThing Cloud, in relation to our cloud computing services.

Cost of live streaming services. Cost of live streaming services mainly represents the fees we pay to broadcasters and the talent agencies. We expect such cost to remain relatively stable in the near future.

Depreciation of servers and other equipment. Depreciation expenses for servers and other equipment that are directly related to our business operations and technical support are included in our cost of revenues. We expect our depreciation expenses as a percentage of revenues to decrease as our total revenues are expected to increase, which is also consistent with the industry trend.

Payment handling charges. Payment handling charges are the fees we pay to payment channels for cloud acceleration subscription services, online games and other paid services. Users can make payments for such services through third-party online, fixed phone line and mobile phone payment channels. These third-party payment channels typically charge a handling fee for their services. Our subscribers used to make subscription payments through mobile phones. However, as mobile carriers generally charge higher handling fees than other channels, we have modified our subscription fee structure to encourage our subscribers to use other available payment channels. We expect such payment handling charges as a percentage of revenues to decrease as we continue to optimize our channels for the collection of subscription fee.

Other costs. Other costs mainly include fast bird service cost, which we pay to telecommunication service providers for accelerating service we provide for our subscribers' internet access, impairment cost, which arises from our write-down of inventory based on our assessment.

Operating expenses

Our operating expenses consist of (i) research and development expenses, (ii) sales and marketing expenses, (iii) general and administrative expenses, and (iv) asset impairment loss, net of recoveries. The following table sets forth the components of our operating expenses by amounts and percentages of our revenues for the periods presented:

	For the Year Ended December 31,					
	2018		2019		2020	
	US$	%	US$	%	US$	%
	(in thousands, except for percentages)					
Research and development expenses	76,763	33.1	68,571	37.8	55,463	29.7
Sales and marketing expenses	35,322	15.2	31,820	17.6	18,064	9.7
General and administrative expenses	40,833	17.6	38,930	21.5	33,910	18.2
Asset impairment loss, net of recoveries	6,348	2.7	(2,147)	(1.2)	5,090	2.7
Total	159,266	68.6	137,174	75.7	112,527	60.3

Research and development expenses. Research and development expenses consist primarily of salaries and benefits for our research and development personnel. Expenditures incurred during the research phase are expensed as incurred. Expenditures incurred for the development of the acceleration products prior to the establishment of technological feasibility are expensed when incurred. We expect our research and development expenses to increase in the future as we need to retain talents to develop new products and improve existing products, particularly our cloud computing services, blockchain technology, and our mobile products.

Sales and marketing expenses. Sales and marketing expenses consist primarily of salaries, sales commissions and benefits for our sales and marketing personnel and marketing and promotional expenses. We expect our sales and marketing expenses to increase in the future as we expect to invest in brand enhancement efforts and the promotion of our products and services, particularly as we plan to increase our efforts in promoting our cloud computing services, blockchain technology, Mobile Xunlei and new products under development.

General and administrative expenses. General and administrative expenses consist primarily of salaries and benefits, professional service fees and other administrative expenses. We expect our general and administrative expenses to increase in the future as we expect our business to continue to grow and as a result of general inflation.

Asset impairment loss, net of recoveries. Asset impairment loss, net of recoveries consists of assets written-offs after impairment and recoverability assessment, net of recovered amount of impaired assets. The asset impairment in 2020 represents a one-time write-off of certain receivables and prepayments in relation to our cloud computing business.

Taxation

Cayman Islands

We are incorporated in the 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. In addition, the Cayman Islands does not impose withholding tax on dividend payments.

China

Pursuant to the PRC EIT Law, which became effective on January 1, 2008, a 25% enterprise income tax rate is generally applicable to both foreign-invested enterprises and domestic enterprises, except where a special preferential rate applies.

In April 2009, the State Administration for Taxation, or SAT, issued a circular, which provides that an enterprise that is qualified as the High and New Technology Enterprise, or HNTE, is entitled to apply with the relevant tax authorities to enjoy the reduced enterprise income tax rate of 15%. In January 2016, relevant PRC government authorities further issued qualification criteria, application procedures and assessment processes for the qualification of HNTE. Each of Shenzhen Xunlei, Shenzhen Wangwenhua and Xunlei Computer currently possesses such HNTE certificate. As a result, these three entities are qualified to enjoy a preferential tax rate of 15% for the year ended December 31, 2020. The HNTE certificate possessed by Shenzhen Xunlei and Shenzhen Wangwenhua will expire in December 2023 and the HNTE certificate possessed by Xunlei Computer will expire in 2021. We plan to renew the HNTE certificate held by Xunlei Computer in 2021.

Pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation on the Preferential Corporate Income Tax Policy and Catalogues for Hengqin New Area of Guangdong Province, Pingtan Comprehensive Experimental Area of Fujian Province and Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, enterprises established in, among others, Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone and engaging in businesses that fall within encouraged categories are eligible for a preferential enterprise income tax rate of 15%. Shenzhen Onething is eligible for such preferential enterprise income tax rate. We have completed the required filing procedures for Shenzhen Onething in 2020, and thus Shenzhen Onething enjoyed the preferential enterprise income tax rate of 15% in 2020.

According to a policy of the State Tax Administration of the PRC, enterprises that engage in research and development activities are entitled to claim 175% of the research and development expenses incurred in a year as tax deductible expenses in determining their tax assessable profits for that year, or Super Deduction, during the period from January 1, 2018 to December 31, 2020. Shenzhen Xunlei, Shenzhen Onething, Shenzhen Wangwenhua and Xunlei Computer have been claiming this Super Deduction in ascertaining its tax assessable profits.

Moreover, an announcement issued by the State Administration of Taxation in April 23, 2020 provides that enterprises located in the western provinces and engaged in the qualified industrial activities are entitled to a preferential enterprise income tax rate of 15% upon filing with the in-charge taxation authorities. Our subsidiary, Jiangxi Node Technology Services Co. Ltd., or Jiangxi Node, is eligible for such tax incentive and is in the process of completing the relevant filings. Upon the completion of relevant filings, Jiangxi Node will be entitled to enjoy a preferential enterprise income tax rate of 15% for the next ten years ended December 31, 2030, starting from January 1, 2021.

According to the EIT Law and its implementation rules, foreign enterprises, which have no commercial presence in the PRC but derive dividends, interest, rents, royalties and other income (including capital gains) from sources in the PRC, are subject to a 10% PRC withholding tax, or WHT (a further reduced WHT rate may be available according to the applicable double tax treaty or arrangement). The 10% WHT is generally applicable to any dividends to be distributed from Giganology Shenzhen and Xunlei Computer to us out of any profits of Giganology Shenzhen and Xunlei Computer derived after January 1, 2008. Although Xunlei Computer and Giganology Shenzhen had retained earnings as of December 31, 2019 and December 31, 2020, the directors of the company decided to reinvest the retained earnings permanently in China and therefore no such WHT is required.

In addition, the current EIT Law treats enterprises established outside the PRC with “effective management and control” located in the PRC as PRC resident enterprises for tax purposes. The term “effective management and control” is generally defined as exercising overall management and control over the business, personnel, accounting, properties, etc. of an enterprise. If a company is considered as a PRC resident enterprise for tax purposes, it would be subject to the PRC Enterprise Income Tax at the rate of 25% on its worldwide income after January 1, 2008. As of December 31, 2020, our company has not accrued for PRC tax on such basis. Our company will continue to monitor its tax status.

Results of operations

The following table sets forth a summary of our consolidated results of continuing operations by amounts and percentages of our revenues for the years indicated. This information should be read together with our consolidated financial statements and related notes included elsewhere in this annual report. The results of operations in any period are not necessarily indicative of the results that may be expected for any future period.

	For the Year Ended December 31,					
	2018		2019		2020	
	US$	%	US$	%	US$	%
	(in thousands, except for percentages)					
Net revenues						
Service revenue	177,528	76.5	172,998	95.4	185,271	99.2
Product revenue	54,604	23.5	8,269	4.6	1,412	0.8
Total revenue, net of rebates and discounts	**232,132**	**100.0**	**181,267**	**100.0**	**186,683**	**100.0**
Business taxes and surcharge	(1,528)	(0.7)	(602)	(0.3)	(312)	(0.2)
Total net revenues	230,604	99.3	180,665	99.7	186,371	99.8
Cost of revenues						
Service	(84,033)	(36.2)	(92,732)	(51.1)	(90,977)	(48.7)
Product	(31,634)	(13.6)	(7,181)	(4.0)	(1,660)	(0.9)
Total cost of revenues	(115,667)	(49.8)	(99,913)	(55.1)	(92,637)	(49.6)
Gross profit	**114,937**	**49.5**	**80,752**	**44.6**	**93,734**	**50.2**
Operating expenses						
Research and development expenses	(76,763)	(33.1)	(68,571)	(37.8)	(55,463)	(29.7)
Sales and marketing expenses	(35,322)	(15.2)	(31,820)	(17.6)	(18,064)	(9.7)
General and administrative expenses	(40,833)	(17.6)	(38,930)	(21.5)	(33,910)	(18.2)
Asset impairment loss, net of recoveries	(6,348)	(2.7)	2,147	1.2	(5,090)	(2.7)
Total operating expenses	(159,266)	(68.6)	(137,174)	(75.7)	(112,527)	(60.3)
Operating loss	**(44,329)**	**(19.1)**	**(56,422)**	**(31.1)**	**(18,793)**	**(10.1)**
Interest income	1,183	0.5	1,897	1.1	1,471	0.8
Interest expense	(239)	(0.1)	(75)	(0.0)	(406)	(0.2)
Other income, net	2,810	1.2	5,861	3.2	4,737	2.5
Share of loss from equity investees	(307)	(0.1)	—	—	—	—
Loss from continuing operations before income tax	**(40,882)**	**(17.6)**	**(48,739)**	**(26.8)**	**(12,991)**	**(7.0)**
Income tax benefit	89	—	(4,676)	(2.6)	(1,149)	(0.6)
Net loss from continuing operations	**(40,793)**	**(17.6)**	**(53,415)**	**(29.4)**	**(14,140)**	**(7.6)**
Discontinued operations:						
Income from discontinued operations before income taxes	1,533	0.7	—	—	—	—
Income tax expenses	(230)	(0.1)	—	—	—	—
Net income from discontinued operations	1,303	0.6	—	—	—	—
Net loss for the year	**(39,490)**	**(17.0)**	**(53,415)**	**(29.4)**	**(14,140)**	**(7.6)**
Less: Net profit attributable to the non-controlling interest	212	0.1	246	0.1	300	0.2
Net loss attributable to Xunlei Limited	**(39,278)**	**(16.9)**	**(53,169)**	**(29.3)**	**(13,840)**	**(7.4)**

Year ended December 31, 2020 compared with year ended December 31, 2019.

Revenues. Our revenues increased by 3.0% from US$181.3 million in 2019 to US$186.7 million in 2020, primarily due to the increases of revenues from cloud computing services and subscription service.

Service revenue. Our service revenue increased by 7.1% from US$173.0 million in 2019 to US$185.3 million in 2020, primarily due to the increase of revenues from our cloud computing services and subscription service.

- Our revenue from subscription services increased by 3.4% from US$81.5 million in 2019 to US$84.3 million in 2020, primarily due to an increase in average revenue per user.

- Our online advertising revenues decreased by 15.6% from US$15.6 million in 2019 to US$13.2 million in 2020, primarily due to a decreased demand for our mobile advertising services.

- Revenues derived from cloud computing and other internet value-added services increased by 15.8% from US$75.8 million in 2019 to US$87.7 million in 2020, primarily due to an increased demand for our shared cloud computing services.

Product revenue. Our product revenue decreased by 82.9% from US$8.3 million in 2019 to US$1.4 million in 2020, primarily due to a decrease in sales of OneThing Cloud as a result of a decreased demand of OneThing Cloud from users.

Cost of revenues. Our cost of revenues decreased by 7.3% from US$99.9 million in 2019 to US$92.6 million in 2020, primarily attributable to a decline in sales of our cloud computing hardware products and revenue-sharing costs for our live streaming products.

Bandwidth costs. Our bandwidth costs increased by 9.3% from US$57.1 million in 2019 to US$62.4 million in 2020, primarily due to the increased sales of our cloud computing services.

Cost of inventories sold. Our cost of inventories sold decreased by 76.9% from US$7.2 million in 2019 to US$1.7 million in 2020, primarily due to a decrease in sales of OneThing Cloud products.

Cost of live streaming. Our cost of live streaming services decreased by 24.6% from US$20.7 million in 2019 to US$15.6 million in 2020, primarily due to a decline in revenue-sharing costs as a result of a decrease of our live-streaming services.

Depreciation of servers and other equipment. Depreciation of servers and other equipment increased by 20.2% from US$5.2 million in 2019 to US$6.2 million in 2020, primarily due to an increase in depreciation of our shared cloud computing servers that we installed to our newly established distributed edge computing node centers across China in 2020.

Payment handling charges. Our payment handling charges decreased by 12.0% from US$1.7 million in 2019 to US$1.5 million in 2020, primarily because we cooperated with more third-party payment service providers that charged lower service fees.

Other costs. These costs decreased by 34.8% from US$8.0 million in 2019 to US$5.2 million in 2020, primarily due to less write-down of our inventory for OneThing Cloud hardware device compared with that of 2019. In addition, we did not incur LinkToken mall redemption cost in 2020 but incurred such cost in 2019.

Gross profit. As a result of the above, our gross profit increased by 16.1% from US$80.8 million in 2019 to US$93.7 million in 2020.

Gross profit margin increased from 44.5% in 2019 to US$50.2 million in 2020, primarily due to the increases of revenue from cloud computing and subscription service, both of which had improved gross margin.

Operating expenses. Our operating expenses decreased by 18.0% from US$137.2 million in 2019 to US$112.5 million in 2020, primarily due to (i) decreased office lease expenses as a result of an early termination of certain office sites in an effort to streamline our operations; (ii) a decrease in labor cost as a result of optimization of organizational structure, benefits and compensation, and (iii) a decreased number of marketing and promotional activities as we prudently monitored the return on investment of our marketing campaigns.

Research and development expenses. Our research and development expenses decreased by 19.1% from US$68.6 million in 2019 to US$55.5 million in 2020, primarily due to the optimization of organizational structure, employee benefits and compensation.

Sales and marketing expenses. Our sales and marketing expenses decreased by 43.2% from US$31.8 million in 2019 to US$18.1 million in 2020, primarily due to fewer marketing and promotional activities and the optimization of organizational structure, benefits and compensation.

General and administrative expenses. Our general and administrative expenses decreased by 12.9% from US$38.9 million in 2019 to US$33.9 million in 2020, primarily due to decreased rental expenses as a result of consolidation of offices, decreased legal and professional fees and the optimization of organizational structure.

Asset impairment loss, net of recoveries. We recorded a credit balance of US$5.1 million in 2020, compared to US$2.1 million in 2019, the increase was primarily due to a one-time write-off of certain receivables and prepayments in relation to our cloud computing business during the year.

Interest income. Our interest income decreased by 22.5% from US$1.9 million in 2019 to US$1.5 million in 2020, primarily due to a decrease of time deposits in our bank account.

Interest expense. Our interest expense increased from US$0.1 million in 2019 to US$0.4 million in 2020, primarily because increased interest was accrued for the long-term payables to certain shareholders arising from the repurchase of shares in 2014.

Other income, net. Our other income decreased by 19.2% from US$5.9 million in 2019 to US$4.7 million in 2020, primarily because we recorded a gain of US$6.6 million in 2019 for the disposal of LinkToken related assets and liabilities and we did not have such gain in 2020. Other reasons for the decrease were primarily attributable to impairment of long-term investments recognized in 2019 while we did not have such impairment of long-term investments in 2020.

Income tax expense. Our income tax expense decreased from US$4.7 million in 2019 to US$1.1 million in 2020 primarily because we had a write-down of Shenzhen Xunlei's deferred tax assets in 2019 but did not have such write-down of deferred tax assets in 2020.

Net loss from continuing operations. As a result of the above, our net loss decreased from US$53.4 million in 2019 to US$14.1 million in 2020.

Net loss attributable to Xunlei Limited. As a result of the above, we generated a net loss attributable to Xunlei Limited of US$53.2 million in 2019 and of US$13.8 million in 2020.

Year ended December 31, 2019 compared with year ended December 31, 2018.

Revenues. Our revenues decreased by 21.9% from US$232.1 million in 2018 to US$181.3 million in 2019, primarily due to decreases of revenues from OneThing Cloud hardware sales, online advertising services and live streaming services.

Service revenue. Our service revenue decreased by 2.6% from US$177.5 million in 2018 to US$173.0 million in 2019, primarily due to a decreased demand for our online advertising services.

- Our revenue from subscription services decreased by 0.4% from US$81.9 million in 2018 to US$81.5 million in 2019, primarily due to a decline in average revenue per subscriber.

- Our online advertising revenues decreased by 43.7% from US$27.8 million in 2018 to US$15.6 million in 2019, primarily due to a decreased demand for our online advertising services mainly by the mobile gaming industry in 2019.

- Revenues derived from cloud computing and other internet value-added services increased by 11.7% from US$67.9 million in 2018 to US$75.8 million in 2019, primarily due to an increase in demand for our shared cloud computing service.

Product revenue. Our product revenue decreased by 84.9% from US$54.6 million in 2018 to US$8.3 million in 2019, primarily due to a decrease in sales of OneThing Cloud product as we gradually phased out promotional activities for the OneThing Cloud and a decreased demand for OneThing Cloud from individual users.

Cost of revenues. Our cost of revenues decreased by 13.6% from US$115.7 million in 2018 to US$99.9 million in 2019, primarily attributable to a decline in cost of inventories sold as a result of decreased demand for our OneThing Cloud hardware and reduced revenue sharing costs of live streaming service.

Bandwidth costs. Our bandwidth costs increased by 18.7% from US$48.1 million in 2018 to US$57.1 million in 2019, primarily due to an increased capacity of our shared cloud computing.

Cost of inventories sold. Our cost of inventories sold decreased by 77.3% from US$31.6 million in 2018 to US$7.2 million in 2019, primarily due to a decrease in sale of OneThing Cloud as we gradually phased out promotional activities for the OneThing Cloud product and a decreased demand for the OneThing Cloud from individual users.

Cost of live streaming. Our cost of live streaming services decreased by 13.4% from US$23.9 million in 2018 to US$20.7 million in 2019, primarily due to a decline in revenue-sharing costs as a result of a decrease in our live streaming revenues.

Depreciation of servers and other equipment. Depreciation of servers and other equipment increased by 3.7% from US$5.0 million in 2018 to US$5.2 million in 2019, primarily due to an increase in depreciation of our shared cloud computing servers that we installed to our newly established distributed edge computing node rooms across China this year.

Payment handling charges. Our payment handling charges decreased by 45.0% from US$3.0 million in 2018 to US$1.7 million in 2019, primarily because we cooperated with more third-party payment service providers that charged lower service fees.

Other costs. These costs increased by 103.6% from US$4.0 million in 2018 to US$8.0 million in 2019, primarily due to a write-down of our inventory for OneThing Cloud hardware device in an amount of US$3.2 million based on our inventory impairment assessment.

Gross profit. As a result of the above, our gross profit decreased by 29.7% from US$114.9 million in 2018 to US$80.8 million in 2019.

Gross profit margin decreased from 49.5% in 2018 to 44.5% in 2019, primarily due to a decrease in Onething Cloud hardware sales and a lower level of online advertising revenues generated this year.

Operating expenses. Our operating expenses decreased by 13.9% from US$159.3 million in 2018 to US$137.2 million in 2019, primarily due to (i) a decrease in technical services fee we incurred arising from collecting idle bandwidth from individual users due to the improvement of own technology and the increased bandwidth capacity we collected from Onething Cloud users, (ii) a decrease in labor cost as a result of our optimization of organizational structure, benefits and compensation, and (iii) a decreased number of marketing and promotional activities as we gradually phased out our promotion activities for Onething Cloud hardware.

Research and development expenses. Our research and development expenses decreased by 10.7% from US$76.8 million in 2018 to US$68.6 million in 2019, primarily due to our optimization of organizational structure, employee benefits and compensation.

Sales and marketing expenses. Our sales and marketing expenses decreased by 9.9% from US$35.3 million in 2018 to US$31.8 million in 2019, primarily due to a gradually decreased marketing and promotional activities during this year for the sales of OneThing Cloud hardware device.

General and administrative expenses. Our general and administrative expenses decreased by 4.7% from US$40.8 million in 2018 to US$38.9 million in 2019, primarily because we incurred less legal and consulting expenses as we were involved in less copyright lawsuits.

Asset impairment loss, net of recoveries. We recorded a credit balance of US$2.1 million in 2019, compared to an asset impairment loss of US$6.3 million in 2018. The balance in 2019 represented a net recovery of the last installment of Xunlei Kankan purchase price which we impaired in 2017. The balance in 2018 represented receivables that were written-off after impairment and recoverability assessment, net of recovered amount of impaired assets.

Interest income. Our interest income increased by 60.4% from US$1.2 million in 2018 to US$1.9 million in 2019, primarily due to an increase in the balance of time deposits in our bank account.

Interest expense. Our interest expense decreased slightly from US$0.2 million in 2018 to US$0.1 million in 2019, primarily because less interest was accrued for the long-term payables to certain shareholders arising from the repurchase of shares in 2014.

Other income, net. Our other income increased by 108.6% from US$2.8 million in 2018 to US$5.9 million in 2019, primarily because we recorded a gain of approximately US$6.6 million on the disposal of LinkToken operations and its related assets and liabilities.

Income tax benefit. We recorded an income tax expense of US$4.7 million in 2019, as compared to an income tax benefit of US$0.1 million in 2018. We recorded an income tax expense in 2019 primarily due to a write-down of Shenzhen Xunlei's deferred tax assets of US$7.4 million after our assessment based on a five-year profit forecast.

Net loss from continuing operations. As a result of the above, our net loss increased from US$40.8 million in 2018 to US$53.4 million in 2019.

Net income from discontinued operations. Net income from discontinued operations was US$1.3 million in 2018 and nil in 2019.

Net loss attributable to Xunlei Limited. As a result of the above, we generated a net loss attributable to Xunlei Limited of US$39.3 million and US$53.2 million in 2018 and 2019, respectively.

Inflation

To date, inflation in China has not materially affected our results of operations in recent years. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2018, 2019 and 2020 were increases of 2.1%, 4.5% and 2.5%, respectively. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected if China experiences higher rates of inflation in the future.

Critical accounting policies

We prepare our financial statements in conformity with U.S. GAAP, which requires us to make estimates and assumptions that affect the amounts reported in the accompanying consolidated financial statements and related disclosures. We regularly evaluate these estimates based on historical experiences and on various other assumptions that we believe to be reasonable, the result of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from what we expect. This is especially true with some accounting policies that require higher degrees of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our audited consolidated financial statements because they involve the greatest reliance on our management's judgment.

Revenue recognition

Subscription revenues

We operate a VIP subscription program where VIP subscribers can have access to high speed online acceleration services, online streaming and other access privileges. The subscription fee is time-based and is collected up-front from subscribers. The terms of time-based subscriptions range from one month to twelve months, with the subscribers having the option to renew the contracts. The receipt of subscription fees is initially recorded as contract liabilities. We satisfy our various performance obligations by providing services throughout the subscription period and revenue is recognized ratably over the period of subscription as services are rendered. Unrecognized portion fee beyond 12 months from balance sheet date is classified as a long-term liability. We evaluated the principal versus agent criteria and determined that we are the principal in the transaction and accordingly record revenue on a gross basis. In determining whether to report revenues gross for the amount of subscription revenue, we assess whether it maintains the principal relationship with the VIP subscribers, whether it bears the credit risk and whether it establishes prices for the end users. Service fees levied by online system, fixed phone line and mobile payment channels ("Payment handling charges") are recorded as the cost of revenues in the same period as the revenue for the subscription fee is recognized.

Advertising revenues

Advertising revenues are derived principally from arrangements where the advertisers pay to place their advertisements on our platform over a particular period of time. It includes multiple performance obligations, primarily for advertisements to be displayed in different spots at different times, placed under different formats including but are not limited to videos, banners, links, logos and buttons. Advertisements on our platform are generally charged on the basis of duration, and advertising contracts are signed to establish the fixed price and the advertising services to be provided. We enter into advertising contracts with third-party advertising agencies that represent advertisers, as well as directly with advertisers. A typical contract term would range from a few days to three months. Both third party advertising agencies and direct advertisers are generally billed at the end of the display period and payments are due usually within three months.

Where our customers purchase multiple advertising spaces with different display periods in the same contract, we allocate the total consideration to the various advertising elements based on their relative fair values and recognize revenues for the different elements over their respective display periods. We determine the fair values of different advertising elements based on the prices charged when these elements were sold on a standalone basis. We recognize revenues on the elements delivered and defer the recognition of revenues for the fair value of the undelivered elements until the remaining obligations have been satisfied. Where all of the elements within an arrangement are delivered uniformly over the contract period, revenues are recognized on a straight-line basis over the contract period.

(a) Transactions with third-party advertising agencies

For contracts entered into with third-party advertising agencies, the third-party advertising agencies will in turn sell the advertising services to advertisers. Revenues are recognized ratably over the contract period of display.

We provide sales incentives in the forms of discounts and rebates to third-party advertising agencies based on purchase amount. As the advertising agencies are viewed as the customers in these transactions, revenues are recognized based on the price charged to the agencies, net of sales incentives provided to the agencies. Sales incentives are estimated and recorded at the time of revenue recognition based on the contracted rebate rates and estimated sales volume based on historical experience.

(b) Transactions with advertisers

We also enter into advertisement contracts directly with advertisers. Under these contracts, similar to transactions with third-party advertising agencies, we recognize revenues ratably over the contract period of display. The terms and conditions, including price, are fixed according the contracts between us and the advertisers. We also perform credit assessment of all advertisers prior to entering into contracts. Revenues are recognized based on the amount charged to the advertisers, net of discounts.

We estimated and recorded sales rebates provided to the agencies and advertisers of US$394,000 for the year ended December 31, 2018, and nil for the years ended December 31, 2019 and 2020, respectively.

(c) Transactions with advertising platforms

We also cooperate with advertising platforms such as Guangdiantong and Baidu, of which, the advertising platforms are responsible for matching the requirements of advertisers or advertising agencies and dispatching the advertising content to our platforms by certain analysis systematically. As the advertising platforms are viewed as customers in these transactions, revenue is recognized monthly based on the data publicized on the platforms and pre-agreed sharing portion.

In May 2020, we entered into a user traffic monetization agreement with Beijing Itui Technology Co., Ltd. (“Beijing Itui”), a company controlled by the Company’s principal shareholder. Since May 2020, Beijing Itui has been handling all of our advertising resources, including matching the requirements of advertisers and dispatching the advertising content to our platforms. Beijing Itui is viewed as the customer and revenue is recognized monthly based on the data publicized on the platforms and pre-agreed sharing portion.

Live streaming revenue

We operate a live streaming platform where users can access the platform, view the live streaming content provided by our performers, and purchase virtual gifts which they can grant to performers in the live streaming platform to show support for their favorite performers. We are the principal in the provision of the live streaming content and experience, which is considered as the performance obligation of us. We recognized revenue from sales of virtual gifts to the viewers when the relevant virtual gifts are presented to the performers or over the duration of stated period of the time-based item. We do not have further obligations to the viewers after the virtual gifts are consumed immediately or after the stated period for time-based items. although we will continue to provide the live streaming content to the viewers in order to continue to generate more sales of virtual gifts.

Cloud computing and other internet value-added services

(a) Revenues from cloud computing

As part of our cloud computing business, we engage in sale of OneThing Cloud. OneThing Cloud is a personal cloud hardware device that allows users to share their idle bandwidth with us, in exchange for LinkTokens. LinkTokens are not convertible into cash but they can be used to redeem for products and services offered in the LinkToken Mall. LinkTokens represent an obligation to deliver future services by the operator of LinkToken program.

Prior to April 1, 2019, the bandwidth shared by the users in exchange for LinkTokens was an identifiable benefit which we could reasonably estimate its fair value. The benefit that we received from user's contribution of bandwidth was independent from OneThing Cloud that we sold to users.

In April 2019, we transferred the operation of LinkTokens, including the issuance and redemption obligation of LinkTokens, as well as the LinkTokens Mall to a third party, Beijing LinkChain Co., Ltd. ("Beijing LinkChain"). Upon completion of the transfer, users could continue to share their idle bandwidth with us in exchange for the LinkTokens issued by Hainan LinkChain Networking Technology Co., Ltd. ("Hainan LinkChain"), a wholly owned subsidiary of Beijing LinkChain. In addition, we were obligated to pay to Hainan LinkChain a pre-determined amount per active user of OneThing Cloud who shared their idle bandwidth with us. This arrangement expired in April 2020.

We primarily sold OneThing Cloud to individuals through online e-commerce platforms before 2019 and to corporate customers starting from 2019, and the performance obligation is satisfied when the item is dispatched to the end customers.

The core business concept of cloud computing is to collect idle uplink capacity from individuals with reward, and deliver those collected computing resources to online video streaming platforms. On a monthly basis, we record the bandwidth we deliver and recognize revenue from these online video streamers under contractual rates applied (price per GB of bandwidth multiplies total GBs of bandwidth per month).

Revenue is recognized net of return allowances when the products are delivered and title passes to customers. Return allowances, which reduce net revenues, are estimated based on historical experiences. Product warranties are estimated and recognized at the time we recognize revenue. The warranty period is one year. We accrue warranty liabilities at the time of sale, based on historical and projected incident rates and expected future warranty costs.

(b) Online game revenues

Since 2018, we discontinued its web game business and started to operate web game business again under a co-operation model with third party games operators in 2019.

Web games – cooperating with third parties

We enter into a series of technical cooperation agreements with third party online game operators. Users access to our platform and purchase in-game virtual items which can then be used in games provided by the third-party online game operators. We provide the third-party online game operators with a portal which the online game operators can host the online games. We charge the online game operators based on a pre-determined portion of proceeds earned from paying users pursuant to the revenue sharing arrangements for the provision of portal and payment collection service to the online game operators. The third-party online game operators are the principal in the provision of games to users and we provide the relevant platform to the game operators, therefore, the game operators are viewed as the customers in these transactions.

The service fees receivable from the third-party online game operators are variable, which are contingent upon future events (future cash proceeds paid by game players), and are recognized when the contingency is met provided that collectability is reasonably assured.

Share-based Compensation

We awarded a number of share-based compensation options to our employees, officers and directors. The details of these share-based awards and the respective terms and conditions are described in "Share-based compensation" in Note 20 to our audited consolidated financial statements for the years ended December 31, 2018, 2019 and 2020.

We measure share-based compensation at the grant date based on the fair value of the award determined using the Black Scholes option pricing model. As we have granted share options and restricted shares with service only condition, we elected to recognize compensation costs net of estimated forfeitures on a straight-line basis over the requisite service period, which is generally the same as the vesting period. The amount of compensation cost recognized at any date is at least equal to the portion of the grant-date value of the award that is vested at that date.

Impairment of Long-lived Assets

For other long-lived assets, we evaluate our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. We assess the recoverability of the long-lived assets by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows we expect to receive from the use of the assets and their eventual disposition at the lowest level of identifiable cash flows. Such assets are considered to be impaired if the sum of the expected undiscounted cash flows is less than the carrying amount of the assets. If we identify an impairment, the carrying value of the asset will be reduced to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values.

Impairment of Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed from the acquired entity as a result of the Company's acquisitions of interests in its subsidiaries and consolidated VIEs. Goodwill is not amortized but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that it might be impaired. We first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. In the qualitative assessment, we consider primary factors such as industry and market considerations, overall financial performance of the reporting unit, and other specific information related to the operations. Based on the qualitative assessment, if it is more likely than not that the fair value of each reporting unit is less than the carrying amount, the quantitative impairment test is performed.

In performing the two-step quantitative impairment test, the first step compares the fair values of each reporting unit to its carrying amount, including goodwill. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit's goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. This allocation process is only performed for the purposes of evaluating goodwill impairment and does not result in an entry to adjust the value of any assets or liabilities. Application of a goodwill impairment test requires significant management judgment, including the identification of reporting units, allocation of assets, liabilities and goodwill to reporting units, and determination of the fair value of each reporting unit.

Starting in 2020, we adopted the FASB issued ASU 2017-04: Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (the "Update"). To simplify the subsequent measurement of goodwill, the Board eliminated Step 2 from the goodwill impairment test. Under the amendments in this Update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity should apply the amendments in this Update on a prospective basis. An entity is required to disclose the nature of and reason for the change in accounting principle upon transition. It is more likely that, by adopting simplified measurement which eliminates the Step 2 from goodwill impairment test, an entity with the triggering event for goodwill impairment will recognize more goodwill impairment than it would do under the old model.

Our goodwill was attributable to the Company as a whole. The impairment test for goodwill determines the fair value of the reporting unit, the Company as a whole, and compares it to the carrying value of the assets and liabilities, including goodwill, of the reporting unit. The fair value of the Company was estimated by management using the discounted cash flow model derived from the long-term (five-year) cash flow projections, which included significant judgements and assumptions relating to revenue forecast and operating margins, discount rate of 18.2% that reflects market assessments of the time value and the specific risks relating to the Company, and cash flows beyond the five-year period are extrapolated using a terminal growth rate of 2%.

No goodwill impairment losses were recognized for the year ended December 31, 2018, 2019 and 2020 based on the impairment test performed by us.

Consolidation

The consolidated financial statements include the financial statements of Xunlei Limited, our subsidiaries and our VIE for which Xunlei Limited is the primary beneficiary. All significant transactions and balances among our subsidiaries, our VIE and us have been eliminated upon consolidation.

A subsidiary is an entity in which we, directly or indirectly, control more than one-half of the voting power, has the power to appoint or remove the majority of the members of the board of directors to cast a majority of the votes at meetings of the board of directors or to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

An entity is considered to be a VIE if the entity's equity holders do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties.

We consolidate entities for which we are the primary beneficiary if the entity's equity holders do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties.

In determining whether Xunlei Limited or its subsidiary is the primary beneficiary of a VIE, we considered whether we have the power to direct activities that are significant to the VIE's economic performance, including the power to appoint senior management, right to direct company strategy, power to approve capital expenditure budgets, and power to establish and manage ordinary business operation procedures and internal regulations and systems.

Management has evaluated the contractual arrangements among (Giganology Shenzhen, Shenzhen Xunlei and its shareholders and concluded that (Giganology Shenzhen receives all of the economic benefits and absorbs all of the expected losses from Shenzhen Xunlei and has the power to direct the aforementioned activities that are significant to Shenzhen Xunlei's economic performance, and is the primary beneficiary of Shenzhen Xunlei. Therefore, Shenzhen Xunlei and its subsidiaries' results of operation, assets and liabilities have been included in our consolidated financial statements. We monitor the regulatory risk associated with these contractual arrangements. The details of how we manage the regulatory risk are described in "Certain risk and concentration" in Note 29 to our audited consolidated financial statements for the years ended December 31, 2018, 2019 and 2020. Non-controlling interests represent the portion of the net assets of a subsidiary attributable to interests that are not owned by our company. The non-controlling interests are presented in the consolidated balance sheets, separately from equity attributable to the shareholders of our company. Non-controlling interests in the results of our company is presented on the face of the consolidated statements of comprehensive income as an allocation of the total income or loss for the year between non-controlling shareholders and the shareholders of our company.

Allowance for expected credit losses

Effective on January 1, 2020, we adopted Accounting Standards Update (ASU) 2016-13, Financial Instruments - Credit Losses (Topic 326) under a modified retrospective transition, which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost with the cumulative-effect adjustment recognized to the opening balance of accumulated deficit of the Group as of January 1, 2020. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss methodology, referred to as a current expected credit losses ("CECL") methodology, which will result in more timely recognition of credit losses. The CECL methodology requires that the full amount of expected credit losses for the lifetime of the financial instrument be recorded at the time it is originated or acquired, considering relevant historical experience, current conditions and reasonable and supportable macroeconomic forecasts that affect the collectability of financial assets, and adjusted for changes in expected lifetime credit losses subsequently, which may require earlier recognition of credit losses. Our accounts receivable, due from related parties, other current assets (including other receivables) and other long-term non-current assets (including other long-term receivables) are within the scope of ASC Topic 326.

We assessed the credit loss for accounts receivable with similar risk characteristics on a pool basis. The credit loss assessment for each pool was mainly based on past collection experience, consideration of current and future economic conditions and changes in our collection trends.

The allowances provided for accounts receivable was US$7.6 million as of December 31, 2019 and US$9.3 million as of December 31, 2020.

Taxation and Uncertain Tax Positions

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which the difference is expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statement of operations in the period that includes the enactment date. A valuation allowance is provided to reduce the carrying amount of deferred tax assets if it is considered more likely than not that some portion, or all, of the deferred tax assets will not be realized. The estimation of future taxable income involves significant judgments and estimates. Based on management's estimated future taxable income management concluded that it is more likely than not that the net operating losses carried forward can be utilized prior to their respective expiration dates.

We adopted the guidance regarding uncertain tax positions and evaluated our open tax positions that exist in each jurisdiction for each reporting period. If an uncertain tax position is taken or expected to be taken in a tax return, the tax benefit from that uncertain position is recognized in our consolidated financial statements if it is more likely than not that the position is sustainable upon examination by the relevant taxing authority.

We did not have any significant uncertain tax position and there was no effect on our financial position or results of operations as a result of implementing the new guidance. We recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense, if any.

PRC value-added tax

VAT payable on goods sold or taxable labor 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. In addition to the product revenues currently subject to VAT at a rate of 13% (17% before May 1, 2018 and 16% before April 1, 2019), our advertising revenues, subscription revenue, online game revenue, revenue from cloud computing and live streaming revenue are now subject to VAT at a rate of 6%.

Commitments and Contingencies

In the normal course of business, we are subject to contingencies, such as legal proceedings and claims arising out of our business that cover a wide range of matters. Liabilities for such contingencies are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. In regard to legal cost, we recorded such costs as incurred.

Certain conditions may exist as of the date of the financial statements are issued, which may result in a loss to us, but which will only be resolved when one or more future events occur or fail to occur. Our management and legal counsel assess such contingent liabilities, and such assessment inherently involve an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against us or unasserted claims that may result in such proceedings, we in consultation with our legal counsel and evaluate the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in our financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, if determinable and material, would be disclosed.

We are involved in a number of cases pending in various courts. These cases are substantially related to alleged copyright infringement and routine and incidental matters to its business, among others. Adverse results in these lawsuits may include awards of damages and may also result in, or even compel, a change in our business practices, which could impact our future financial results. We have incurred US$4.7 million, US$2.0 million and US$1.2 million legal and litigation related expenses for the years ended December 31, 2018, 2019 and 2020, respectively.

As of the date of this annual report, we have 16 lawsuits pending against us with an aggregate amount of claimed damages of approximately RMB13.3 million (US$1.9 million) which occurred before December 31, 2020. Among these 16 pending lawsuits, 13 of them were relating to the alleged copyright infringement in the PRC. We have accrued for US$1.6 million litigation related expenses in “Accrued expenses and other liabilities” in the consolidated balance sheet as of December 31, 2020, which is the most probable and reasonably estimable outcome.

We estimated the litigation compensation based on judgments handed down by the court, out-of-court settlements of similar cases as well as advices from our legal counsel. We are in the process of appealing certain judgments for which the losses had been accrued. Although the results of unsettled litigation and claims cannot be predicted with certainty, we do not expect that the outcome of these 16 lawsuits will result in the amounts accrued materially different from the range of reasonably possible losses. In the opinion of management, there was not at least a reasonable possibility we may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to loss contingencies for asserted legal and other claims. However, the outcome of litigation is inherently uncertain. Therefore, although management considers the likelihood of such an outcome to be remote, if one or more of these legal matters were resolved against us in a reporting period for amounts in excess of management’s expectations, our consolidated financial statements for that reporting period could be materially adversely affected.

Recent Accounting Pronouncements

See Item 18 of Part III, "Financial Statements—Note 2—Summary of significant accounting policies—Recent accounting pronouncements."

B. Liquidity and Capital Resources

We have financed our operations primarily by using our existing internal cash reserves and borrowing bank loans. As of December 31, 2020, we had US$255.1 million in cash and cash equivalents and short-term investments. As of the same date, we also had US$1.5 million restricted cash, which represents cash deposited in a bank account due to legal or contractual restrictions, and US$19.9 million outstanding bank loans for the construction of our headquarters building.

In respect of our revenues from customers in the advertising industry, although the general credit term for these customers is 90 days, we typically are willing to accept delayed repayment up to one year from the invoice date given the general practices we have with our customers in the advertising industry. Our practice and collection history may continue to have an impact on our liquidity.

In the future, we may rely on dividends and other distributions on equity paid by our wholly owned PRC subsidiaries for our cash and financing requirements. There may be potential restrictions on the dividends and other distributions by our PRC subsidiaries. For instance, if Giganology Shenzhen, our PRC subsidiary, incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. The PRC tax authorities may require us to adjust our taxable income under the contractual arrangements Giganology Shenzhen currently has in place with Shenzhen Xunlei in a way that would materially and adversely affect the latter's ability to pay dividends and other distributions to us. In addition, under PRC laws and regulations, Giganology Shenzhen, as a wholly foreign-owned enterprise in the PRC, may pay dividends only out of its accumulated profits as determined in accordance with PRC accounting standards and regulations. Wholly foreign-owned enterprises such as Giganology Shenzhen are required to set aside at least 10% of their accumulated after-tax profits each year, if any, to fund a statutory reserve fund, until the aggregate amount of such fund reaches 50% of their respective registered capital. At their discretion, wholly foreign-owned enterprises may allocate a portion of their 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. See "Item 3. Key Information—D. Risk factors—Risk related to our corporate structure—We may rely principally on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have. Any limitation on the ability of Giganology Shenzhen and Xunlei Computer to pay dividends to us could have a material adverse effect on our ability to conduct our business." In addition, our investment made as registered capital and additional paid in capital of our subsidiaries, VIE and VIE's subsidiaries are also subject to restrictions in their distribution and transfer according to the laws and regulations in China. Owing to the above, our subsidiaries, VIE and VIE's subsidiaries in China are restricted in their ability to transfer their net assets to us in terms of cash dividends, loans or advances. As of December 31, 2020, the amount of the restricted net assets, which represents registered capital and additional paid-in capital cumulative appropriations made to statutory reserves, was US$168.5 million.

As an offshore holding company, we are permitted, under PRC laws and regulations, to provide funding from the proceeds of our offshore fund raising activities to our PRC subsidiaries only through loans or capital contributions, and to our variable interest entity only through loans, subject to the satisfaction of the applicable government registration and approval requirements. See "Item 3. Key Information—D. Risk factors—Risks related to our corporate structure—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 making loans to our PRC subsidiaries and variable interest entity and its subsidiaries or making additional capital contributions to our PRC subsidiaries, which may materially and adversely affect our liquidity and our ability to fund and expand our business." As a result, uncertainties exist as to our ability to provide prompt financial support to our PRC subsidiaries or variable interest entity when needed. Notwithstanding the forgoing, Giganology Shenzhen may use its own retained earnings (as opposed to RMB converted from foreign currency denominated capital) to provide financial support to Shenzhen Xunlei either through extended payment terms on amounts due to Giganology Shenzhen from Shenzhen Xunlei, or via entrusted loans from Giganology Shenzhen to Shenzhen Xunlei, or direct loans to its nominee shareholders, which would be contributed to the variable interest entity as capital injection. Such direct loans to the nominee shareholders would be eliminated in the consolidated financial statements against the VIE's share capital.

We believe that our current cash and cash equivalents and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs for the next 12 months. We may, however, need additional cash resources in the future if we experience changes in business conditions or other developments. We may also need additional cash resources in the future if we find and wish to pursue opportunities for investment, acquisition, capital expenditure or similar actions. If we determine that our cash requirements exceed the amount of cash and cash equivalents we have on hand, we may seek to issue debt or equity securities or obtain additional credit facilities. However, if the impact of the COVID-19 on the economy becomes prolonged and greater than expected, our supplies may be disrupted, our customers may reduce their demand for our products and services, and banks may demand us to repay bank loans before their maturity. Our liquidity and capital resources would be significantly affected if this were to happen. We will closely monitor the impact of the COVID-19 on the economy and on our company.

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

	For the Year Ended December 31,		
	2018	2019	2020
	(in thousands of US$)		
Net cash used in operating activities	(35,608)	(45,649)	(13,911)
Net cash (used in)/generated from investing activities	(69,357)	79,260	(20,756)
Net cash generated from financing activities	929	12,177	2,679
Net (decrease)/increase in cash, cash equivalents and restricted cash	(104,036)	45,788	(31,988)
Cash, cash equivalents and restricted cash at the beginning of year	233,479	122,930	165,488
Effect of exchange rates on cash, cash equivalents, and restricted cash	(6,513)	(3,270)	5,329
Cash, cash equivalents and restricted cash at end of year	122,930	165,448	138,789

As of December 31, 2020, we had cash or cash equivalents, including restricted cash, of US$138.8 million in total, including RMB322.1 million (US$49.4 million) and US$30.7 million located within the PRC, of which RMB99.7 million (US$15.3 million) and US$0.5 million was held by our VIE, Shenzhen Xunlei, and its subsidiaries. We also had cash or cash equivalents of RMB484.6 thousand (US$74.3 thousand), US$58.3 million, HK$1.7 million (US$0.2 million) and THB2.1 million (US$0.1 million) located outside of the PRC as of December 31, 2020.

Operating activities

Net cash used in operating activities amounted to US13.9 million in 2020, which was primarily attributable to a net loss of US$14.1 million, adjusted for certain non-cash expenses consisting principally of the depreciation of property and equipment of US$9.3 million, impairment of prepayment and other current accounts of US$4.2 million, impairment of inventories of US$3.3 million, and a net change in working capital. The net change in working capital was primarily due to a decrease in accounts receivable of US$4.9 million, which was the settlement from customers before the year ended December 31, 2019, an increase in due from related parties of US$8.6 million, which was in line with the increase of advertising services revenues, a decrease in accounts payable of US4.9 million, which was due to shorter payment term we made for our bandwidth purchases.

Net cash used in operating activities amounted to US$45.6 million in 2019, which was primarily attributable to a net loss of US$53.4 million, adjusted for certain non-cash expenses consisting principally of the depreciation of property and equipment of US$5.8 million, share-based compensation of US$5.4 million, impairment of long-term investments of US$19.8 million, and a net change in working capital. The net change in working capital was primarily due to an increase in accounts receivable of US$8.7 million, which was in line with the increase of cloud computing revenues, an increase in accounts payable of US$2.1 million, which was due to longer payment term we made for our bandwidth purchases, and a decrease in inventories of US$3.4 million, which was due to the sale of Onething Cloud hardware.

Net cash used in operating activities amounted to US$35.6 million in 2018, which was primarily attributable to a net loss of US$39.5 million, adjusted for certain non-cash expenses consisting principally of depreciation of property and equipment of US$5.6 million, allowance for doubtful accounts of US$7.7 million, share-based compensation of US$5.3 million, impairment of long-term investments of US$7.8 million, and a net change in working capital. The net change in working capital was primarily due to a decrease in accounts receivable of US$13.3 million, which was the settlement from customers before the year ended December 31, 2018, a decrease in accounts payable of US$27.7 million which was in line with the decrease in bandwidth cost, and an increase in inventories of US$10.2 million which was in line with the increase in product sales.

Investing activities

Net cash used in investing activities largely reflects purchases of property and equipment in connection with the expansion and upgrade of our technology infrastructure, purchases of intangibles assets, acquisition of long-term investments, payments to purchase short-term investments such as treasury products, and acquisition of constructions in progress, which represents the construction cost in connection with our construction of Xunlei headquarters building.

Net cash used in investing activities amounted to US$20.8 million in 2020, primarily attributable to proceeds from disposal of short-term investments of US$167.4 million, which was partially offset by our purchase of short-term investments of US$177.1 million.

Net cash generated from investing activities amounted to US$79.3 million in 2019, primarily attributable to proceeds from disposal of short-term investments of US$450.7 million, which was partially offset by our purchase of short-term investments of US$355.3 million.

Net cash used in investing activities amounted to US$69.4 million in 2018, primarily attributable to proceeds from disposal of short-term investments US$223.7 million, which was partially offset by purchase of short-term investments of US$287.6 million.

Financing activities

Net cash generated from financing activities amounted to US$2.7 million in 2020, primarily attributable to proceeds from bank borrowings of US$7.8 million, repurchase of shares of US$4.5 million.

Net cash generated from financing activities amounted to US$12.2 million in 2019, primarily attributable to proceeds from bank borrowings of US$11.3 million.

Net cash generated from financing activities amounted to US$0.9 million in 2018, mainly represented the proceeds from government grant received.

Capital expenditures

We made capital expenditures of US$4.1 million, US$14.7 million and US$13.6 million in the years ended December 31, 2018, 2019 and 2020, respectively. In the past, our capital expenditures were primarily used to purchase servers or other equipment for our business and pay for construction in progress. We expect our capital expenditures to increase in the near term along with the growth of our business.

C. Research and Development

We believe that our commitment to research and development is an important contributing factor in our success. As of December 31, 2020, we had a team of 336 engineers. We provide our engineers with various continuing training programs and opportunities. To maintain and enhance our leadership position in the market, we will continue to compete for engineering talent and invest in research and development in order to provide better services to our users, subscribers and advertisers.

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demand, commitments or events for the year ended December 31, 2020 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. In addition, we have not entered into any derivative contracts that are indexed to our own 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. Moreover, we do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit 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 as of December 31, 2020:

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			(in thousands of US$)		
Bandwidth lease obligations	3,794	3,388	406	—	—
Capital obligations	7,953	7,040	913	—	—
Total	**11,747**	**10,428**	**1,319**	**—**	**—**

As of December 31, 2020, we had unconditional purchase obligations for switchboard, servers, office software and construction in process that had not been recognized in the amount of US$7.6 million.

G. Safe Harbor

See "Forward-looking Information."

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.

Directors and Executive Officers	Age	Position/Title
Jinbo Li	45	Chairman and Chief Executive Officer
Sean Shenglong Zou	49	Co-Founder and Director
Hao Cheng	45	Co-Founder and Director
Yubo Zhang	44	President
Raymond Weimin Luo	48	Director and Chief Operating Officer
Peng Shi	33	Director
Hui Duan	41	Director
Jenny Wenjie Wu	46	Independent Director
Ya Li	51	Independent Director
Naijiang (Eric) Zhou	58	Chief Financial Officer

Mr. Jinbo Li has been our chairman and chief executive officer since April 2020. Mr. Li is a successful serial entrepreneur with more than 20 years' experience in China's internet and technology industry. Mr. Li was part of Xunlei's founding team and contributed to establishing and leading the core R&D team during the crucial early stage of Xunlei from 2004 to 2009. Mr. Li left Xunlei in January 2010 and acted as the chief executive officers of two internet ventures from 2010 to 2014. Mr. Li founded Itui International Inc., a company focusing on developing mobile applications for social networking services, in 2014 and acted as its chairman and chief executive officer since then. Mr. Li received his bachelor's degree in 1998 from Shandong University in China and master's degree in 2001 from Peking University in China.

Mr. Sean Shenglong Zou is one of our co-founders and served as our chief executive officer from our inception in February 2005 to July 2017 and chairman of the board from our inception in February 2005 to December 2017. Mr. Zou currently serves as a director of our company. Mr. Zou is an expert in distributed computing. Mr. Zou pioneered the theory of content-based multimedia indexing technology and resource discovery network that provides time-saving online experience for internet users and has led our company to revolutionize traditional internet acceleration by the technology and network. Mr. Zou received a master's degree in computer science from Duke University in the United States in 1998 and a bachelor's degree in computer science from University of Wisconsin-Madison in 1997.

Mr. Hao Cheng is our co-founder and has been serving as a director of our company since our inception in February 2005. Mr. Hao Cheng currently also holds management positions in several of our subsidiaries. Mr. Cheng has worked at Ivision Ventures since January 2016. Prior to January 2016, Mr. Cheng served various management positions in several of our subsidiaries. For example, Mr. Cheng served as the general manager of Xunlei Games Development (Shenzhen) Co. Ltd. from February 2010 to January 2016. Prior to joining us, Mr. Cheng managed the products, services, marketing and sales of the corporate search team at Baidu, Inc. Mr. Cheng received a master's degree in computer science from Duke University in the U.S. in 1999 and a bachelor's degree in mathematics from Nankai University in China in 1997.

Mr. Yubo Zhang has been serving as our president since April 2020. Prior to rejoining us in April 2020, Mr. Zhang served as the chief executive officer of Beijing Nesound International Media Corp, Ltd., or Nesound, from April 2015 to April 2020. During his tenure at Nesound, Mr. Zhang combined the respective advantages of live broadcasting and traditional film & television businesses and built a multifaceted platform incorporating self-produced exclusive contents, star development plans and Internet services. Mr. Zhang joined our company for the first time in August 2005 and was one of the core founding members of our company. During his ten years with us, Mr. Zhang served various management positions including a senior vice president of our company and the president of a major subsidiary of our company from August 2005 to March 2015. Mr. Zhang received his bachelor's degree in mechanical design and manufacturing from Jilin University of Technology in China in 1999.

Mr. Raymond Weimin Luo has been serving as our chief operating officer and our director since April 2020. Mr. Luo has been an active entrepreneur and investor in China's internet industry since 2012. He was a managing partner at Hongtai Aplus Consumption Fund from 2018 to 2019, a venture partner at Morningside Capital from 2016 to 2018, and the chief executive officer of a supply chain company he founded from 2012 to 2016. Prior to that, Mr. Luo was the chief operating officer at Xunlei from 2006 to 2011. Mr. Luo received his bachelor's degree in biological engineering from Jinan University in China in 1993.

Mr. Peng Shi has been serving as a director of our company since April 2020. Mr. Shi has also been serving as the president of product at Beijing Itui Technology Co., Ltd since March 2018. Prior to joing Beijing Itui, Mr. Shi served as the general manager at Qutoutiao Inc. Beijing branch from January 2018 to March 2018, the product director of Toutiao.com, a Chinese news and information content platform operated by Beijing Bytedance Technology Co., Ltd, from 2016 to 2017, the product vice president of Quanmin.tv, a live streaming platform operated by Shanghai Maimiao Information Technology Co., Ltd. from 2015 to 2016, the senior product officer of UCWeb Inc from May 2014 to June 2015, a senior product manager at Baidu, Inc. from April 2013 to May 2014, and a product manager at Qihoo 360 Technology Co., Ltd. from March 2010 to April 2013. Mr. Shi received his bachelor's degree in software engineering from Beihai College of Beihang University in China in 2011.

Mr. Hui Duan has been serving as a director of our company since April 2020. Mr. Duan currently also serves as the chief technology officer of Beijing Itui Technology Co., Ltd. Prior to that, Mr. Duan founded his own company that provided HR SaaS products and services from October 2015 to 2017. From April 2008 to April 2015, Mr. Duan served various management positions at Xunlei including vice president and the chief executive officer of a major subsidiary of Xunlei. Mr. Duan received his bachelor's degree in computer science from Peking University in 2001 and EMBA degree from China Europe International Business School in 2015.

Ms. Jenny Wenjie Wu has been serving as our independent director since June 2014. Ms. Wu has also been serving as an independent non-executive director of Kingsoft Corporation Limited (3888.HK) since March 2013 and an independent non-executive director of BlueCity Holding Limited (NASDAQ: BLCT) since July 2020. Ms. Wu served as the chief investment officer of New Hope Group from November 2018 to February 2020. Prior to joining New Hope Group, Ms. Wu was a founding and managing partner of Baidu Capital from November 2016 to November 2018. Ms. Wu successively served as the deputy chief financial officer, the chief financial officer, and the chief strategy officer at Trip.com Group Limited (NASDAQ: TCOM) from December 2011 to November 2016. Ms. Wu was an equity research analyst covering China Internet and Media industries in Morgan Stanley Asia Limited and in Citigroup Global Markets Asia Limited from 2005 to 2011. Prior to that, Ms. Wu worked in the Department of Enterprises Operations and Management in China Merchants Holdings (International) Company Limited (0144.HK), a company listed on the Hong Kong Stock Exchange, from 2003 to 2005. Ms. Wu holds a Ph.D. degree in finance from the University of Hong Kong, a master's degree in finance from the Hong Kong University of Science and Technology, and a master's degree and a bachelor's degree in economics from Nankai University, China. Ms. Wu is a Chartered Financial Analyst (CFA) since 2004.

Mr. Ya Li has been serving as our independent director since March 2017. Mr. Li founded Beijing Humanistic Intelligence Inc. in 2019 and currently serves as the chief executive officer of this company. Mr. Li currently is also a visiting research fellow and master's supervisor at Beijing University. From February 2015 to January 2019, Mr. Li served as the chief executive officer of Yidian Zixun. From May 2006 to September 2017, Mr. Li served successively as the chief operating officer, the chief financial officer, the president, and a director of Phoenix New Media (NYSE: FENG). From 2004 to 2006, Mr. Li served as the chief operating officer and the chief financial officer of Techedge Inc. From 2002 to 2006, Mr. Li served as the president of China Quantum Communications Inc. Mr. Li also served as directors for U.S. China Chamber of Commerce, Chinese Finance Society, National Council of Chinese Americans, and Council on U.S.-China Affairs from 1996 to 2005. Mr. Li holds an Executive MBA degree from the Wharton School at the University of Pennsylvania, a master degree in Computer Science from Temple University, and a bachelor degree in Control Systems Engineering from the University of Science & Technology of China.

Mr. Naijiang (Eric) Zhou has been serving as our chief financial officer since September 2017. Mr. Zhou has twenty years of professional experience covering corporate finance, financial planning and analysis, domestic and international investment project due diligence, and mutual fund and private equity investment research and management in the U.S. and in China. Most recently, Mr. Zhou was an interim chief financial officer at ChinaCache International Holdings Limited, a Nasdaq-listed company. Mr. Zhou served as a senior vice president of ChinaCache from September 2015 to June 2016. From February 2010 to December 2014, he served as the vice president of finance and the chief financial officer at Sutor Technology Group Limited. Prior to that, Mr. Zhou served in various roles, including an executive vice president and the chief financial officer at Richfield Investment Ltd., an equity research analyst at Roth Capital Partners, a principal financial planner at American Electric Power and a senior research analyst at U.S. Global Investors. Mr. Zhou obtained a bachelor's degree with honors in Petroleum Management Engineering from China Petroleum University, and an MBA in Finance and Ph.D. in Interdisciplinary Energy and Mineral Resources from the University of Texas at Austin. Mr. Zhou is a CFA charter holder.

B. Compensation

For the fiscal year ended December 31, 2020, we paid an aggregate of approximately US$1.9 million in cash to our executive officers, and we paid approximately US$0.1 million in cash compensation to our non-executive directors. In addition, we paid approximately US$0.3 million in pension, housing funds, transportation subsidies and commercial insurance to our executive officers, and we did not set aside or accrued any amount to provide such benefits to our non-executive directors. For share incentive grants to our officers and directors under our share incentive plan, see "—Share Incentive Plan." For restricted share grants outside the share incentive plan, see "—Share Incentive Plan."

Share Incentive Plan

Our board of directors approved the termination of the 2010 share incentive plan, 2013 share incentive plan and 2014 share incentive plan (the "Existing Plans"), and adopted a 2020 share incentive plan, or the 2020 Plan, on June 30, 2020. Upon the termination of the Existing Plans, the awards that are granted and outstanding under the Existing Plans and the evidencing original award agreements shall survive the termination of the Existing Plans and remain effective and binding under the 2020 Plan, subject to any amendment and modification to the original award agreements that the Company shall determine. The restricted shares granted and outstanding under our 2013 share incentive plan and 2014 share incentive plan and held by Leading Advice Holding Limited on behalf of relevant grantees as of the termination of the Existing Plans shall still be by Leading Advice Holding Limited on behalf of those grantees under the 2020 Share Incentive Plan.

Under the 2020 Plan, the maximum aggregate number of common shares available for grant of awards is 31,000,000, consisting of (i) 13,805,945 common shares of the Company underlying the 2,761,189 American depositary shares the Company repurchased pursuant to the repurchase programs authorized by the Company in December 2014 and January 2016, (ii) 8,927,463 common shares of the Company reserved for issuance under the 2020 Plan, representing 8,927,463 common shares of the Company that were previously reserved under the Company's 2010 share incentive plan but the corresponding share incentive awards had not been granted as of the termination of the Company's 2010 share incentive plan, (iii) 7,871,564 common shares of the Company currently held by Leading Advice Holding Limited, the Company's share incentive awards holding platform under the Company's 2013 share incentive plan and 2014 share incentive plan, representing the amount of common shares of which the corresponding awards under the Company's 2013 share incentive plan and 2014 share incentive plan had not been granted as of the termination of the Company's 2013 share incentive plan and 2014 share incentive plan, and (iv) 395,028 common shares of the Company reserved for issuance under the 2020 Share Incentive Plan. Upon the termination of the Existing Plans and the adoption of the 2020 Plan, Leading Advice Holding Limited shall act as the holding platform of certain share incentive awards under the 2020 Share Incentive Plan and continue to hold 7,871,564 common shares of the Company under the 2020 Plan.

As of March 31, 2021, 10,862,500 restricted share units had been granted and outstanding under the 2020 Plan. As of March 31, there were also 1,036,000 unvested restricted shares that survived the termination of our previous share incentive plans and remained outstanding under the 2020 Plan. The following paragraphs summarize the terms of the 2020 Plan.

Types of awards. The 2020 Plan permits the awards of option, restricted share, restricted share unit or other types of award approved by the committee or the board.

Plan administration. The 2020 Plan shall be administered by the board or the compensation committee of the board to whom the board shall delegate the authority to grant or amend awards to participants other than any of the compensation committee members and independent directors.

Award agreement. Options, restricted shares, or restricted share units granted under the 2020 Plan are evidenced by an award agreement that sets forth the terms, conditions, and limitations for each grant.

Option exercise price. The exercise price per share subject to an option shall be determined by the compensation committee and set forth in the award agreement. The exercise price may be amended or adjusted in the absolute discretion of the compensation committee, the determination of which shall be final, binding and conclusive.

Eligibility. We may grant awards to our employees, consultants and all members of our board of directors, as determined by the board of directors.

Vesting schedule. In general, the plan administrator determines the vesting schedule, which is set forth in the award agreement.

Transfer restrictions. Except as otherwise provided by the committee or pursuant to the 2020 Plan, no awards shall be assigned, transferred, or otherwise disposed of other than by will or the laws of descent and distribution.

Termination. Unless terminated earlier, the 2020 Plan will expire automatically in June 2030. At any time and from time to time, our board of directors may terminate, amend or modify the 2020 Plan; provided, however, that (a) to the extent necessary and desirable to comply with applicable laws or stock exchange rules, shareholder approval is required for any amendment in such a manner and to such a degree as required, unless we decide to follow home country practice, and (b) unless we decide to follow home country practice, shareholder approval is required for any amendment to the 2020 Plan that (i) increases the number of shares available under the 2020 Plan, or (ii) permits the committee to extend the term of the 2020 Plan or the exercise period for an option beyond ten years from the date of grant.

The following table summarizes, as of March 31, 2021, the outstanding awards granted to our executive officers and directors under the 2020 plan.

Name	Number of restricted shares awarded (1)	Exercise price (US$/share)	Date of grant	Date of expiration
Naijiang (Eric) Zhou	*	—	March 1, 2018	—

(1) The number in this column does not include the common shares issued to the grantee upon vesting of restricted shares.

* Less than one percent of our total outstanding share capital.

As of March 31, 2021, our employees other than directors and executive officers as a group held 11,578,500 outstanding restricted shares and restricted share units that remain unvested. These restricted shares and restricted share units were granted on various dates from April 1, 2016 through March 1, 2021.

Employment Agreements

We have entered into employment agreements with each of our senior executive officers. We may terminate a senior executive officer's employment for cause at any time by giving written notice for certain acts of the officer, including: (i) conviction of a felony or act of fraud, misappropriation or embezzlement; (ii) gross negligence or dishonest to the detriment of our company; and (iii) material breach of the employment agreement. We may also terminate a senior executive officer's employment upon at least two months' prior written notice. A senior executive officer may terminate his or her employment by giving two-months' or three-months' prior notice.

Each senior executive officer has agreed that he or she shall not, at any time during the period of employment or after the termination of the period of employment, except for the benefit of our company, use or disclose any confidential information to any person, corporation or other entity without our written consent. Upon termination of the employment or at any other time when requested by us, the officer should promptly deliver to our company all documents and materials of any nature pertaining to his or her work with us and should provide written certification of his or her compliance with the employment agreement. Under no circumstances can the officer, following his or her termination, in his or her possession any property of our company, or any documents or materials containing any confidential information. The officer should not, during the employment term, (i) improperly use or disclose any proprietary information or trade secrets of any former employer or other person or entity with which the officer has a duty to keep in confidence information acquired by such officer, if any, or (ii) bring into the premises of our company any document or confidential or proprietary information belonging to the former employer unless consented to in writing by such employer. The officer will indemnify us and hold us harmless from and against all claims, liabilities, damages and expenses.

Each officer also agrees that during the term of employment and within one year of termination of employment, he or she will not approach clients, customers or contacts of our company or other persons or entities introduced to such officer in the his/her capacity as a representative of our company for the purposes of doing business with such persons or entities which will harm the business relationship between our company and such persons or entities. Unless consented to by us, the officer should not assume employment with or provide services as a director or otherwise for any of our competitors, or engage in any competitor as a principal, partner, licensor or otherwise. The officer will not seek, directly or indirectly, by the offer of alternative employment or other inducement whatsoever, to solicit the services of any of our employees as at or after the date of the termination of such officer's employment, or in the year preceding such termination.

C. Board Practices

Board of Directors

Our board of directors consists of eight directors. A director is not required to hold any shares in our company to qualify to serve as a director. All the powers of our company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, or any part thereof and to issue debentures, debenture stock and other securities whenever money is borrowed or as a security for any debt, liability or obligation of our company or any third party, may only be carried out jointly by our chief executive officer and chief financial officer.

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 Ms. Jenny Wenjie Wu and Mr. Ya Li, and is chaired by Ms. Jenny Wenjie Wu. Our board of directors has determined that each of Ms. Jenny Wenjie Wu and Mr. Ya Li satisfies the "independence" requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended, and Rule 5605(a)(2) of the NASDAQ Listing Rules. The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- selecting the independent registered public accounting firm and pre-approving all auditing and non-auditing services permitted to be performed by the independent registered public accounting firm;
- reviewing with the independent registered public accounting firm any significant matters or difficulties encountered by the external auditors during the course of their audits 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 significant matters as to the adequacy of our internal controls and any special procedures adopted by the external auditors in light of material control deficiencies;
- annually reviewing and reassessing the adequacy of our audit committee charter; and
- meeting separately and periodically with management and the independent registered public accounting firm.

Compensation committee

Our compensation committee consists of Ms. Jenny Wenjie Wu, Mr. Ya Li and Mr. Jinbo Li, and is chaired by Mr. Jinbo Li. Our board of directors has determined that each of Ms. Jenny Wenjie Wu and Mr. Ya Li satisfies the "independence" requirements of Rule 5605(a)(2) of the NASDAQ Listing 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:

- reporting regularly to the board;
- reviewing the total compensation package for our two most senior executives and making recommendations to the board with respect to it;
- approving and overseeing the total compensation package for our executives other than the two most senior executives;
- reviewing the compensation of our directors and making recommendations to the board with respect to it; and
- periodically reviewing and approving any long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, and employee pension and welfare benefit plans.

Corporate governance and nominating committee

Our corporate governance and nominating committee consists of Ms. Jenny Wenjie Wu, Mr. Ya Li and Mr. Raymond Weimin Luo, and is chaired by Mr. Raymond Weimin Luo. Our board of directors has determined that each of Ms. Jenny Wenjie Wu and Mr. Ya Li satisfies the "independence" requirements of Rule 5605(a)(2) of the NASDAQ Listing Rules. The corporate governance and nominating committee assists the board in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The corporate governance and nominating committee is responsible for, among other things:

- recommending nominees to the board for election or re-election to the board, or for appointment to fill any vacancy on the board;
- reviewing annually with the board the current composition of the board with regards to characteristics such as independence, age, skills, experience and availability of service to us;
- selecting and recommending to the board the names of directors to serve as members of the audit committee and the compensation committee, as well as of the corporate governance and nominating committee itself;
- advising the board periodically with regards to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any remedial action to be taken; and

- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

Duties of Directors

Under Cayman Islands law, our directors owe fiduciary duties to our company, including a duty of loyalty, a duty to act honestly, and a duty to act in what they consider in good faith to be in our best interests. Our directors must also exercise their powers only for a proper purpose. Our directors also have a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than what 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 from time to time. Our company may have the right to seek damages if a duty owed by our directors is breached. A shareholder may in certain circumstances have rights to damages if a duty owed by the directors is breached.

Terms of Directors and Executive Officers

Our directors may be elected by an ordinary resolution of our shareholders, or by the affirmative vote of a simple majority of our directors (which should include one non-independent director) present and voting at a meeting of our board of directors, and shall hold office until the expiration of his term and until his successor has been elected and qualified, or until such time as they are removed from office by ordinary resolution or the unanimous written resolution of all shareholders. A director will be removed from office automatically (i) if a simple majority of all directors determine at a duly called and constituted board meeting that such director has been guilty of actual fraud or willful neglect in performing his duties as a director, or (ii) if a director is notified of, and fails to attend, an aggregate of three duly called and constituted board meetings within any 365-day period. In addition, the office of a director will be vacated if such director (a) dies, becomes bankrupt or makes any arrangement or composition with his creditors, (b) is found to be or becomes of unsound mind, or (c) resigns his office by notice in writing to us.

D. Employees

As of December 31, 2020, we had 595 employees, including 92 in general administration, 444 in research and development and 59 in sales and marketing. We group our employees into three categories—research and development, sales and marketing and general administration. As required by PRC regulations, we participate in employee benefit plans organized by government authorities, including pensions, work-related injury benefits, medical benefits, maternity benefits, unemployment benefit and housing fund plans. We have granted stock options and restricted shares to management and key employees in order to reward their services and provide them with equity incentives. We maintain good employee relations and have not experienced any material labor disputes since our inception.

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 stock options granted to our directors, executive officers and other employees, see “Item 6. Directors, Senior Management and Employees—B. Compensation—Share Incentive Plans.”

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

Except as specifically noted, the following table sets forth information with respect to the beneficial ownership of our shares as of March 31, 2021 held by:

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

Percentage of beneficial ownership is based on 334,651,981 total outstanding common shares as of March 31, 2021, excluding (i) 9,519,144 common shares held by Leading Advice Holdings Limited, a share incentive awards holding platform, and (ii) 24,706,080 common shares, consisting of shares issued to our depositary bank for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under our share incentive plans and shares repurchased by us but not yet cancelled.

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 of March 31, 2021, 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.

	Common Shares Beneficially Owned	
	Number	%†
Directors and executive officers:**		
Jinbo Li(1)	133,018,479	39.7 %
Sean Shenglong Zou(2)	22,931,611	6.9 %
Hao Cheng	*	*
Yubo Zhang	*	*
Raymond Weimin Luo	—	—
Peng Shi	—	—
Hui Duan	—	—
Jenny Wenjie Wu	*	*
Ya Li	*	*
Naijiang (Eric) Zhou	*	*
All directors and executive officers as group	159,793,522	47.7 %
Principal shareholders:		
Itui International Inc.(3)	133,018,479	39.7 %
Sean Shenglong Zou(2)	22,931,611	6.9 %
Morgan Stanley entities(4)	17,650,355	5.3 %

Notes:

* Less than 1% of the total outstanding common shares.

** The business address of Messrs Jinbo Li, Sean Shenglong Zou, Yubo Zhang, Raymond Weimin Luo, Naijiang (Eric) Zhou and Ms. Jenny Wenjie Wu is 21-23/F, Block B, Building #12, 18 Shenzhen Bay ECO-Technology Park, Keji South Road, Yuehai Street, Nanshan District, Shenzhen, 518057, the People's Republic of China. The business address of Hao Cheng is CITIC Mangrove Bay 10A-1402. The business address of Mr. Peng Shi and Mr. Hui Duan is Room 407, Taixing Building, No.11 Huayuan East Road, Haidian District. Beijing 100089, China. The business address of Mr. Ya Li is Room 1B-2901 Park 1872, 217 Ba Li Zhuang Bei Li, Chaoyang District, Beijing, China.

† For each person and group included in this column, percentage ownership is calculated by dividing the number of common shares beneficially owned by such person or group, including shares that such person or group has the right to acquire within 60 days of March 31, 2021, by the sum of (i) the total number of outstanding common shares as of March 31, 2021, 334,651,981, and (ii) the number of common shares underlying share options, restricted shares, and warrants held by such person or group that are exercisable within 60 days of March 31, 2021.

(1) Mr. Jinbo Li does not hold any common shares of our company directly. Mr. Jinbo Li, through his holding vehicle, owns 19.4% of the total outstanding shares (equal to 54.5% of the total voting power of all outstanding shares) of Itui International Inc., which in turn owns 133,018,479 common shares of our company. By virtual of his controlling interest in Itui International Inc., Mr. Jinbo Li is deemed to be a beneficial owner of 133,018,479 common shares of our company.

(2) Represents (i) 2,186,322 ADSs and one common share directly held by Vantage Point Global Limited, a British Virgin Islands company which is 100% beneficially owned by Mr. Zou through a family trust, and (ii) 2,400,000 ADSs held by Eagle Spirit LLC, a Delaware limited liability company, which is wholly owned by a United States irrevocable trust with Mr. Zou as the settler, and Mr. Zou is the sole director of Eagle Spirit LLC.

(3) Represents 101,820,239 common shares and 6,239,648 ADSs held by Itui International Inc., a limited liability company incorporated under the laws of the Cayman Islands. Mr. Jinbo Li, our chairman and chief executive officer, through his holding vehicle, owns 19.4% of the total outstanding shares (equal to 54.5% of the total voting power of all outstanding shares) of Itui International Inc. Xiaomi Ventures Limited owns 16.3% of the total outstanding shares of Itui International Inc. and has a veto right in determining how Itui International Inc.'s voting power should be exercised when Itui International Inc. votes as a shareholder of our company on certain matters in relation to our company. As a result, Mr. Jinbo Li and Xiaomi Ventures Limited are deemed to be beneficial owners of, and share voting and dispositive power over, 101,820,239 common shares and 6,239,648 ADSs held by Itui International Inc. Xiaomi Ventures Limited is wholly owned by Xiaomi Corporation, a limited liability company organized under the laws of the Cayman Islands and listed on the Hong Kong Stock Exchange (Stock code: 1810). The business address of Xiaomi Ventures Limited is Xiaomi Campus, No. 33 Xi Erqi Middle Road, Haidian District, Beijing, the People's Republic of China. The business address of Itui International Inc. is Room 407, 4/F, Taixing Building, 11 Huayuan East Road, Haidian District, Beijing, the People's Republic of China.

(4) Represents 17,650,355 common shares beneficially owned by Morgan Stanley entities as of December 31, 2020, as reported on the Schedule 13G filled by Morgan Stanley and affiliated parties on February 12, 2021. The address of Morgan Stanley is 1585 Broadway, New York, NY10036.

To our knowledge, as of March 31, 2021, 257,537,789 of our outstanding common shares were held by two record holders in the United States including 257,537,785 common shares held by The Bank of New York Mellon, the depositary of our ADS program. The number of our common shares held by The Bank of New York Mellon include 24,706,080 common shares (i) issued to the depositary bank for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under our share incentive plans, and (ii) repurchased by our company but not yet cancelled. None of our shareholders has informed us that he or she is affiliated with a registered broker-dealer or is in the business of underwriting securities. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

B. Related Party Transactions

Contractual arrangements with our PRC variable interest entity and its shareholders

Due to current legal restrictions on foreign ownership and investment in value-added telecommunications services in China, we conduct our operations in China principally through a series of contractual arrangements with our variable interest entity and its shareholders in China. For a description of these contractual arrangements, see "Item 4. Information on the Company—C. Organizational Structure."

Shareholders agreement

In connection with the issuance of our series E preferred shares, we entered into a seventh amended and restated shareholders agreement in April 2014 with our shareholders and relevant parties therein. Except for the registration rights, all preferred shareholders' rights automatically terminated upon the completion of our initial public offering. Additionally, the co-founders have agreed to the transfer restrictions imposed on an aggregate number of 39,934,162 common shares beneficially owned by the co-founders. Accordingly, the co-founders are unable to transfer the relevant shares to any third party until April 24, 2019 or April 24, 2018, as the case may be. The registration rights we granted to certain of our shareholders expired on the fifth anniversary of the completion of our initial public offering in June 2014.

Employment agreements

See "Item 6. Directors, Senior Management and Employees—B. Compensation—Employment agreements."

Share incentives

See "Item 6. Directors, Senior Management and Employees—B. Compensation—Share incentive plan."

In relation to our 2013 Plan and 2014 Plan, we have appointed Leading Advice Holdings Limited, or Leading Advice, as the administer of both plans. On behalf of us, Leading Advice executes actions based on our instruction to select the eligible grantees, to determine the number of awards and the conditions and provision of such awards, including but not limited to the vesting schedule and acceleration of the awards.

Leading Advice is not entitled to the following rights in relation to the shares registered under its name: (i) dividends, (ii) voting powers prior to vesting of relevant shares and (ii) transfer of the unvested portion of the awards or awards that have not been granted. In addition, upon the liquidation or the dissolution of Leading Advice or the expiration of the relevant plan, common shares not granted as awards shall be transferred back to us at no consideration.

For the awards that have been granted and become vested, Leading Advice will solicit voting instructions from each grantee, and vote in accordance with such instructions. The grantees will be entitled to dividends and have the right to request Leading Advice to transfer vested awards to a transferee designated by the grantees.

Advances extended to certain directors

We extended advances amounting to RMB60,000 to Mr. Shenglong Zou and RMB40,000 to Mr. Chuan Wang, our former chairman, in 2014. These advances were used for general business purposes, to set up certain companies in the PRC which we plan to use to conduct a part of our business and consolidate into the financial statements of our company in the future. As of the December 31, 2020, the advances to Mr. Shenglong Zou and Mr. Chuan Wang remain outstanding.

Game sharing arrangement with Zhuhai Qianyou Technology, Co., Ltd.

In November 2011, we obtained an exclusive game operation right from Zhuhai Qianyou Technology, Co., Ltd., or Zhuhai Qianyou, our equity investee, which is specialized in developing online games. According to the agreement in relation to such game operation right that we entered into with Zhuhai Qianyou, we need to share revenues derived by the licensed games with Zhuhai Qianyou. Game sharing cost paid and payable to Zhuhai Qianyou was approximately US$9,000 in 2018 and nil in both 2019 and 2020. As of December 31, 2018, 2019 and 2020, the amount of unpaid and outstanding game sharing cost we owed to Zhuhai Qianyou was approximately US$2,000, US$2,000 and US$2,000, respectively.

Intellectual property framework agreement between Shenzhen Xunlei and Xunlei Computer

On December 24, 2013, Shenzhen Xunlei and Xunlei Computer entered into a technology development and software license framework agreement. The term of the agreement is two years from the date of its execution.

Under this framework agreement, Xunlei Computer provides Shenzhen Xunlei with technology development services according to Shenzhen Xunlei's business needs. Any new intellectual property resulting from the technology development services is owned by Xunlei Computer, and cannot be substituted or sub-licensed to any third party by Shenzhen Xunlei without the prior written consent of Xunlei Computer. During the term of the framework agreement, with respect to each technology development project, Shenzhen Xunlei and Xunlei Computer will separately sign technology development (services) agreements, which set out the specific terms and amount of consideration, all subject to the terms of the framework agreement.

In addition, under the framework agreement, Xunlei Computer grants Shenzhen Xunlei a non-exclusive and limited right to use certain specified proprietary software that Xunlei Computer owns. With respect to the licensing of each software, Shenzhen Xunlei and Xunlei Computer will separately sign software licensing agreements, which will set out the specific terms and the amount of licensing fee, all subject to the terms of the framework agreement.

In relation to cooperation under the framework agreement, Xunlei Computer and Shenzhen Xunlei entered into four agreements in 2013 for Xunlei Computer's technology development services and its software license and Giganology Shenzhen has agreed to the execution of these agreements and the relevant services and licenses between Xunlei Computer and Shenzhen Xunlei.

For the years ended December 31, 2018, 2019 and 2020, the aggregate amount of the fees that have been incurred by Shenzhen Xunlei for the technology development services and the software license provided by Xunlei Computer under the framework agreement was RMB45.3 million, RMB44.7 million and RMB43.8 million (US$6.4 million), respectively.

Transactions with Xiaomi

In December 2013, we entered into a Cooperation Framework Agreement with Millet Communication Technology Co., Ltd., or Millet Communication, a company controlled by one of our shareholders, Xiaomi Ventures Limited. Parties would enter into separate agreements to carry detailed cooperation.

Xunlei Accelerator Mobile Pre-installing Services Agreement. In 2014, we entered into a Xunlei Accelerator Mobile Pre-installing Services Agreement, or the Pre-installing Services Agreement, with Beijing Xiaomi Mobile Software Co., Ltd., or Beijing Xiaomi, a company controlled by one of our shareholders, Xiaomi Ventures Limited. Through such cooperation, Xiaomi phones would be pre-installed with our mobile acceleration applications and Xiaomi phone users would have access to our acceleration services. We provided such pre-installing service at no charge which was consistent with our pre-installing agreements with other unrelated parties. The Pre-installing Services Agreement had a term of one year, which is renewed on a yearly basis. Parties renewed such agreement in 2015 and 2016. In 2017, we entered into a supplemental agreement of the Pre-installing Services Agreement, or the Supplemental Agreement, with another Xiaomi group company, Guangzhou Millet Information Service Co., Ltd., or Guangzhou Millet. Pursuant to the Supplemental Agreement, Guangzhou Millet replaced Beijing Xiaomi under the Pre-installing Services Agreement. Parties further agreed in the Supplemental Agreement that Guangzhou Millet will share with us a portion of the revenue generated from the advertising services offered by Guangzhou Millet through Xunlei Accelerator that we pre-installed in Xiaomi's mobile phones as compensation for technology solution services we provided to Guangzhou Millet. The Supplemental Agreement had a term of two years from mid-June 2017 to mid-June 2019 and was automatically extended for another two years from mid-June 2019 to mid-June 2021. In 2020, we recognized a revenue of US$2.5 million from Guangzhou Millet. As of December 31, 2020, the amount of outstanding revenue from Guangzhou Millet was US$1.5 million, which was settled in April 2021.

Cloud Computing Service Agreement. We entered into an agreement with Millet Communication in 2015, an agreement with Beijing Xiaomi in 2017 and an agreement with Xiaomi Technology in April 2019 to provide cloud computing services at market prices based on the actual usage. Millet Communication, Beijing Xiaomi and Xiaomi Technology are companies controlled by one of our shareholders, Xiaomi Ventures Limited. In 2020, our total cloud computing revenue was US$2.2 million from Xiaomi Technology. As of December 31, 2020, the amount of outstanding cloud computing revenue US$0.6 million from Xiaomi Technology.

Transactions with Itui International Inc.

Advertising services Agreement. In May 2020, we entered into a user traffic monetization agreement with Itui. Pursuant to the agreement, Itui will be responsible for operating our advertising services and share a portion of revenue generated from placing advertisements on our PC websites and mobile platform. The agreement has a term of one year. In 2020, we recognized a net revenue of US$7.3 million from placing advertisements on our PC websites and mobile platform from Itui. As of December 31, 2020, the amount of outstanding advertising services revenue from Itui was US$7.7 million.

Cloud Computing Service Agreement. We entered into an agreement with Itui in July 2019 to provide cloud computing services at the market price and renewed the agreement in July 2020. The renewed agreement has a term of one year. In 2020, we generated cloud computing revenue of US$1.1 million from Itui. As of December 31, 2020, the amount of outstanding cloud computing revenue from Itui was US$1.2 million.

Acquisition of Shanxian Daojia

In September 2020, Xunlei Wangwenhua entered into a share purchase agreement with the shareholders of Shenzhen Qianhai Shanxian Daojia Co., Ltd., or Shanxian Daojia, to acquire 100% equity interests of Shanxian Daojia for nil cash consideration. Mr. Weimin Luo, a director and the chief operating officer of our company, is a shareholder of Shanxian Daojia controlling 60% of all equity interests of Shanxian Daojia. When Shanxian Daojia was acquired, it had a net debt of approximately RMB5.4 million. Shanxian Daojia was a company principally operating an internet platform for food delivery services. The purpose of this acquisition is to acquire the skilled talents of Shanxian Daojia. After the acquisition, we changed the name of Shanxian Daojia to Shenzhen Yunwang Wulian Technology Co., Ltd.

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 have been involved in legal proceedings related to our business from time to time and expect to continue to be involved in such proceedings in the future. Internet services and content providers such as ours are frequently involved in litigation based on intellectual property-related claims. See “Item 3. Key Information—D. Risk factors—Risks related to our business—We face and expect to continue to face copyright infringement claims and other related claims, including claims based on content available through our services, which could be time-consuming and costly to defend and may result in damage awards, injunctive relief and/or court orders, divert our management’s attention and financial resources and adversely impact our business.”

We were subject to a number of lawsuits in China for alleged copyright infringements over the years, a number of which are still outstanding as of the date of this annual report. In addition, two putative shareholder class action lawsuits have been filed in the United States District Court for the Southern District of New York against our company and certain current and former officers and directors of our company: *Dookeran v. Xunlei Limited, et al.* (filed on January 18, 2018, Case No. 18-cv-467 (S.D.N.Y.)), and *Peng Li v. Xunlei Limited, et al.* (filed on January 24, 2018, Case No. 18-cv-646 (S.D.N.Y.)). Purporting to sue on behalf of all investors who purchased or acquired Xunlei stock from October 10, 2017 to January 11, 2018, plaintiffs allege that certain statements regarding OneCoin in the company's press releases and on a quarterly investor call were false and misleading because, among other things, they failed to disclose that OneCoin was a disguised "initial coin offering" and "initial miner offering" and constituted "unlawful financial activity." Plaintiffs seek to recover under Sections 10(b) and 20(a) of the U.S. Securities Exchange Act of 1934 and Rule 10b-5 thereunder. On April 12, 2018, the court consolidated the actions under the caption *In re Xunlei Limited Securities Litigation*, No. 18-cv-467 (PAC) and appointed lead plaintiffs who filed a consolidated amended compliant on June 4, 2018. We filed a motion to dismiss the amended compliant on August 3, 2018. In September 2019, the U.S. District Judge for the Southern District of New York, Paul A. Crotty, dismissed the two consolidated federal securities class action with prejudice because Xunlei's use of blockchain technology to reward OneCoin (later named as LinkToken) to customers for sharing excess storage and bandwidth did not amount to an initial coin offering and thus did not violate Chinese law. As our OneCoin rewarding program was not illegal, the court concluded we did not make a misrepresentation or omit material facts in failing to describe the Rewards Program as an illegal initial coin offering. The court also ruled that the complaint failed to plead facts giving rise to a strong inference of an intent to deceive, manipulate, or defraud.

Although legal proceedings are inherently uncertain and their results cannot be predicted, we have not been, nor are we currently a party to or aware of, any legal proceeding, investigation or claim that, in the view of our management, is likely to materially and adversely affect our business, financial position or results of operations.

Dividend Policy

We have not previously declared or paid cash dividends. Subject to our ongoing financial performance, cash position, budget and business plan and market conditions, we may consider paying special dividends. However, we do not plan to pay dividends in the foreseeable future. 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 principally on dividends from our subsidiaries in China for our cash requirements, including any payment of dividends to our shareholders. PRC regulations may restrict the ability of our PRC subsidiaries to pay dividends to us. See "Item 4. Information on the Company—B. Business Overview—Regulation—Regulation on dividend distributions."

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 dividends, but no dividend may exceed the amount recommended by our board of directors. 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. Under Cayman Islands law, we may declare and pay dividends on our shares only out of our profit or our share premium account, provided always that even if our company has sufficient profit or share premium, we may not pay a dividend if this would result in our company being unable to pay our debts as they fall due in the ordinary course of business. If we pay any dividends on our common shares, we will pay those dividends which are payable in respect of the common shares underlying our ADSs to the depositary, as the registered holder of such common shares, and the depositary then will pay such amounts to our ADS holders in proportion to the common shares underlying the ADSs held by such ADS holders, 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 common shares, if any, will be paid in U.S. dollars.

B. Significant Changes

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

Item 9. The Offer and Listing

A. Offering and Listing Details

Our ADSs have been listed on The NASDAQ Global Select Market since June 24, 2014. Our ADSs currently trade on The NASDAQ Global Select Market under the symbol "XNET." One ADS represented five common shares.

B. Plan of Distribution

Not applicable.

C. Markets

Our ADSs have been listed on NASDAQ Global Select Market since June 24, 2014 under the symbol "XNET."

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issues

Not applicable.

Item 10. Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

We incorporate by reference into this annual report the description of our eighth amended and restated memorandum and seventh amended and restated articles of association contained in our F-1 registration statement (File No. 333-196221), initially filed with the SEC on June 12, 2014. The eighth amended and restated memorandum and seventh amended and restated articles of association were adopted by our shareholders by special resolutions passed on June 11, 2014, and became effective immediately upon completion of our initial public offering of our common 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 on Form 20-F.

D. Exchange Controls

See "Item 4. Information on the Company—Business Overview—Regulation— Regulation on foreign exchange control and administration."

E. Taxation

Cayman Islands Taxation

According to Maples and Calder (Hong Kong) LLP, our Cayman Islands legal counsel, 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. The Cayman Islands is not party to any double tax treaties that are applicable to any payments made to or by our company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Payments of dividends and capital in respect of the shares will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of a dividend or capital to any holder of the Shares, nor will gains derived from the disposal of the shares be subject to Cayman Islands income or corporation tax.

People's Republic of China Taxation

Under the PRC EIT Law, an enterprise established outside the PRC with "de facto management bodies" within the PRC is considered a "resident enterprise" of the PRC. A circular issued by the SAT on April 22, 2009 clarified that dividends and other income paid by such resident enterprises will be considered PRC-source income and subject to PRC withholding tax, currently at a rate of 10%, when paid to non-PRC enterprise shareholders. Under the implementation regulations to the EIT Law, a "de facto management body" is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and properties of an enterprise. In addition, the circular mentioned above specifies that certain offshore enterprises controlled by PRC resident enterprises will be classified as PRC resident enterprises if the following are located or resident in the PRC: senior management personnel and departments that are responsible for daily production, operation and management; financial and personnel decision making bodies; key properties, accounting books, the company seal, and minutes of board meetings and shareholders' meetings; and half or more of the senior management or directors having voting rights. We do not believe we would be treated as a "resident enterprise" for PRC tax purposes even if the criteria for "de facto management body" as set forth in the circular mentioned above were deemed applicable to us. See "Item 3. Key Information —D. Risk factors—Risks related to doing business in China—Our global income may be subject to PRC taxes under the PRC EIT Law, which may have a material adverse effect on our results of operations." However, if the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, we may be required to withhold a 10% withholding tax from dividends we pay to our non-resident enterprise shareholders, including the holders of our ADSs and non-resident enterprise holders may be subject to PRC tax on gains realized on the sale or other disposition of ADSs or common shares. It is unclear whether our non-PRC individual shareholders (including our ADS holders) would be subject to any PRC tax on dividends or gains in the event we are determined to be a PRC resident enterprise. If any PRC tax were to apply to such dividends or gains, it would generally apply at a rate of 20% (unless a reduced rate is available under an applicable tax treaty).

If we are deemed to be a PRC resident enterprise and our non-resident enterprise shareholders (including our ADS holders) are subject to PRC tax as described above, the withholding agent will be required to withhold enterprise income tax on payments of dividends to such investors. The withholding agent must obtain a tax withholding registration and withhold the enterprise income tax from each payment made to non-resident enterprise shareholders and file a report to the competent tax authorities. Where the withholding agent fails or is unable to perform its withholding obligation, the non-resident enterprise shareholders must pay the tax due to the applicable tax authorities within seven days after the payment is made or due. We, as the withholding agent, will be required to obtain a tax withholding registration and withhold the applicable enterprise income tax in order to comply with the above requirements. It is not clear who the withholding agent would be if tax is due on capital gains. In the event that we or our non-resident enterprise shareholders (including our ADS holders) fail to comply with the above procedures, we or our non-resident enterprise shareholders (including our ADS holders) may be ordered to rectify the non-compliance or be subject to a fine of no more than RMB10,000. Failure by us to withhold the income tax fully and timely may result in a fine of 50% to three times of the unpaid tax and failure by our ADS holders to pay the tax fully and timely may result in late payment penalties, or a fine of 50% to three times of the unpaid tax.

In addition, if we are treated as a PRC resident enterprise for enterprise income tax purposes, we may be eligible for the benefits of the income tax treaty between the PRC and other jurisdictions in which we may derive income, such as the United States. However, if we are treated as a PRC resident enterprise, we do not expect to withhold at treaty rates if any withholding is required on dividends we pay to our non-resident shareholders (including our ADS holders) notwithstanding such holders may be eligible for the income tax treaty between their resident jurisdictions and the PRC. The United States—PRC tax treaty generally limits PRC withholding on dividends to a rate of 10%. Investors should consult their tax advisors regarding the availability of treaty benefits and the procedure for claiming a refund, if any.

If we are not deemed a PRC resident enterprise, no PRC income tax will be withheld from dividends distributed by us and no PRC income tax will be payable on gains realized from the sale or other disposition of our shares or ADSs by the non-resident holders of our shares or ADSs. SAT Circular 7 further clarifies that, where a non-resident enterprise derives income by acquiring and selling shares in an offshore listed enterprise in the public market, such income shall not be subject to PRC tax. However, given the uncertainty concerning the application of SAT Public Notice 37 and SAT Circular 7, we and our non-PRC resident investors may be at risk of being required to file a return and being taxed under SAT Public Notice 37 and SAT Circular 7, and we may be required to expend valuable resources to comply with SAT Public Notice 37 and SAT Circular 7 or to establish that we should not be taxed under SAT Public Notice 37 and SAT Circular 7 in the future.

United States Federal Income Tax Considerations

The following discussion is a summary of the United States federal income tax considerations relating to the ownership and disposition of our ADSs or common shares by a U.S. Holder (as defined below) that holds our ADSs as "capital assets" (generally, property held for investment) under the United States Internal Revenue Code of 1986, as amended, or 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. There can be no assurance that the Internal Revenue Service (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 investors in light of their individual investment circumstances, including investors subject to special tax rules (for example, certain financial institutions, banks, insurance companies, regulated investment companies, real estate investment trusts, broker-dealers, traders in securities that elect mark-to-market treatment, partnerships and their partners, and tax-exempt organizations (including private foundations), holders who are not U.S. Holders, cooperatives, pension plans, U.S. expatriates, persons who acquired ADSs or common shares pursuant to the exercise of any employee share option or otherwise as compensation, holders who own (directly, indirectly or constructively) 10% or more of our stock (by vote or value), holders that hold their ADSs or common shares as part of a straddle, hedge, conversion, constructive sale or other integrated transaction 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 state, local, alternative minimum tax, non-United States tax, non-income tax (such as gift or estate tax), or the Medicare tax considerations. U.S. Holders are urged to consult their tax advisors regarding the United States federal, state, local, and non-United States income and other tax considerations relating to the ownership and disposition of our ADSs or common shares.

General

For purposes of this discussion, a "U.S. Holder" is a beneficial owner of our ADSs or common 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 our ADSs or common 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 our ADSs or common shares and partners in such partnerships are urged to consult their tax advisors regarding the ownership and disposition of our ADSs or common shares.

It is generally expected that a holder of ADSs should be treated, for United States federal income tax purposes, 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 common shares for ADSs will generally not be subject to United States federal income tax.

Passive Foreign Investment Company Considerations

Based on the market price of our ADSs and the composition of assets (in particular, the retention of a large amount of cash), we believe that we were a passive foreign investment company ("PFIC") for United States federal income tax purposes for the taxable year ended December 31, 2020, and we will very likely be classified as a PFIC for our current taxable year ending December 31, 2021 unless the market price of our ADSs increases and/or we invest a substantial amount of the cash and other passive assets we hold in assets that produce or are held for the production of non-passive income. A non-United States corporation, such as our company, will be classified as a "passive foreign investment company", or "PFIC", for United States federal income tax purposes, if, in the case of any particular taxable year, either (i) 75% or more of its gross income for such year consists of certain types of "passive" income or (ii) 50% or more of the value of its assets (generally determined on the basis of a quarterly average) during such year is attributable to assets that 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 non-passive 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, 25% or more (by value) of the stock.

If we are classified as a PFIC for any year during which a U.S. Holder holds our ADSs or common shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. Holder holds our ADSs or common shares even if we cease to meet the threshold requirements for PFIC status, unless a U.S. Holder makes a taxable "deemed sale" election that may allow the U.S. Holder to eliminate the continuing PFIC status under certain circumstances.

The United States federal income tax rules that apply if we are classified as a PFIC for our current or future taxable years are generally discussed below under "Passive Foreign Investment Company Rules."

Dividends

Subject to the discussion below under "Passive Foreign Investment Company Rules," any cash distributions (including the amount of any PRC tax withheld) paid on our ADSs or common 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 common shares, or by the depositary, 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 treated 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 lower applicable capital gains 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 classified as a PFIC for the taxable year in which the dividend is paid or the preceding taxable year) generally will be considered to be a qualified foreign corporation (i) 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 (ii) 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 currently listed on the NASDAQ Global Select Market. We believe that the ADSs will be readily tradable on an established securities market in the United States for so long as our ADSs continue to be listed on the NASDAQ Global Select Market. Since we do not expect that our common shares will be listed on established securities markets, it is unclear whether dividends that we pay on our common shares that are not backed by ADSs currently meet the conditions required for the reduced tax rate. There can be no assurance that our ADSs will continue to be considered readily tradable on an established securities market in later years. Furthermore, as mentioned above, we believe that we were a PFIC for the taxable year ended December 31, 2020, and we will very likely be classified as a PFIC for our current taxable year ending December 31, 2021. Each non-corporate U.S. Holder is advised to consult its tax advisors regarding the availability of the lower capital gains rate applicable to qualified dividend income for any dividends we pay with respect to the common shares and ADSs. Dividends received on our ADSs or common shares will not be eligible for the dividends received deduction allowed to corporations.

Dividends will generally be treated as passive income from foreign sources for United States foreign tax credit purposes. 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 our ADSs or common shares. The rules governing the foreign tax credit are complex. U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances. A U.S. Holder who does not elect to claim a foreign tax credit for foreign tax withheld, may instead claim a deduction, for United States federal income tax purposes, in respect of such withholding, but only for a year in which such holder elects to do so for all creditable foreign income taxes.

Sale or Other Disposition of ADSs or Common Shares

Subject to the discussion below under "Passive Foreign Investment Company Rules," a U.S. Holder will generally recognize capital gain or loss upon the sale or other disposition of ADSs or common shares in an amount equal to the difference between the amount realized upon the disposition and the holder's adjusted tax basis in such ADSs or common shares. Any capital gain or loss will be long-term if the ADSs or common 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 is subject to limitations. In the event that gain from the disposition of the ADSs or common 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 their tax advisors regarding the tax consequences if a PRC tax is imposed on a disposition of our ADSs or common shares, including the availability of the foreign tax credit under their particular circumstances.

Passive Foreign Investment Company Rules

As mentioned above, we believe that we were a PFIC for the taxable year ended December 31, 2020, and we will very likely be classified as a PFIC for our current taxable year ending December 31, 2021. If we are classified as a PFIC for any taxable year during which a U.S. Holder holds our ADSs or common 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 United States federal income tax rules that have a penalizing effect, regardless of whether we remain a PFIC, 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 percent 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 common shares), and (ii) any gain realized on the sale or other disposition, including, under certain circumstance, a pledge, of ADSs or common shares. Under the PFIC rules:

- the excess distribution and/or gain will be allocated ratably over the U.S. Holder's holding period for the ADSs or common shares;
- the 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 classified as a PFIC, or a pre-PFIC year, will be taxable as ordinary income;
- the 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 our ADSs or common shares and any of our non-United States subsidiaries or VIE entities 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 or VIE entities.

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 our ADSs, provided that the ADSs are regularly traded on a national securities exchange that is registered with the SEC, or on a foreign exchange or market that the IRS determines is a qualified exchange that has rules sufficient to ensure that the market price represents a legitimate and sound fair market value. Our ADSs are listed on the NASDAQ Global Select Market, which is an established securities market in the United States. Our ADSs may be regularly traded, but no assurances may be given in this regard. 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 a mark-to-market election in respect of a corporation classified as a PFIC and such corporation ceases to be classified as a PFIC, the holder will not be required to take into account the gain or loss described above during any period that such corporation is not classified as a PFIC. 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 any 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 it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the ADSs are no longer treated as marketable stock or the IRS consents to the revocation of the election. It should also be noted that it is intended that only the ADSs and not the ordinary shares will be listed on the NASDAQ Global Select Market. Consequently, if a U.S. Holder holds ordinary shares that are not represented by ADSs, such holder will generally not be eligible to make a mark-to-market election if we are or were to become a PFIC.

Because a mark-to-market election technically cannot be made for any lower-tier PFICs that we may own, a U.S. Holder that makes a mark-to-market election with respect to our ADSs may continue to be subject to the general PFIC rules with respect to such U.S. Holder's indirect interest in any investments held by us that are treated as an equity interest in a PFIC for United States federal income tax purposes.

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.

If a U.S. Holder owns our ADSs or common shares during any taxable year that we are a PFIC, the holder generally will be required to file annual reports with the IRS. U.S. Holders are advised to consult their tax advisors concerning the United States federal income tax consequences of purchasing, holding and disposing ADSs or common shares if we are or become classified as a PFIC, including the possibility of making a mark-to-market election.

Information Reporting

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 our ADSs or common shares. Each U.S. Holder is advised to consult its tax advisors regarding the application of the United States information reporting rules to its particular circumstances.

Certain U.S. Holders who hold "specified foreign financial assets", including stock of a non-U.S. corporation that is not held in an account maintained by a U.S. "financial institution," whose aggregate value exceeds US$50,000 during the tax year, may be required to attach to their tax returns for the year certain specified information. An individual who fails to timely furnish the required information may be subject to a penalty. U.S. Holders who are individuals should consult their own tax advisors regarding their reporting obligations under this legislation.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

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 that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

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

In accordance with NASDAQ Stock Market Rule 5250(d), we will post this annual report on Form 20-F on our website at http://ir.xunlei.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

Foreign exchange risk

Our financing activities are denominated mainly in U.S. dollars while interest bearing loan we borrowed this year for the construction of our headquarters building is denominated in Renminbi, or RMB. RMB is not freely convertible into foreign currencies. Remittances of foreign currencies into the PRC and conversion of foreign currencies into RMB require approval by foreign exchange administrative authorities and certain supporting documentation. The State Administration for Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into other currencies. The revenues and expenses of our subsidiaries, and the consolidated VIE and its subsidiaries are generally denominated in RMB and their assets and liabilities are denominated in RMB. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge our exposure to such risk. Although in general, our exposure to foreign exchange risks should be limited, the value of your investment in our ADSs will be affected by the exchange rate between the U.S. dollar and the RMB because the value of our business is effectively denominated in RMB, while the ADSs will be traded in U.S. dollars.

The conversion of RMB into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. 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.

To the extent that we need to convert U.S. dollars into RMB for our operations, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount we receive from the conversion. Conversely, if we decide to convert RMB into U.S. dollars for the purpose of making payments for dividends on our common shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the RMB would have a negative effect on the U.S. dollar amounts available to us.

As of December 31, 2020, we had RMB-denominated cash and cash equivalents, and short-term investments of RMB632.9 million, HKD-denominated cash and cash equivalents, restricted cash and short-term investments of HKD1.7 million, THB-denominated cash and cash equivalents, restricted cash and short-term investments of THB2.1 million and U.S. dollar-denominated cash, cash equivalents and short-term investments of US$157.8 million. We also had RMB-denominated restricted cash of RMB10.1 million. Assuming we had converted RMB632.9 million into U.S. dollars at the exchange rate of RMB6.5249 for US$1.00 on December 31, 2020 released by the State Administration of Foreign Exchange of the PRC, our U.S. dollar cash balance would have had a US$97.0 million increase. If the RMB had depreciated by 10% against the U.S. dollar, our U.S. dollar cash balance would have had a US$88.2 million increase instead. Assuming we had converted US$157.8 million into RMB at the exchange rate of RMB6.5249 for US$1.00 on December 31, 2020 released by the State Administration of Foreign Exchange of the PRC, our RMB cash balance would have had a RMB1.0 billion increase. If the RMB had depreciated by 10% against the U.S. dollar, our RMB cash balance would have had a RMB1.1 billion increase instead.

Interest rate 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 have not used derivative financial instruments in our investment portfolio. 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.

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 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)	· Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
$0.05 (or less) per ADS	· Any cash distribution to ADS holders
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	· Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS holders
$0.05 (or less) per ADSs per calendar year	· Depositary services
Registration or transfer fees	· 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
Expenses of the depositary	· Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement) · converting foreign currency to U.S. dollars
Taxes and other governmental charges the depositary or the custodian has to pay on any ADSs or shares underlying ADSs, such as stock transfer taxes, stamp duty or withholding taxes	· As necessary
Any charges incurred by the depositary or its agents for servicing the deposited securities	· As necessary

Fees and Other Payments Made by the Depositary to Us

The depositary has agreed to reimburse us for our expenses incurred in connection with the establishment of our ADS facility including, investor relations expenses, roadshow expenses, legal fees, stock exchange listing fees or any direct or indirect expenses incurred in connection with the establishment of the facility. The depositary has also agreed to provide additional reimbursements to us based on the applicable performance indicators relating to our ADS facility, including ADS issuance and cancellation fees, cash dividend fees and depositary servicing fees. In addition, the depositary has agreed to waive the issuance fees for ADSs issued (i) in connection with our follow-on equity offerings, (ii) to our founders and senior management, and (iii) in connection with our employee incentive plans. In 2020, we received approximately US$0.3 million (after withholding tax) from the depositary.

PART II

Item 13.Defaults, Dividend Arrearages and Delinquencies

None.

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

None.

Item 15.Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act.

Based upon that evaluation, our management, with the participation of our chief executive officer and chief financial officer, has concluded that as of December 31, 2020, our disclosure controls and procedures were effective in ensuring that the information required to be disclosed by us in the reports that we file and furnish under the Exchange Act was recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

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 such term is defined in Rule 13a-15(f) under the Exchange Act, for our company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with generally accepted accounting principles, including those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company's assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company's receipts and expenditures are being made only in accordance with authorizations of a company's management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of a company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation and 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 required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules promulgated by the Securities and Exchange Commission, our management, including our chief executive officer and chief financial officer, assessed the effectiveness of internal control over financial reporting as of December 31, 2020 using the criteria set forth in the report "Internal Control — Integrated Framework (2013)" published by the Committee of Sponsoring Organizations of the Treadway Commission (known as COSO). Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2020.

Our independent registered public accounting firm, PricewaterhouseCoopers Zhong Tian LLP, has audited the effectiveness of our company's internal control over financial reporting as of December 31, 2020, as stated in its report, which appears on page F-2 of this annual report on Form 20-F.

Attestation Report of the Registered Public Accounting Firm

This annual report on Form 20-F includes an attestation report of the company's independent registered public accounting firm because we are a large accelerated filer and we are no longer qualified as an "emerging growth company" as defined under the JOBS Act as of December 31, 2020.

Changes in Internal Control over Financial Reporting

Other than as described above, there were no changes in our internal controls over financial reporting occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Item 16A. Audit Committee Financial Expert

Our board of directors has determined that each of Ms. Jenny Wenjie Wu and Mr. Ya Li, our independent directors (under the standards set forth in Rule 5605(a)(2) of the NASDAQ Listing Rules and Rule 10A-3 under the Securities Exchange Act of 1934) and chairman of our audit committee, is an audit committee financial expert.

Item 16B. Code of Ethics

Our board of directors has adopted a code of business conduct and ethics that applies to our directors, officers and employees, including certain provisions that specifically apply to our chief executive officer, chief financial officer, other executive officers as defined under Rule 405 under the Securities Act of 1933, as amended, senior finance officer, controller, senior vice presidents and any other persons who perform similar functions for us. We have filed our code of business conduct and ethics as Exhibit 99.1 to our registration statement on Form F-1 (File Number 333-196221), as amended, initially filed with the SEC on May 23, 2014. The code is also available on our official website under the corporate governance section at our investor relations website http://ir.xunlei.com. We hereby undertake to provide to any person without charge, a copy of our code of business conduct and ethics within ten working days after we receive such person's written request.

Our chairman and chief executive officer, Mr. Jinbo Li, currently also serves as the chairman and chief executive officer of Itui International Inc., our shareholder holding approximately 39.7% of our outstanding share capital as of March 31, 2021. Mr. Jinbo Li is the founder and a shareholder of Itui International Inc. Section III of our code of business conduct and ethics provides that no employee shall serve on a board of directors or trustees or on a committee of any entity (whether profit or not-for-profit) whose interests could reasonably be expected to conflict with those of the Company. Employees must obtain prior approval from the board of directors before accepting any such board or committee position. The Company may revisit its approval of any such position at any time to determine whether an employee's service in such position is still appropriate. Section III also provides that no employee may have any financial interest (ownership or otherwise) in any other business or entity if such interest requires the employee to devote time to it during such employee's working hours at the Company. On April 11, 2020, our board of directors granted Mr. Jinbo Li a waiver from compliance with the above provisions of our code of business conduct and ethics so that Mr. Jinbo Li is able to simultaneously serve as the chairman and the chief executive officer at both our company and Itui International Inc.

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 PricewaterhouseCoopers Zhong Tian LLP, our principal external auditors, for the periods indicated.

	2018	2019 (in US$)	2020
Audit fees[1]	754,903	905,356	1,019,720
Audit-related fees[2]	—	—	—
All other fees[3]	—	—	—

(1) "Audit fees" represents the aggregate fees billed for each of the fiscal years listed for professional services rendered by our principal accountant for the audit of our annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for each of the fiscal years listed.

(2) "Audit-related fees" represents the aggregate fees billed for each of the fiscal years listed for assurance and related services by our principal accountant that are reasonably related to the performance of the audit or review of our financial statements and are not reported under "audit fees" above.

(3) "All other fees" represents the aggregate fees billed in each of the fiscal years listed for products and services provided by our principal accountant, other than the services reported in "audit fees" and "audit-related fees" above.

The policy of our audit committee is to pre-approve all audit and non-audit services provided by our independent auditor, including audit services, audit-related services and other services 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 independent auditor only provides us with audit services. Our audit committee has approved all of our audit fees for the year ended December 31, 2020.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

In June 2020, our board of directors approved a share-buyback program under which our company may repurchase up to US$20 million of our common shares or ADSs over the next twelve months. The share repurchases may be made from time to time on the open market at the prevailing market prices, in privately negotiated transactions, in block trades and/or through other legally permissible means, depending on market conditions and in accordance with applicable rules and regulations. We publicly announced the share-buyback program on June 29, 2020.

The following table is a summary of the shares repurchased by us during 2020 under the share-buyback program.

Period	Total Number of ADSs Purchased	Average Price Paid Per ADS	Total Number of ADSs Purchased as Part of the Publicly Announced Plan	Approximate Dollar Value of ADSs that May Yet Be Purchased Under the Plan
July 2020 to August 2020	1,191,392	US$3.75	1,191,392	US$15.53 million
Total	**1,191,392**		**1,191,392**	

Item 16F. Change in Registrant's Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

As a Cayman Islands company listed on the NASDAQ Global Select Market, we are subject to the corporate governance standards under the NASDAQ Stock Market Rules. Under Nasdaq Stock Market Rule 5615(a)(3), a foreign private issuer such as us may follow its home-country corporate governance practices in lieu of certain of the Nasdaq Stock Market Rules corporate governance requirements. We strive to comply with most of the Nasdaq corporate governance practices to ensure a high standard of corporate governance. However, our current corporate governance practices differ from Nasdaq corporate governance requirements for U.S. companies in certain respects, as summarized below:

Nasdaq Marketplace Rule 5620(a) requires each issuer to hold an annual meeting of shareholders no later than one year after the end of the issuer's fiscal year-end. The practices of our home country, the Cayman Islands, do not require us to hold annual shareholders meetings every year. We have elected to adopt this practice and did not hold an annual meeting of shareholders for fiscal year 2019. We may, however, hold annual shareholders meeting in the future.

Nasdaq Stock Market Rule 5605(b)(1) requires a Nasdaq-listed company to have a board of directors composed of at least a majority of independent directors. The practices of our home country, the Cayman Islands, do not require us to have a majority of the board of directors composed of independent directors at this time. We have elected to adopt this practice and do not have a board of directors composed of at least a majority of independent directors.

Nasdaq Stock Market Rule 5605(c)(2) requires a Nasdaq-listed company to have an audit committee composed of at least three independent members. The practices of our home country, the Cayman Islands, do not require us to have a three-member audit committee at this time. We have elected to adopt this practice and have an audit committee composed of two independent members.

Nasdaq Stock Market Rule 5605(e)(1) requires a Nasdaq-listed company to have a nominations committee composed solely of independent directors to select or recommend for selection director nominees. The practices of our home country, the Cayman Islands, do not require that any of the members of a company's nominations committee be independent directors. We have elected to adopt this practice in order to utilize the experience of Mr. Raymond Weimin Luo and our corporate governance and nominating committee is not composed solely of independent directors.

Nasdaq Stock Market Rule 5605(d)(2) requires a Nasdaq-listed company to have a compensation committee composed solely of independent directors. The practices of our home country, the Cayman Islands, do not require that any of the members of a company's compensation committee be independent directors. We have elected to adopt this practice in order to utilize the experience of Mr. Jinbo Li and our compensation committee is not composed solely of independent directors.

Maples and Calder (Hong Kong) LLP, our Cayman Islands counsel, has provided a letter to the NASDAQ Stock Market certifying that under Cayman Islands law, we are not required to follow the above corporate governance standards.

Other than the above, there are no significant differences between our corporate governance practices and those followed by U.S. domestic companies under NASDAQ Stock Market Rules.

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 Xunlei Limited, its subsidiaries and its variable interest entity and its subsidiaries are included at the end of this annual report.

Item 19. Exhibits

Exhibit Number	Description of Documents
1.1	Eighth amended and restated memorandum and seventh amended and restated articles of association of the Registrant (incorporated by reference to Exhibit 3.2 of our registration statement on Form F-1, as amended (file no. 333-196221), filed with the SEC on June 12, 2014)
2.1	Registrant's specimen American depositary receipt (included in Exhibit 2.3)
2.2	Registrant's specimen certificate for common shares (incorporated by reference to Exhibit 4.2 of our registration statement on Form F-1, as amended (file no. 333-196221), filed with the SEC on June 12, 2014)
2.3*	Deposit agreement among the Registrant, the depositary and holders of American depositary receipts, dated June 23, 2014
2.4*	Description of securities
4.1	Seventh amended and restated shareholders agreement among the Registrant and its subsidiaries, Shenzhen Xunlei Networking Technologies Co., Ltd. and its subsidiaries, shareholders of the Registrant and other parties thereto, dated April 24, 2014 (incorporated by reference to Exhibit 4.4 of our registration statement on Form F-1 (file no. 333-196221) filed with the SEC on June 12, 2014)
4.2	Series E preferred share purchase agreement, among the Registrant, Xiaomi Ventures Limited and other parties therein, dated as of February 13, 2014 (incorporated by reference to Exhibit 4.6 of our registration statement on Form F-1 (file no. 333-196221) filed with the SEC on May 23, 2014)
4.3	Warrant issued by the Registrant to Xiaomi Ventures Limited dated as of March 5, 2014 (incorporated by reference to Exhibit 4.7 of our registration statement on Form F-1 (file no. 333-196221) filed with the SEC on May 23, 2014)
4.4	Warrant issued by the Registrant to Skyline Global Company Holdings Limited, dated as of March 5, 2014 (incorporated by reference to Exhibit 4.8 of our registration statement on Form F-1 (file no. 333-196221) filed with the SEC on May 23, 2014)
4.5	Supplemental agreement to Series E preferred share purchase agreement, among the Registrant, Xiaomi Ventures Limited and other parties therein, dated as of March 20, 2014 (incorporated by reference to Exhibit 4.9 of our registration statement on Form F-1 (file no. 333-196221) filed with the SEC on May 23, 2014)
4.6	Series E preferred share purchase agreement, among the Registrant, King Venture Holdings Limited, Morningside China TMT Special Opportunity Fund, L.P., Morningside China TMT Fund III Co-Investment, L.P. and IDG Technology Venture Investment V, L.P., dated as of April 3, 2014 (incorporated by reference to Exhibit 4.10 of our registration statement on Form F-1 (file no. 333-196221) filed with the SEC on May 23, 2014)
4.7	2010 share incentive plan (incorporated by reference to Exhibit 10.1 of our registration statement on Form F-1 (file no. 333-196221) filed with the SEC on May 23, 2014)
4.8	2013 share incentive plan (incorporated by reference to Exhibit 10.2 of our registration statement on Form F-1 (file no. 333-196221) filed with the SEC on May 23, 2014)
4.9	2014 share incentive plan (incorporated by reference to Exhibit 10.4 of our registration statement on Form F-1 (file no. 333-196221) filed with the SEC on May 23, 2014)
4.10	2020 share incentive plan (incorporated by reference to Exhibit 99.1 of Form 6-K (file no. 001-35224) furnished to the SEC on July 2, 2020)
4.11	Letter agreement signed by Leading Advice Holdings Limited in relation to 2013 share incentive plan of the Registrant, dated March 20, 2014 (incorporated by reference to Exhibit 10.3 of our registration statement on Form F-1 (file no. 333-196221) filed with the SEC on May 23, 2014)

4.12	Letter agreement signed by Leading Advice Holdings Limited in relation to 2014 share incentive plan of the Registrant, dated May 5, 2014 (incorporated by reference to Exhibit 10.5 of our registration statement on Form F-1 (file no. 333-196221) filed with the SEC on May 23, 2014)
4.13	Letter agreement signed by Leading Advice Holdings Limited in relation to 2013 share incentive plan and 2014 share incentive plan of the Registrant, dated May 19, 2014 (incorporated by reference to Exhibit 10.6 of our registration statement on Form F-1 (file no. 333-196221) filed with the SEC on May 23, 2014)
4.14	Form of indemnification agreement with the Registrant's directors and officers (incorporated by reference to Exhibit 10.7 of our registration statement on Form F-1 (file no. 333-196221) filed with the SEC on June 12, 2014)
4.15	Form of employment agreement between the Registrant and Executive Officers of the Registrant (incorporated by reference to Exhibit 10.8 of our registration statement on Form F-1 (file no. 333-196221) filed with the SEC on June 12, 2014)
4.16	English translation of business operation agreement among Giganology Shenzhen, Shenzhen Xunlei and the shareholders of Shenzhen Xunlei, dated November 15, 2006, as amended on March 1, 2012 and further amended on September 29, 2016 (incorporated by reference to Exhibit 4.15 of our annual report on Form 20-F (file no. 001-35224) filed with the SEC on April 20, 2017)
4.17	English translation of equity pledge agreement among Giganology Shenzhen and the shareholders of Shenzhen Xunlei dated November 15, 2006, as amended on May 10, 2011, March 1, 2012 and March 10, 2014 (incorporated by reference to Exhibit 10.10 of our registration statement on Form F-1 (file no. 333-196221) filed with the SEC on May 23, 2014)
4.18	English translation of power of attorney between Giganology Shenzhen and Shenglong Zou, dated May 10, 2011 (incorporated by reference to Exhibit 10.11 of our registration statement on Form F-1 (file no. 333-196221) filed with the SEC on May 23, 2014)
4.19	English translation of power of attorney between Giganology Shenzhen and Hao Cheng, dated May 10, 2011 (incorporated by reference to Exhibit 10.12 of our registration statement on Form F-1 (file no. 333-196221) filed with the SEC on May 23, 2014)
4.20	English translation of power of attorney between Giganology Shenzhen and Fang Wang, dated May 10, 2011 (incorporated by reference to Exhibit 10.13 of our registration statement on Form F-1 (file no. 333-196221) filed with the SEC on May 23, 2014)
4.21	English translation of power of attorney between Giganology Shenzhen and Jianming Shi, dated May 10, 2011 (incorporated by reference to Exhibit 10.14 of our registration statement on Form F-1 (file no. 333-196221) filed with the SEC on May 23, 2014)
4.22	English translation of power of attorney between Giganology Shenzhen and Guangzhou Shulian Information Investment Co., Ltd., dated May 10, 2011 (incorporated by reference to Exhibit 10.15 of our registration statement on Form F-1 (file no. 333-196221) filed with the SEC on May 23, 2014)
4.23	English translation of exclusive technical support and services agreement between Giganology Shenzhen and Shenzhen Xunlei, dated September 16, 2005, as amended on November 15, 2006 and March 10, 2014 (incorporated by reference to Exhibit 10.16 of our registration statement on Form F-1 (file no. 333-196221) filed with the SEC on May 23, 2014)
4.24	English translation of exclusive technology consulting and training agreement between Giganology Shenzhen and Shenzhen Xunlei, dated September 16, 2005, as amended on November 15, 2006 and March 10, 2014 (incorporated by reference to Exhibit 10.17 of our registration statement on Form F-1 (file no. 333-196221) filed with the SEC on May 23, 2014)
4.25	English translation of proprietary technology license contract between Giganology Shenzhen and Shenzhen Xunlei, dated March 1, 2012 (incorporated by reference to Exhibit 10.18 of our registration statement on Form F-1 (file no. 333-196221) filed with the SEC on May 23, 2014)
4.26	English translation of intellectual properties purchase option agreement between Giganology Shenzhen and Shenzhen Xunlei dated March 1, 2012, as amended on March 10, 2014 (incorporated by reference to Exhibit 10.19 of our registration statement on Form F-1 (file no. 333-196221) filed with the SEC on May 23, 2014)
4.27	English translation of loan agreement among Giganology Shenzhen, Guangzhou Shulian Information Investment Co., Ltd., Sean Shenglong Zou, Hao Cheng, Fang Wang and Jianming Shi, dated December 22, 2010, as amended on March 1, 2012 and March 10, 2014 (incorporated by reference to Exhibit 10.20 of our registration statement on Form F-1 (file no. 333-196221) filed with the SEC on May 23, 2014)

4.28	English translation of loan agreement between Giganology Shenzhen and Sean Shenglong Zou, dated May 10, 2011, as amended on March 1, 2012 (incorporated by reference to Exhibit 10.21 of our registration statement on Form F-1 (file no. 333-196221) filed with the SEC on May 23, 2014)
4.29	English translation of equity interests disposal agreement between Giganology Shenzhen, Guangzhou Shulian Information Investment Co., Ltd., Sean Shenglong Zou, Hao Cheng, Fang Wang and Jianming Shi, dated November 15, 2006, as amended on May 10, 2011 and further amended on September 29, 2016 (incorporated by reference to Exhibit 4.28 of our annual report on Form 20-F (file no. 001-35224) filed with the SEC on April 20, 2017)
4.30	English translation of technology development and software license framework agreement between Shenzhen Xunlei and Xunlei Computer dated December 24, 2013 (incorporated by reference to Exhibit 10.23 of our registration statement on Form F-1 (file no. 333-196221) filed with the SEC on May 23, 2014)
4.31	Content protection agreement by and between Shenzhen Xunlei Networking Technologies Co., Ltd. and other parties thereto dated May 22, 2014 (incorporated by reference to Exhibit 10.24 of our registration statement on Form F-1 (file no. 333-196221) filed with the SEC on June 12, 2014)
4.32	English summary of Assets and Business Transfer Agreement by and between Shenzhen Xunlei Networking Technologies Co., Ltd., Beijing Kingsoft Cloud Network Technology Co., Ltd., Zhuhai Kingsoft Cloud Science and Technology Co., Ltd. and Beijing Kingsoft Cloud Science and Technology Co., Ltd. dated September 2, 2014 (incorporated by reference to Exhibit 4.31 of our annual report on Form 20-F (file no. 001-35224) filed with the SEC on April 20, 2015)
4.33	English translation of the Equity Transfer Agreement dated as of May 13, 2015 by and between Shenzhen Xunlei Networking Technologies Co., Ltd., Beijing Nesound International Media Corp., Ltd. and Shenzhen Xunlei Kankan Information Technologies Co., Ltd. (incorporated by reference to Exhibit 4.32 of our annual report on Form 20-F (file no. 001-35224) filed with the SEC on April 21, 2016)
4.34	English translation of the Business and Assets Transfer Agreement dated as of May 14, 2015 by and among Shenzhen Xunlei Networking Technologies Co., Ltd., Beijing Nesound International Media Corp., Ltd. and Shenzhen Xunlei Kankan Information Technologies Co., Ltd. (incorporated by reference to Exhibit 4.33 of our annual report on Form 20-F (file no. 001-35224) filed with the SEC on April 21, 2016)
4.35	English summary of General Contract for the Construction of Xunlei Building dated April 24, 2018 between Shenzhen Xunlei Networking Technologies Co., Ltd. and China Construction Second Engineering Bureau Ltd. (incorporated by reference to Exhibit 4.34 of our annual report on Form 20-F (file no. 001-35224) filed with the SEC on April 29, 2019)
4.36	English translation of the Financing Agreement dated January 2, 2019 between Shenzhen Xunlei Networking Technologies Co., Ltd. and Shanghai Pudong Development Bank Co., Ltd. Shenzhen Branch (incorporated by reference to Exhibit 4.35 of our annual report on Form 20-F (file no. 001-35224) filed with the SEC on April 29, 2019)
4.37	English translation of the Maximum Mortgage Contract dated January 2, 2019 between Shenzhen Xunlei Networking Technologies Co., Ltd. and Shanghai Pudong Development Bank Co., Ltd. Shenzhen Branch (incorporated by reference to Exhibit 4.36 of our annual report on Form 20-F (file no. 001-35224) filed with the SEC on April 29, 2019)
4.38	English translation of the Irrevocable Letter of Guarantee of Maximum Amount dated March 15, 2018 between Shenzhen Xunlei Networking Technologies Co., Ltd. and China Merchants Bank Shenzhen Branch (incorporated by reference to Exhibit 4.37 of our annual report on Form 20-F (file no. 001-35224) filed with the SEC on April 29, 2019)
4.39	English translation of the Credit Agreement dated March 15, 2018 between Shenzhen Xunlei Networking Technologies Co., Ltd. and China Merchants Bank Shenzhen Branch (incorporated by reference to Exhibit 4.38 of our annual report on Form 20-F (file no. 001-35224) filed with the SEC on April 29, 2019)
4.40*	English translation of the Credit Agreement dated October 21, 2020 between Shenzhen Xunlei Networking Technologies Co., Ltd. and China Merchants Bank Shenzhen Branch
8.1*	List of principal subsidiaries and variable interest entity of the Registrant
11.1	Code of business conduct and ethics of the Registrant (incorporated by reference to Exhibit 99.1 of our Registration Statement on Form F-1 (file no. 333-196221) filed with the Securities and Exchange Commission on June 12, 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 Maples and Calder (Hong Kong) LLP
15.2*	Consent of King & Wood Mallesons
15.3*	Consent of PricewaterhouseCoopers Zhong Tian LLP, an independent registered public accounting firm
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith

** Furnished herewith

SIGNATURES

The registrant here by 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.

Xunlei Limited

By: /s/ Jinbo Li
Name: Jinbo Li
Title: Chairman of the Board and Chief Executive Officer

Date: April 26, 2021

Index to consolidated financial statements

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Xunlei Limited

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Xunlei Limited and its subsidiaries (the "Company") as of December 31, 2020 and 2019, and the related consolidated statements of comprehensive loss, of changes in shareholders' equity and of cash flows for each of the three years in the period ended December 31, 2020, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 15. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) 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.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Goodwill impairment assessment

As described in Notes 2(l) and 14 to the consolidated financial statements, the Company's consolidated goodwill balance was US$22.6 million as of December 31, 2020. The goodwill balance was associated with the Company as a whole, being the sole reporting unit of the Company. Management conducts a goodwill impairment test on an annual basis, or more frequently if events or changes in circumstances indicate that the goodwill may be impaired. The impairment test for goodwill determines the fair value of the reporting unit and compares it to the carrying value of the assets and liabilities, including goodwill, of the reporting unit. The fair value is estimated by management using the discounted cash flow model. The discounted cash flow model is derived from the long-term cash flow projections prepared by management which include significant judgments and assumptions relating to revenue forecast, operating margins, the discount rate, and the terminal growth rate. As a result of the impairment test, management determined that the estimated fair value of the reporting unit exceeded its carrying value and therefore no goodwill impairment losses were recognized for the year ended December 31, 2020.

The principal considerations for our determination that performing procedures relating to goodwill impairment assessment is a critical audit matter are (i) the significant judgment by management when developing the fair value measurement of the reporting unit; (ii) a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating management's significant assumptions related to revenue forecast, operating margins, the discount rate, and the terminal growth rate; and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's goodwill impairment assessment, including controls over the valuation of the Company's reporting unit. These procedures also included, among others (i) testing management's process for developing the fair value estimate; (ii) evaluating the appropriateness of the discounted cash flow model; (iii) testing the completeness, accuracy, and relevance of underlying data used in the model; and (iv) evaluating the reasonableness of significant assumptions used by management, related to revenue forecast, operating margins, the discount rate, and the terminal growth rate. Evaluating management's significant assumptions involved evaluating whether the assumptions used by management were reasonable considering (i) historical performance; (ii) the consistency with relevant market and industry data; and (iii) whether these assumptions were consistent with evidence obtained in other areas of the audit. Professionals with specialized skill and knowledge were used to assist in the evaluation of the appropriateness of the Company's discounted cash flow model and reasonableness of certain significant assumptions, including the discount rate and the terminal growth rate.

/s/PricewaterhouseCoopers Zhong Tian LLP
Shenzhen, the People's Republic of China
April 26, 2021

We have served as the Company's auditor since 2014.

Xunlei Limited
Consolidated Balance Sheets

(Amounts expressed in thousands of United States dollars ("USD"), except for number of shares and per share data)	Note	As at December 31, 2019	As at December 31, 2020
Assets			
Current assets:			
Cash and cash equivalents	5	162,465	137,248
Short-term investments	6	102,847	117,821
Accounts receivable, net (Allowance for credit losses of USD7,604 and USD9,329 as of December 31, 2019 and 2020, respectively)	7	27,533	22,983
Inventories	8	5,537	1,726
Due from related parties	26	1,658	10,970
Prepayments and other current assets (Allowance for credit losses of USD5,503 and USD10,283 as of December 31, 2019 and 2020, respectively)	9	16,543	11,534
Total current assets		**316,583**	**302,282**
Non-current assets:			
Restricted cash	2(f)	2,983	1,541
Long-term investments	10	26,365	26,734
Deferred tax assets	24	1,118	—
Property and equipment, net	11	38,770	50,725
Right-of-use assets	12	8,747	1,954
Intangible assets, net	13	9,426	8,857
Goodwill	2(l), 14	20,382	22,607
Other long-term prepayments and non-current assets	9	313	905
Total assets		**424,687**	**415,605**
Liabilities			
Current liabilities:			
Accounts payable (including accounts payable of the consolidated variable interest entities ("VIE") and its subsidiaries without recourse to the Company of USD 23,865 and USD 20,588 as of December 31, 2019 and 2020, respectively (note 29))		24,213	20,644
Due to related parties (including due to related parties of the consolidated VIE and its subsidiaries without recourse to the Company of USD 2 and USD 55 as of December 31, 2019 and 2020, respectively)	26	5,002	5,389
Contract liabilities and deferred income, current portion (including contract liabilities and deferred income, current portion of the consolidated VIE and its subsidiaries without recourse to the Company of USD 31,988 and USD 34,040 as of December 31, 2019 and 2020, respectively)	15	31,988	34,040
Income tax payable (including income tax payable of the consolidated VIE and its subsidiaries without recourse to the Company of USD 2,436 and USD 2,500 as of December 31, 2019 and 2020, respectively)		2,550	2,553
Accrued liabilities and other payables (including accrued liabilities and other payables of the consolidated VIE and its subsidiaries without recourse to the Company of USD 38,502 and USD 33,361 as of December 31, 2019 and 2020, respectively (note 29))	16	42,840	38,689
Lease liabilities, current portion (including lease liabilities, current portion of the consolidated VIE and its subsidiaries without recourse to the Company of USD 4,621 and USD 1,912 as of December 31, 2019 and 2020, respectively)	12	4,693	1,961
Total current liabilities		**111,286**	**103,276**

Xunlei Limited
Consolidated Balance Sheets (Continued)

(Amounts expressed in thousands of United States dollars ("USD"), except for number of shares and per share data)	Note	As at December 31, 2019	As at December 31, 2020
Non-current liabilities:			
Contract liabilities and deferred income, non-current portion (including contract liabilities and deferred income, non-current portion of the consolidated VIE and its subsidiaries without recourse to the Company of USD 1,223 and USD 920 as of December 31, 2019 and 2020, respectively)	15	1,223	920
Deferred tax liabilities (including deferred tax liabilities of the consolidated VIE and its subsidiaries without recourse to the Company of USD 1,179 and USD 1,085 as of December 31, 2019 and 2020, respectively)	24	1,179	1,085
Bank borrowings (including bank borrowing of the consolidated VIE and its subsidiaries without recourse to the Company of USD 11,324 and USD 19,924 as of December 31, 2019 and 2020, respectively)	17	11,324	19,924
Lease liabilities, non-current portion (including lease liabilities, non-current portion of the consolidated VIE and its subsidiaries without recourse to the Company of USD 4,073 and USD 27 as of December 31, 2019 and 2020, respectively)	12	4,132	27
Total liabilities		**129,144**	**125,232**
Commitments and contingencies	28		
Equity			
Common shares (368,877,205 shares issued and 339,165,241 shares outstanding as of December 31, 2019; 368,877,205 shares issued and 334,401,981 shares outstanding as of December 31, 2020)	18	85	84
Additional paid-in-capital		472,052	469,887
Accumulated other comprehensive loss		(13,425)	(2,144)
Statutory reserves		5,132	5,414
Treasury shares (29,711,964 shares and 34,475,224 shares as of December 31, 2019 and 2020, respectively)		7	8
Accumulated deficits		(166,973)	(181,095)
Total Xunlei Limited's shareholders' equity		**296,878**	**292,154**
Non-controlling interests	21	(1,335)	(1,781)
Total liabilities and shareholders' equity		**424,687**	**415,605**

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

Xunlei Limited
Consolidated Statements of Comprehensive Loss

(Amounts expressed in thousands of USD, except for number of shares and per share data)	Note	Years ended December 31, 2018	2019	2020
Net revenues				
Service revenue		177,528	172,998	185,271
Product revenue		54,604	8,269	1,412
Total revenues, net of rebates and discounts	2(q), 2(y)	232,132	181,267	186,683
Business taxes and surcharges		(1,528)	(602)	(312)
Net revenues		**230,604**	**180,665**	**186,371**
Cost of revenues				
Service	22	(84,033)	(92,732)	(90,977)
Product	22	(31,634)	(7,181)	(1,660)
Total cost of revenues		**(115,667)**	**(99,913)**	**(92,637)**
Gross profit		**114,937**	**80,752**	**93,734**
Operating expenses				
Research and development expenses		(76,763)	(68,571)	(55,463)
Sales and marketing expenses		(35,322)	(31,820)	(18,064)
General and administrative expenses		(40,833)	(38,930)	(33,910)
Asset impairment loss, net of recoveries		(6,348)	2,147	(5,090)
Total operating expenses		**(159,266)**	**(137,174)**	**(112,527)**
Operating loss		**(44,329)**	**(56,422)**	**(18,793)**
Interest income		1,183	1,897	1,471
Interest expense		(239)	(75)	(406)
Other income, net	23	2,810	5,861	4,737
Share of loss from equity investees		(307)	—	—
Loss from continuing operations before income tax		**(40,882)**	**(48,739)**	**(12,991)**
Income tax benefits/(expenses)	24	89	(4,676)	(1,149)
Net loss from continuing operations		**(40,793)**	**(53,415)**	**(14,140)**
Discontinued operations	4			
Income from discontinued operations before income taxes		1,533	—	—
Income tax expenses		(230)	—	—
Net profit from discontinued operations		1,303	—	—
Net loss for the year		**(39,490)**	**(53,415)**	**(14,140)**
Less: net loss attributable to the non-controlling interests		(212)	(246)	(300)
Net loss attributable to Xunlei Limited		**(39,278)**	**(53,169)**	**(13,840)**

Xunlei Limited
Consolidated Statements of Comprehensive Loss (Continued)

(Amounts expressed in thousands of USD, except for number of shares and per share data)	Note	Years ended December 31, 2018	2019	2020
Net loss for the year		(39,490)	(53,415)	(14,140)
Other comprehensive (loss)/income: Currency translation adjustments, net of tax		(5,539)	(650)	11,135
Comprehensive loss		**(45,029)**	**(54,065)**	**(3,005)**
Less: comprehensive loss attributable to non-controlling interests		(34)	(219)	(446)
Comprehensive loss attributable to Xunlei Limited		**(44,995)**	**(53,846)**	**(2,559)**
Loss per share for common shares, basic				
Continuing operations	25	(0.12)	(0.16)	(0.04)
Discontinued operations	25	0.00	N/A	N/A
Total loss per share for common shares, basic		**(0.12)**	**(0.16)**	**(0.04)**
Loss per share for common shares, diluted				
Continuing operations	25	(0.12)	(0.16)	(0.04)
Discontinued operations	25	0.00	N/A	N/A
Total loss per share for common shares, diluted		**(0.12)**	**(0.16)**	**(0.04)**
Weighted average number of common shares used in calculating continuing operations				
Basic	25	334,965,987	337,845,675	337,429,601
Diluted	25	334,965,987	337,845,675	337,429,601

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

Xunlei Limited
Consolidated Statements of Changes in Shareholders' Equity

(Amounts expressed in thousands of USD, except for number of shares and per share data)	Common shares		Treasury stock		Additional paid-in capital	Accumulated deficits	Statutory reserves	Accumulated other comprehensive loss	Total Xunlei Limited's shareholders' equity	Non-controlling interest	Total equity
	Shares	Amount	Shares	Amount							
Balance at January 1, 2018	**333,643,560**	**83**	**35,233,649**	**9**	**461,330**	**(74,526)**	**5,132**	**(7,031)**	**384,997**	**(2,160)**	**382,837**
Share-based compensation	—	—	—	—	5,294	—	—	—	5,294	—	5,294
Restricted shares vested	2,879,220	1	(2,879,220)	(1)	—	—	—	—	—	—	—
Net loss	—	—	—	—	—	(39,278)	—	—	(39,278)	(212)	(39,490)
Currency translation adjustments	—	—	—	—	—	—	—	(5,717)	(5,717)	152	(5,565)
Contribution by non-controlling interest holders	—	—	—	—	—	—	—	—	—	197	197
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	907	907
Balance at December 31, 2018	**336,522,780**	**84**	**32,354,429**	**8**	**466,624**	**(113,804)**	**5,132**	**(12,748)**	**345,296**	**(1,116)**	**344,180**
Share-based compensation	—	—	—	—	5,428	—	—	—	5,428	—	5,428
Restricted shares vested	2,642,465	1	(2,642,465)	(1)	—	—	—	—	—	—	—
Cancellation of common shares	(4)	—	—	—	—	—	—	—	—	—	—
Net loss	—	—	—	—	—	(53,169)	—	—	(53,169)	(246)	(53,415)
Currency translation adjustments	—	—	—	—	—	—	—	(677)	(677)	27	(650)
Balance at December 31, 2019	**339,165,241**	**85**	**29,711,964**	**7**	**472,052**	**(166,973)**	**5,132**	**(13,425)**	**296,878**	**(1,335)**	**295,543**
Repurchase of common shares	(5,956,960)	(1)	5,956,960	1	(4,475)	—	—	—	(4,475)	—	(4,475)
Share-based compensation	—	—	—	—	2,310	—	—	—	2,310	—	2,310
Restricted shares vested	1,193,700	—	(1,193,700)	—	—	—	—	—	—	—	—
Appropriation of statutory reserves	—	—	—	—	—	(282)	282	—	—	—	—
Net loss	—	—	—	—	—	(13,840)	—	—	(13,840)	(300)	(14,140)
Currency translation adjustments	—	—	—	—	—	—	—	11,281	11,281	(146)	11,135
Balance at December 31, 2020	**334,401,981**	**84**	**34,475,224**	**8**	**469,887**	**(181,095)**	**5,414**	**(2,144)**	**292,154**	**(1,781)**	**290,373**

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

Xunlei Limited
Consolidated Statements of Cash Flows

(Amounts expressed in thousands of USD except for number of shares and per share data)	Years ended December 31, 2018	2019	2020
Cash flows from operating activities			
Net loss for the year	(39,490)	(53,415)	(14,140)
Adjustments to reconcile net loss to net cash used in operating activities			
—Depreciation of property and equipment	5,595	5,824	9,277
—Amortization of intangible assets	1,231	1,200	1,216
—Amortization of the right-of-use assets	—	5,634	3,685
—Allowance for credit losses	7,680	19	1,137
—Impairment/(recovery) of prepayments and other assets	(1,516)	(2,147)	4,168
—Loss/(gain) on disposal of property and equipment	37	144	(55)
—Share-based compensation	5,294	5,428	2,310
—Share of loss from equity investees	307	—	—
—Investment income from short-term investments	(1,117)	(1,708)	(664)
—Impairment of inventories	200	3,578	3,283
—Impairment of long-term investments	7,794	19,831	794
—Net unrealized gains on long-term investments	—	(10,907)	(794)
—Investment income on disposal of long-term investments	—	(579)	(214)
—Interest expense accrued on long-term payable	239	75	406
—Deferred taxes	1,748	4,361	966
—Deferred government grants	(1,050)	(1,735)	(865)
Changes in operating assets and liabilities:			
—Accounts receivable	13,256	(8,739)	5,048
—Prepayments and other assets	(2,000)	772	(1,263)
—Due from/to related parties	11,457	(684)	(8,598)
—Accounts payable	(27,728)	2,086	(4,938)
—Inventories	(10,178)	3,435	643
—Contract liabilities	7,680	(664)	289
—Income tax payable	(390)	98	(163)
—Accrued liabilities and other payables	(14,657)	(12,580)	(11,707)
—Lease liabilities	—	(4,976)	(3,732)
Net cash used in operating activities	**(35,608)**	**(45,649)**	**(13,911)**
Cash flows from investing activities			
Purchase of short-term investments	(287,553)	(355,294)	(177,075)
Proceeds from disposal of short-term investments	223,738	450,687	167,439
Proceeds from disposal of property and equipment	442	576	721
Proceeds from disposal of long-term investments	—	528	1,076
Purchase of intangible assets	(2,121)	(433)	(59)
Acquisition of long-term investments	—	(2,838)	—
Repayment of loans to employees	201	711	696
Acquisition of property and equipment	(1,419)	(3,084)	(134)
Payment for construction in progress	(2,645)	(11,593)	(13,420)
Net cash (used in)/generated from investing activities	**(69,357)**	**79,260**	**(20,756)**
Cash flows from financing activities			
Repurchase of shares	—	—	(4,475)
Governments grants received	732	853	—
Contribution by non-controlling	197	—	—
Proceeds from bank borrowings	—	11,324	7,816
Repayment of loans due to a related party arising from a business combination	—	—	(662)
Net cash generated from financing activities	**929**	**12,177**	**2,679**
Net (decrease)/increase in cash, cash equivalents and restricted cash	**(104,036)**	**45,788**	**(31,988)**
Cash, cash equivalents, and restricted cash at beginning of year	233,479	122,930	165,448
Effect of exchange rates on cash and cash equivalents, and restricted cash	(6,513)	(3,270)	5,329
Cash, cash equivalents, and restricted cash at end of year	**122,930**	**165,448**	**138,789**
Supplemental disclosure of cash flow information			
Income tax paid	—	(142)	(356)
Non-cash investing and financing activities			
—Acquisition of property and equipment in form of other payables	(1,093)	(321)	(5,217)
—Acquisition of right-of-use assets and lease liabilities, net off impact from lease modification	N/A	2,723	(3,325)

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

Xunlei Limited
Notes to the consolidated financial statements
(Amounts in US dollars unless otherwise stated)

1. Organization and nature of operations

Xunlei Limited, previously known as Giganology Limited, (the "Company") was incorporated under the law of the Cayman Islands ("Cayman") as a limited liability company on February 3, 2005. The Company completed its initial public offering ("IPO") on June 24, 2014 on the NASDAQ Global Market. Each American Depositary Shares ("ADSs") of the Company represents five common shares.

These consolidated financial statements include the financial statements of the Company, its subsidiaries, its variable interest entity ("VIE") and the VIE's subsidiaries (collectively referred to as the "Group"). As of December 31, 2020, the Company's major subsidiaries, VIE and VIE's subsidiaries are as follows:

Name of entities	Place of incorporation	Period of incorporation	Relationship	% of direct or indirect economic ownership	Principal activities
Shenzhen Xunlei Networking Technologies Co., Ltd. ("Shenzhen Xunlei")	People's Republic of China ("PRC")	January 2003	VIE	100 %	Development of software, provision of online and related advertising, membership subscription and online game services, as well as sales of software licenses
Giganology (Shenzhen) Co., Ltd. ("Giganology Shenzhen")	PRC	June 2005	Subsidiary	100 %	Development of computer software and provision of information technology services to related companies
Shenzhen Xunlei Wangwenhua Co., Ltd. (formerly known as "Shenzhen Fengdong Networking Technologies Co., Ltd.") ("Wangwenhua")	PRC	December 2005	VIE's subsidiary	100 %	Development of software for related companies and provision of advertising services
Shenzhen Zhuolian Software Co., Ltd. (formerly known as "Xunlei Software (Shenzhen) Co., Ltd.")	PRC	January 2010	VIE's subsidiary	100 %	Provision of software technology development for related companies
Xunlei Games Development (Shenzhen) Co., Ltd. ("Xunlei Games")	PRC	February 2010	VIE's subsidiary	70 % (note 21)	Development of online game and computer software for related companies and provision of advertising services
Xunlei Network Technologies Limited ("Xunlei BVI")	British Virgin Islands	February 2011	Subsidiary	100 %	Holding company
Xunlei Network Technologies Limited ("Xunlei HK")	Hong Kong	March 2011	Subsidiary	100 %	Holding company and development of computer software
Xunlei Computer (Shenzhen) Co., Ltd. ("Xunlei Computer")	PRC	November 2011	Subsidiary	100 %	Development of computer software and provision of information technology services
Shenzhen Onething Technologies Co., Ltd. ("Onething")	PRC	September 2013	VIE's subsidiary	100 %	Development of computer software, sale of hardware, and provision of information technology services
Beijing Xunjing Technologies Co., Ltd. (formerly known as "Wangxin Century Technologies (Beijing) Co., Ltd.") ("Beijing Xunjing")	PRC	October 2015	VIE's subsidiary	100 %	Development of computer software and provision of information technology services

Xunlei Limited
Notes to the consolidated financial statements
(Amounts in US dollars unless otherwise stated)

1. Organization and nature of operations (Continued)

Name of entities	Place of incorporation	Period of incorporation	Relationship	% of direct or indirect economic ownership	Principal activities
Shenzhen Crystal Interactive Technologies Co., Ltd. (“Crystal Interactive”)	PRC	May 2016	VIE’s subsidiary	100 %	Development of computer software and provision of information technology services
Beijing Onething Technologies Co., Ltd.	PRC	January 2017	VIE’s subsidiary	100 %	Provision of technology services and development of computer software
HK Onething Technologies Ltd. (“HK Onething”)	Hong Kong	December 2017	Subsidiary	100 %	Development of cloud computing technology and provision of related services
Hainan Onething E-Sports Co., Ltd.	PRC	May 2018	Subsidiary	100 %	Development of computer software and E-sports related services
Henan Tourism Information Co., Ltd. (“Henan Tourism”)	PRC	June 2018	VIE’s Subsidiary	80 % (note 21)	Software development, tourism consulting and other related services
Onething Co., Ltd. (Thailand) (“Thailand Onething”)	Thailand	July 2018	Subsidiary	49 % (note 21)	Development of cloud computing technology and provision of related services
Hainan Xunlei Blockchain Technology Co., Ltd.	PRC	August 2018	VIE’s subsidiary	100 %	Development of computer software and provision of information technology services
Shenzhen Yunwang Wulian Technology Co., Ltd. (formerly known as “Shenzhen Qianhai Shanxian Daojia Technology Co., Ltd.”, “Shanxian Daojia”)	PRC	September 2020	Subsidiary	100 %	Development of computer software and provision of information technology services
Jiangxi Node Technology Service Co., Ltd.	PRC	July 2020	Subsidiary	100 %	Development of computer software and provision of information technology services

Note a : The English names of the PRC companies represent management’s translation of the Chinese names of these companies as they have not adopted formal English names.

The Group engages primarily in the provision of premium downloading services to its members, online advertising services on its websites and mobile phone applications, sales of bandwidth, sales of cloud computing hardware, platform for live streaming services, online game platform for game developers and users and other internet value added services.

To comply with the PRC laws and regulations that prohibit or restrict foreign ownership of companies that provide online advertising services, operate online games, and hold Internet Content Provider (‘‘ICP’’) license, the Company conducts its business through Shenzhen Xunlei, its consolidated VIE.

Through the various agreements enacted among the Company, Giganology Shenzhen, a wholly owned subsidiary of the Company, Shenzhen Xunlei and legal shareholders of Shenzhen Xunlei, the Company received all of the economic benefits and residual interest and absorbed all of the risks and expected losses from Shenzhen Xunlei.

Xunlei Limited
Notes to the consolidated financial statements
(Amounts in US dollars unless otherwise stated)

1. Organization and nature of operations (Continued)

Details of certain key agreements with the VIE are as follows:

—**Loan Agreements** between Giganology Shenzhen and the shareholders of Shenzhen Xunlei— Giganology Shenzhen provided interest-free loans of RMB 9 million to the legal shareholders of Shenzhen Xunlei for them to make contributions as registered capital into Shenzhen Xunlei. The term of these agreements last for two years from the date it was signed, and will be automatically extended afterwards on a yearly basis until each legal shareholder of Shenzhen Xunlei has repaid the loans in its entirety in accordance with the loan agreement. The legal shareholders would not be allowed to transfer their interests in Shenzhen Xunlei without prior consent of Giganology Shenzhen. According to the loan agreements, the loans can only be repaid in the form of common shares of Shenzhen Xunlei. At any time during the term of the loan agreements, Giganology Shenzhen may, at their sole discretion, requires any of the legal shareholders of Shenzhen Xunlei to repay all or any portion of their outstanding loan under the agreement.

Under a separate loan agreement between Giganology Shenzhen and Mr. Sean Shenglong Zou as a legal shareholder of Shenzhen Xunlei, Giganology Shenzhen made an additional interest-free loan of RMB20 million to Mr. Sean Shenglong Zou, the entire amount of which was contributed to the registered capital of Shenzhen Xunlei, increasing the registered capital of Shenzhen Xunlei to RMB 30 million. The term of this agreement lasts for two years from the date it was signed, and will be automatically extended afterwards on a yearly basis until Mr. Zou has repaid the loan in its entirety in accordance with the loan agreement. This loan will be deemed to be repaid when all equity interest held by the shareholders in Shenzhen Xunlei has been transferred to Giganology Shenzhen or its designated parties. At any time during the term of this loan agreement, the Company may, at their sole discretion, require all or any portion of the outstanding loan under the agreement to be repaid.

—**Business Operation Agreements** between Giganology Shenzhen and Shenzhen Xunlei—Under these agreements, Giganology Shenzhen has the rights to direct the operating activities of Shenzhen Xunlei, including the appointment of senior management. The legal shareholders of Shenzhen Xunlei also transferred all their shareholders' rights to Giganology Shenzhen. The term of this agreement will expire in 2016 and may be extended with Giganology Shenzhen's confirmation prior to the expiration date. For instance, in May 2011, Shenzhen Xunlei sought and obtained consent from Giganology Shenzhen and the Company to increase its registered capital by RMB20 million and to revise its articles of association accordingly. This agreement expired on November 15, 2016 and has been extended to 2026.

—**Equity Pledge Agreement** between Giganology Shenzhen and the legal shareholders of Shenzhen Xunlei—Under this agreement, the legal shareholders of Shenzhen Xunlei pledged all of their equity interests in Shenzhen Xunlei to Giganology Shenzhen. If Shenzhen Xunlei and/or its legal shareholders breach their contractual obligations under this agreement, Giganology Shenzhen, as pledgee, will be entitled to certain rights, including the right to sell the pledged equity interests.

—**Power of Attorney**—Each legal shareholder of Shenzhen Xunlei appointed Giganology Shenzhen as its attorney-in-fact to exercise their shareholders' rights in Shenzhen Xunlei, including shareholders' voting rights. Each power of attorney will remain in force for 10 years starting from 2011 unless the business operation agreement among Giganology Shenzhen, Shenzhen Xunlei and the legal shareholders of Shenzhen Xunlei is terminated in advance. This period may be extended at Giganology Shenzhen's discretion.

Xunlei Limited
Notes to the consolidated financial statements
(Amounts in US dollars unless otherwise stated)

1. Organization and nature of operations (Continued)

—**Service Agreements** between Giganology Shenzhen and Shenzhen Xunlei—Under various service agreements, Giganology Shenzhen will provide services including technical support, training, as well as consulting services to Shenzhen Xunlei in exchange for a service fee. These service agreements include the Exclusive Technology Support and Services Agreement, the Exclusive Technology Consulting and Training Agreement and the Software and Proprietary Technology License Contract. Giganology Shenzhen is entitled to service fees equal to 20%, 20% and 40% of the pre-tax operating profit of Shenzhen Xunlei according to the terms and provisions of these agreements, respectively (in aggregate 80% of pre-tax operating profit of Shenzhen Xunlei). In addition, these agreements also allow both parties to review and adjust the above mentioned percentage every six months according to the business operation and income of Shenzhen Xunlei so as to enable Giganology Shenzhen to extract substantially all the after-tax operating profit of Shenzhen Xunlei.

For the Exclusive Technology Support and Services Agreement and the Exclusive Technology Consulting and Training Agreement, the term of these agreements will expire in 2025 and may be extended with Giganology Shenzhen's written confirmation prior to the expiration date. Giganology Shenzhen is entitled to terminate the agreement at any time by providing 30 days' prior written notice to Shenzhen Xunlei.

For the Proprietary Technology License Contract, the term of this contract will expire in 2022 and may be extended with Giganology Shenzhen's written confirmation prior to the expiration date. Giganology Shenzhen grants Shenzhen Xunlei a non-exclusive and non-transferable right to use Giganology Shenzhen's proprietary technology. Shenzhen Xunlei can only use the proprietary technology to conduct business according to its authorized business scope. Giganology Shenzhen or its designated representative(s) owns the rights to any new technology developed due to implementation of this contract.

—Intellectual Properties Purchase Option Agreement between Giganology Shenzhen and Shenzhen Xunlei. Giganology Shenzhen has an option to acquire Shenzhen Xunlei's intellectual properties at the lowest price permissible by the then-applicable PRC laws and regulation. The term of this contract will expire in 2022 and may be automatically extended for an additional 10 years at Giganology Shenzhen's discretion.

—**Call Option Agreement**—Giganology Shenzhen has an option to acquire all of the outstanding shares of Shenzhen Xunlei at a purchase price equal to RMB 1 or the lowest price permissible by the then-applicable PRC laws and regulation. The term of the agreement will expire in 2022 and may be extended at Giganology Shenzhen's discretion.

As a result of these agreements (collectively defined as "Structured Service Contracts"), Giganology Shenzhen can exercise effective control over Shenzhen Xunlei, receives all of the economic benefits and residual interest and absorbs all of the risks and expected losses from Shenzhen Xunlei as if it were the sole shareholder, and has an exclusive option to purchase all of the equity interest in Shenzhen Xunlei at a minimal price. Therefore, Giganology Shenzhen is considered the primary beneficiary of Shenzhen Xunlei and accordingly Shenzhen Xunlei's results of operations, assets and liabilities have been consolidated in the Company's financial statements.

Xunlei Limited
Notes to the consolidated financial statements
(Amounts in US dollars unless otherwise stated)

1. Organization and nature of operations (Continued)

VIE-Related Risks

It is possible that the Group's operation of certain of its operations and businesses through VIEs could be found by PRC authorities to be in violation of PRC laws and regulations prohibiting or restricting foreign ownership of companies that engage in such operations and businesses. While the Group's management considers the possibility of such a finding by PRC regulatory authorities under current laws and regulations to be remote, on January 19, 2015, the Ministry of Commerce of the PRC, or (the "MOFCOM") released on its Website for public comment a proposed PRC law (the "Draft FIE Law") that appears to include VIEs within the scope of entities that could be considered to be foreign invested enterprises (or "FIEs") that would be subject to restrictions under existing PRC law on foreign investment in certain categories of industry. Specifically, the Draft FIE Law introduces the concept of "actual control" for determining whether an entity is considered to be an FIE. In addition to control through direct or indirect ownership or equity, the Draft FIE Law includes control through contractual arrangements within the definition of "actual control". If the Draft FIE Law is passed by the People's Congress of the PRC and goes into effect in its current form, these provisions regarding control through contractual arrangements could be construed to reach the Group's VIE arrangements, and as a result the Group's VIEs could become explicitly subject to the current restrictions on foreign investment in certain categories of industry. The Draft FIE Law includes provisions that would exempt from the definition of foreign invested enterprises entities where the ultimate controlling shareholders are either entities organized under PRC law or individuals who are PRC citizens.

On December 26, 2018, the Standing Committee of National People's Congress published the Draft FIE Law on its official website for public consultation (the "2018 Draft Foreign Investment Law"). The 2018 Draft Foreign Investment Law does not explicitly recognize the variable interest entity structure as a form of foreign investment. Since the 2018 Draft Foreign Investment Law remains silent with respect to the variable interest entity structure as a form of foreign investment, the validity of the Group's VIE structure as a whole and each of the agreements comprising VIEs will not be affected by the 2018 Draft Foreign Investment Law. It leaves leeway for government's future regulation of the variable interest entity structure. According to the deliberation and voting results from the final session of the 13th National People's Congress on March 15, 2019, the FIE Law has been enacted and there was no substantial change to the 2018 Draft Foreign Investment Law. However, it is possible that future laws, administrative regulations, or provisions of the State Council may recognize the variable interest entity structure as a form of foreign investment but at the same time impose additional requirements/restrictions on the contractual arrangements. It is also possible that further laws, administrative regulations, or provisions of the State Council may explicitly exclude the variable interest entity structure as a form of foreign investment.

If a finding was made by PRC authorities under existing laws and regulations and becomes effective, the Group's operation of certain of its operations and businesses through VIEs, regulatory authorities with jurisdiction over the licensing and operation of such operations and businesses would have broad discretion in dealing with such a violation, including levying fines, confiscating the Group's income, revoking the business or operating licenses of the affected businesses, requiring the Group to restructure its ownership structure or operations, or requiring the Group to discontinue all or any portion of its operations. Any of these actions could cause significant disruption to the Group's business operations, and have a severe adverse impact on the Group's cash flows, financial position and operating performance.

In addition, it is possible that the contracts among the Group, the Group's VIEs and shareholders of its VIEs would not be enforceable in China if PRC government authorities or courts were to find that such contracts contravene PRC law and regulations or are otherwise not enforceable for public policy reasons. In the event that the Group was unable to enforce these contractual arrangements, the Group would not be able to exert effective control over the affected VIEs. Consequently, such VIE's results of operations, assets and liabilities would not be included in the Group's consolidated financial statements. If such were the case, the Group's cash flows, financial position and operating performance would be severely adversely affected. The Group's contractual arrangements with respect to its consolidated VIEs are approved and in place. The Group's management believes that such contracts are enforceable, and considers the possibility remote that PRC regulatory authorities with jurisdiction over the Group's operations and contractual relationships would find the contracts to be unenforceable.

Xunlei Limited
Notes to the consolidated financial statements
(Amounts in US dollars unless otherwise stated)

2. Summary of significant accounting policies

(a) Basis of presentation and use of estimates

The consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Significant accounting policies followed by the Group in the preparation of the accompanying consolidated financial statements are summarized below.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the accompanying consolidated financial statements and related disclosures. Actual results could differ materially from these estimates. Significant accounting estimates reflected in the Group’s consolidated financial statements mainly include allowance for credit losses, valuation allowance of deferred tax assets, impairment assessment of goodwill and impairment assessment of long-lived assets. In addition, the Group uses assumptions in a valuation model to estimate the fair value of share options granted, warrants issued and underlying common shares.

Management bases the estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from these estimates.

(b) Consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries, VIE for which the Company is the primary beneficiary and its subsidiaries. All significant transactions and balances among the Company, its subsidiaries, VIE and its subsidiaries have been eliminated upon consolidation.

A subsidiary is an entity in which the Company, directly or indirectly, controls more than one-half of the voting power, or has the power to appoint or remove the majority of the members of the board of directors to cast majority of votes at meetings of the board of directors or to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

An entity is considered to be a VIE if the entity’s equity holders do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties.

The Group consolidates entities for which the Company is the primary beneficiary if the entity’s other equity holders do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties.

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(Amounts in US dollars unless otherwise stated)

2. Summary of significant accounting policies (Continued)

(b) Consolidation (Continued)

In determining whether the Company or its subsidiary is the primary beneficiary of a VIE, the Company considered whether it has the power to direct activities that are significant to the VIE's economic performance, including the power to appoint senior management, right to direct company strategy, power to approve capital expenditure budgets, and power to establish and manage ordinary business operation procedures and internal regulations and systems.

Management has evaluated the contractual arrangements among Giganology Shenzhen, Shenzhen Xunlei and its shareholders and concluded that Giganology Shenzhen receives all of the economic benefits and absorbs all of the expected losses from Shenzhen Xunlei and has the power to direct the aforementioned activities that are significant to Shenzhen Xunlei's economic performance, and is the primary beneficiary of Shenzhen Xunlei. Therefore, Shenzhen Xunlei and its subsidiaries' results of operation, assets and liabilities have been included in the Group's consolidated financial statements. Management monitors the regulatory risk associated with these contractual arrangements. See note 29 for further discussion.

Non-controlling interests represent the portion of the net assets of a subsidiary attributable to interests that are not owned by the Company. The non-controlling interests are presented in the consolidated balance sheets, separately from equity attributable to the shareholders of the Company. Non-controlling interests in the results of the Group is presented on the face of the consolidated statements of comprehensive income as an allocation of the total income or loss for the year between non-controlling shareholders and the shareholders of the Company.

(c) Business combinations

The Group accounts for acquisitions of entities that include inputs and processes and have the ability to generate economic benefit as business combinations. The Group allocates the purchase price of the acquisition to the tangible assets and identifiable intangible assets acquired based on their estimated fair values. The excess of the purchase price over those fair values is recorded as goodwill. Acquisition-related costs are expensed as incurred.

(d) Discontinued operations

When disposals that represent a strategic shift that has (or will have) a major effect on the entity's results and operations would qualify as discontinued operations. Discontinued operations are reported when a component of an entity comprising operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity is classified as held for disposal or has been disposed of, if the component either (1) represents a strategic shift or (2) have a major impact on an entity's financial results and operations. Examples include a disposal of a major geographical location, line of business, or other significant part of the entity, or disposal of a major equity method investment. In the consolidated statement of comprehensive income, result from discontinued operations is reported separately from the income and expenses from continuing operations and prior periods are presented on a comparative basis. Cash flows for discontinuing operations are presented separately in note 4. In order to present the financial effects of the continuing operations and discontinued operations, revenues and expenses arising from intra-group transactions are eliminated except for those revenues and expenses that are considered to continue after the disposal of the discontinued operations.

Xunlei Limited
Notes to the consolidated financial statements
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2. Summary of significant accounting policies (Continued)

(d) Discontinued operations (Continued)

Non-current assets or disposal groups are classified as held for sale assets when the carrying amount is to be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets or disposal groups and the sale must be highly probable. Non-current assets classified as held for sale and disposal groups are measured at the lower of their carrying or fair value less costs to sell.

(e) Foreign currency translation

The Company's reporting and functional currency is the United States Dollar (''USD''). Xunlei BVI, Xunlei HK and HK Onething's functional currency is the USD, and Thailand Onething's functional currency is the Thai Baht ("THB"). The functional currency of other subsidiaries, VIE and its subsidiaries located in the PRC is the Renminbi (''RMB''), which is their respective local currency. Transactions denominated in foreign currencies are remeasured into the functional currency at the exchange rates prevailing on the transaction dates. Financial assets and liabilities denominated in foreign currencies are remeasured into the functional currency using the applicable exchange rates prevailing at the balance sheet date. The resulting exchange gains and losses from foreign currency transactions are included in other income/(loss) within the consolidated statements of comprehensive income.

The Company uses the monthly average exchange rate for the year and the exchange rates at the balance sheet date to translate the operating results and financial position, respectively, of its subsidiaries whose functional currency is other than the USD. The resulting translation differences are recorded in cumulated translation adjustments, a component of shareholders' equity.

The exchange rate used is the one released by Chinese State Administration of Foreign Exchange.

(f) Cash and cash equivalents and restricted cash

Cash and cash equivalents include cash on hand, cash in bank and time deposits placed with banks or other financial institutions, which have original maturities of three months or less and are readily convertible to known amounts of cash.

Cash that is restricted as to withdrawal or for use or pledged as security is reported separately on the face of the consolidated balance sheets, and is included in the total cash, cash equivalents, and restricted cash in the consolidated statements of cash flows. The Group's restricted cash is substantially cash balance on deposit required by its business partners, commercial banks and the court.

(g) Short-term investments

Short-term investments include deposits placed with banks with original maturities of more than three months but within one year and investments in financial instruments with a variable interest rate indexed to the performance of underlying assets. In accordance with *ASC 825 Financial Instruments*, for investments in financial instruments with a variable interest rate indexed to performance of underlying assets, the Group elected the fair value method at the date of initial recognition and carried these investments subsequently at fair value. Changes in the fair value are reflected in the consolidated statements of comprehensive income. Interest generated from short term investments are recorded when interest payments are received at the maturity date. It is recorded as "Other income, net" on the statement of comprehensive income and measured based on the actual amount of interest the Group received.

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2. Summary of significant accounting policies (Continued)

(h) Allowance for expected credit losses

Effective on January 1, 2020, the Group adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments - Credit Losses (Topic 326)* under a modified retrospective transition, which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost with the cumulative-effect adjustment recognized to the opening balance of accumulated deficit of the Group as of January 1, 2020. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss methodology, referred to as a current expected credit losses ("CECL") methodology, which will result in more timely recognition of credit losses. The CECL methodology requires that the full amount of expected credit losses for the lifetime of the financial instrument be recorded at the time it is originated or acquired, considering relevant historical experience, current conditions and reasonable and supportable macroeconomic forecasts that affect the collectability of financial assets, and adjusted for changes in expected lifetime credit losses subsequently, which may require earlier recognition of credit losses. The Group's accounts receivable, due from related parties and other current assets (including other receivables) and other long-term non-current assets (including other long-term receivables) are within the scope of ASC Topic 326.

The Group assessed the credit loss for accounts receivable with similar risk characteristics on a pool basis. The credit loss assessment for each pool was mainly based on past collection experience, consideration of current and future economic conditions and changes in our collection trends.

The credit allowances provided for accounts receivable from continuing operations as of December 31, 2019 and 2020 were USD 7,604,000 and USD 9,329,000, respectively.

(i) Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using actual cost on a weighted average basis. Net realizable value is the amount that can be realized from the sale of the inventory in the normal course of business after allowing for the costs of realization.

(j) Long-term investments

The Group holds investments in privately held companies. Prior to adopting ASU 2016-01, *Financial Instruments* on January 1, 2018, for those investments over which the Group does not have significant influence and without readily determined fair value, the Group carried the investment at cost and only adjusted for other-than-temporary declined in fair value and distribution of earnings that exceed the Group's share of earnings.

On January 1, 2018, the Group adopted ASU 2016-01, *Financial Instruments*, and started to measure long-term equity investments, other than equity method investments, at fair value through earnings. For those investments over which the Group does not have significant influence and without readily determinable fair value, the Group elected to record these investments at cost, less impairment, and plus or minus subsequent adjustments for observable price changes. Under this measurement alternative, changes in the carrying value of equity investments will be required to be made whenever there are observable price changes in orderly transactions for the identical or similar investment of the same issuer.

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2. Summary of significant accounting policies (Continued)

(j) Long-term investments (Continued)

Management regularly evaluates the impairment of long-term equity investments based on performance and financial position of the investee as well as other evidence of market value. Such evaluation includes, but 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 recognized equal to the excess of the investment costs over its fair value at the end of each reporting period for which the assessment is made. The fair value would then become the new cost basis of investment.

During the years ended December 31, 2018, 2019 and 2020 the Group recognized an impairment of USD 7,794,000, USD 19,830,000 and USD 794,000, and share of loss of equity investees of USD 317,000, nil and nil, respectively, from equity method investments.

(k) Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment loss, if any. Depreciation is calculated using the straight-line method over their estimated useful lives. Residual rate is determined based on the economic value of the asset at the end of the estimated useful life as a percentage of the original cost. If the Group commits to a plan to abandon a long-lived asset before the end of its previous estimated useful life, depreciation shall be revised to reflect a shortened useful life.

	Estimated useful lives	Residual rate
Servers and network equipment	3-5 years	5 %
Computer equipment	5 years	5 %
Furniture, fittings and office equipment	3-5 years	5 %
Motor vehicles	5 years	5 %
Leasehold improvements	Shorter of lease term or 3 years	—

Repair and maintenance costs are expensed as incurred. Expenditures that substantially increase an asset's useful life are capitalized. Upon sale or disposal, gain or loss on the disposal of property and equipment is the difference between the net sales proceeds and the carrying amount of the relevant assets and is recognized in the consolidated statements of comprehensive loss. The cost and related accumulated depreciation are removed from the balance sheets.

(l) Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed from the acquired entity as a result of the Company's acquisitions of interests in its subsidiaries and consolidated VIEs. Goodwill is not amortized but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that it might be impaired. The Company first assesses qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. In the qualitative assessment, the Company considers primary factors such as industry and market considerations, overall financial performance of the reporting unit, and other specific information related to the operations. Based on the qualitative assessment, if it is more likely than not that the fair value of each reporting unit is less than the carrying amount, the quantitative impairment test is performed.

Xunlei Limited
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2. Summary of significant accounting policies (Continued)

(l) Goodwill (Continued)

In performing the two-step quantitative impairment test, the first step compares the fair values of each reporting unit to its carrying amount, including goodwill. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit's goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. This allocation process is only performed for the purposes of evaluating goodwill impairment and does not result in an entry to adjust the value of any assets or liabilities. Application of a goodwill impairment test requires significant management judgment, including the identification of reporting units, allocation of assets, liabilities and goodwill to reporting units, and determination of the fair value of each reporting unit.

Starting in 2020, the Company adopted the FASB issued ASU 2017-04: Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (the "Update"). To simplify the subsequent measurement of goodwill, the Board eliminated Step 2 from the goodwill impairment test. Under the amendments in this Update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity should apply the amendments in this Update on a prospective basis. An entity is required to disclose the nature of and reason for the change in accounting principle upon transition. It is more likely that, by adopting simplified measurement which eliminates the Step 2 from goodwill impairment test, an entity with the triggering event for goodwill impairment will recognize more goodwill impairment than it would do under the old model.

The Group's goodwill was attributable to the Company as a whole. The impairment test for goodwill determines the fair value of the reporting unit, the Company as a whole, and compares it to the carrying value of the assets and liabilities, including goodwill, of the reporting unit. The fair value of the Company was estimated by management using the discounted cash flow model derived from the long-term (five-year) cash flow projections, which included significant judgements and assumptions relating to revenue forecast and operating margins, discount rate of 18.2% that reflects market assessments of the time value and the specific risks relating to the Company, and cash flows beyond the five-year period are extrapolated using a terminal growth rate of 2%.

No goodwill impairment losses were recognized for the years ended December 31, 2018, 2019 and 2020 based on the impairment test performed by the Group.

(m) Intangible assets

Intangible assets, which include land use rights, acquired computer software, online game licenses and audio-visual license, are carried at cost less accumulated amortization with no residual value and impairment loss, if any. Amortization of intangible assets is computed using the straight-line method over the estimated useful lives of the assets as follows:

	Estimated useful lives
Land use rights	30 years
Acquired computer software	5 years
Online game licenses	1-3 years
Audio-visual license	9 years

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Notes to the consolidated financial statements
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2. Summary of significant accounting policies (Continued)

(n) Impairment of long-lived assets

For other long-lived assets, the Group evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. The Group assesses the recoverability of the long-lived assets by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to be received from use of the assets and their eventual disposition at the lowest level of identifiable cash flows. Such assets are considered to be impaired if the sum of the expected undiscounted cash flows is less than the carrying amount of the assets. If the Group identifies an impairment, the carrying value of the asset will be reduced to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values.

(o) Commitments and contingencies

In the normal course of business, the Group is subject to contingencies, such as legal proceedings and claims arising out of its business, that cover a wide range of matters. Liabilities for such contingencies are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. In regard to legal cost, the Group recorded such costs as incurred.

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Group, but which will only be resolved when one or more future events occur or fail to occur. The Group's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Group or unasserted claims that may result in such proceedings, the Group, in consultation with its legal counsel, evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Group's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, if determinable and material, would be disclosed.

(p) Operating leases

On January 1, 2019, the Group adopted *ASC Topic 842 Leases* ("ASC 842") to revise the accounting for leases. The adoption of new lease standard 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.

Lessees shall follow the requirements to classify most leases as either financing or operating using principles similar to previous lease accounting. In the statement of comprehensive income, a lessee shall present both of the following: a) for finance leases, the interest expense on the lease liability and amortization of the right-of-use asset are not required to be presented as separate line items and shall be presented in a manner consistent with how the entity presents other interest expense and depreciation or amortization of similar assets, respectively; b) for operating leases, lease expense shall be included in the lessee's income from continuing operations.

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2. Summary of significant accounting policies (Continued)

(p) Operating leases (Continued)

The Group adopted ASC 842 on a modified retrospective basis and did not restate comparative periods. The adoption of ASC 842 resulted in the recognition of right-of-use assets and related lease liabilities of approximately USD11.8 million and USD11.4 million, respectively, which were reported on the consolidated balance sheet as of January 1, 2019. The Group have elected the short-term lease exemption for all leases with a lease term of 12 months. Payments associated with short-term leases are recognized on a straight-line basis as an expense in profit or loss.

The standard also requires a lessee to recognize a single lease cost related to operating lease, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. The net profit after tax had not to be materially impacted as a result of adopting the new rules.

With the adoption of ASC 842, the Group assesses, at contract inception, whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In determining the appropriate discount rate to use in calculating the present value of contractual lease payments, management regularly evaluates the lessee's incremental borrowing rate, as the rate implicit in the lease cannot be readily determined.

See note 12 for additional disclosures on operating lease arrangements.

(q) Revenue recognition

The Group adopted ASC Topic 606 *Revenue from Contracts with Customer* ("ASC 606"), from January 1, 2018, using the modified retrospective method. The core principle of the ASC 606 is an entity should recognize revenues to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue is recognized when or as the control of the services or goods is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the services and goods may be transferred over time or at a point in time.

A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. Contract costs includes incremental costs of obtaining a contract and costs to fulfil a contract.

The Group generates revenues from various streams. Net revenues presented in the consolidated statements of loss represent revenues from service and product sales net off sales discount, value-added tax and related surcharges.

Xunlei Limited
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2. Summary of significant accounting policies (Continued)

(q) Revenue recognition (Continued)

(I) Subscription revenues

The Group operates a VIP membership program where VIP members can have access to high speed online acceleration services, online streaming and other access privileges. The membership fee is time-based and is collected up-front from subscribers. The terms of time-based subscriptions range from one month to twelve months, with the subscribers having the option to renew the contract. The receipt of subscription fee is initially recorded as contract liabilities. The Group satisfies its various performance obligations by providing services throughout the subscription period and revenue is recognized ratably over the period of subscription as services are rendered. Unrecognized portion beyond 12 months from balance sheet date is classified as a long-term liability. The Group evaluated the principal versus agent criteria and determined that the Group is the principal in the transaction and accordingly records revenue on a gross basis. In determining whether to report revenues gross for the amount of subscription revenue, the Group assesses whether it maintains the principal relationship with the VIP members, whether it bears the credit risk and whether it establishes prices for the end users. Service fees levied by online system, fixed phone line and mobile payment channels (‘‘Payment handling charges’’) are recorded as the cost of revenues in the same period as the revenue for the membership fee is recognized.

(II) Advertising revenues

Advertising revenues are derived principally from arrangements where the customers pay to place their advertisements on the Group’s platform over a particular period of time. It includes multiple performance obligations, primarily for advertisements to be displayed in different spots at different times, placed under different formats including but are not limited to videos, banners, links, logos and buttons. Advertisements on the Group’s platform are generally charged on the basis of duration, and advertising contracts are signed to establish the fixed price and the advertising services to be provided. The Group enters into advertising contracts with third party advertising agencies that represents advertisers, as well as directly with advertisers. A typical contract term would range from a few days to 3 months. Both third party advertising agencies and direct advertisers are generally billed at the end of the display period and payments are due usually within 3 months.

Where the Group’s customers purchase multiple advertising spaces with different display periods in the same contract, the Group allocates the total consideration to the various advertising elements based on their relative fair values and recognizes revenue for the different elements over their respective display periods. The Group determines the fair values of different advertising elements based on the prices charged when these elements were sold on a standalone basis. The Group recognizes revenue on the elements delivered and defers the recognition of revenue for the fair value of the undelivered elements until the remaining obligations have been satisfied. Where all of the elements within an arrangement are delivered uniformly over the agreement period, the revenue is recognized on a straight-line basis over the contract period.

Transactions with third party advertising agencies

For contracts entered into with third party advertising agencies, the third-party advertising agencies will in turn sell the advertising services to advertisers. Revenue is recognized ratably over the contract period of display.

The Group provides sales incentives in the forms of discounts and rebates to third party advertising agencies based on purchase volume. As the advertising agencies are viewed as the customers in these transactions, revenue is recognized based on the price charged to the agencies, net of sales incentives provided to the agencies. Sales incentives are estimated and recorded at the time of revenue recognition based on the contracted rebate rates and estimated sales volume based on historical experience.

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Notes to the consolidated financial statements
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2. Summary of significant accounting policies (Continued)

(q) Revenue recognition (Continued)

(II) Advertising revenues (Continued)

Transactions with advertisers

The Group also enters into advertisement contracts directly with advertisers. Under these contracts, similar to transactions with third party advertising agencies, the Group recognizes revenue ratably over the contract period of display. The terms and conditions, including price, are fixed according to the contract between the Group and the advertisers. The Group also performs credit assessment of all advertisers prior to entering into contracts. Revenue is recognized based on the amount charged to the advertisers, net of discounts.

The Group has estimated and recorded sales rebates provided to the agencies and advertisers of USD 394,000, nil and nil for the years ended December 31, 2018, 2019 and 2020, respectively.

Transactions with advertising platforms

Xunlei also cooperates with advertising platforms such as Guangdiantong and Baidu, of which, the advertising platforms are responsible for matching the requirements of advertisers or advertising agencies and dispatching the advertising content to Xunlei's platforms by certain analysis systematically. As the advertising platforms are viewed as customers in these transactions, revenue is recognized monthly based on the data publicized on the platforms and pre-agreed sharing portion.

In May 2020, the Group entered into a user traffic monetization agreement with Beijing Itui Technology Co., Ltd. (“Beijing Itui”), a company controlled by the Company's principal shareholder. Since May 2020, Beijing Itui has been handling all of the Group's advertising resources, including matching the requirements of advertisers and dispatching the advertising content to Xunlei's platforms. Beijing Itui is viewed as the customer and revenue is recognized monthly based on the data publicized on the platforms and pre-agreed sharing portion.

(III) Live streaming revenue

The Group operates a live streaming platform where users can access the platform, view the live streaming content provided by the Group’s performers, and purchase virtual gifts which they can grant to performers in the live streaming platform to show support for their favorite performers. Xunlei is the principal in the provision of the live streaming content and experience, which is considered as the performance obligation of the Group. The Group recognized revenue from sales of virtual gifts to the viewers when the relevant virtual gifts are presented to the performers or over the duration of stated period of the time-based item. The Group does not have further obligations to the viewers after the virtual gifts are consumed immediately or after the stated period for time-based items, although the Group will continue to provide the live streaming content to the viewers in order to continue to generate more sales of virtual gifts.

(IV) Cloud computing and other internet value-added services

(i) Revenues from cloud computing

As part of the Group’s cloud computing business, the Group engages in sale of OneThing Cloud. OneThing Cloud is a personal cloud hardware device that allows users to share their idle bandwidth with the Group, in exchange for LinkTokens. LinkTokens are not convertible into cash but they can be used to redeem products and services offered in the LinkTokens Mall. LinkTokens represent an obligation to deliver future services by the operator of the LinkToken program.

Xunlei Limited
Notes to the consolidated financial statements
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2. Summary of significant accounting policies (Continued)

(q) Revenue recognition (Continued)

(IV) Cloud computing and other internet value-added services (Continued)

(i) Revenues from cloud computing (Continued)

Prior to April 1, 2019, the bandwidth shared by the users in exchange for LinkTokens is an identifiable benefit which the Group can reasonably estimate fair value. The benefit that the Group receives from user's contribution of bandwidth is independent from OneThing Cloud that the Group sells to users.

In April 2019, the Group transferred the operation of LinkTokens, including the issuance and redemption obligation of LinkTokens, as well as the LinkTokens Mall to a third party, Beijing LinkChain Co., Ltd. ("Beijing LinkChain"). Upon completion of the transfer, users could continue to share their idle bandwidth with the Group in exchange for the LinkTokens issued by Hainan LinkChain Networking Technology Co., Ltd. ("Hainan LinkChain"), a wholly owned subsidiary of Beijing LinkChain, (note 9). In addition, the Group is obligated to pay to Hainan LinkChain a pre-determined amounts per active user of OneThing Cloud who shared their idle bandwidth with the Group. This arrangement expired in April 2020.

In April 2020, the Group launched the OneThing Cloud app, allowing users to contribute their idle bandwidth capacity in exchange for certain amount of cash rewards. As the sales of OneThing Cloud and purchase of excess bandwidth by the Group are considered separate transactions, the sales of OneThing Cloud should be reported as revenue, while cash rewards given for purchase of bandwidth should be reported as bandwidth cost.

The Group primarily sells OneThing Cloud to individuals through online e-commerce platforms before 2019 and also corporate customers starting from 2019. The performance obligation is satisfied when the item is dispatched to the end customers.

The core business concept of cloud computing is to collect idle uplink capacity from individuals with reward, and deliver those collected computing resources to online video streaming platforms. On a monthly basis, the Group records the bandwidth it delivers and recognizes revenue from these online video streamers under contractual rates applied (price per GB of bandwidth multiplies total GBs of bandwidth per month).

Revenue is recognized net of return allowances when the products are delivered and title passes to customers. Return allowances, which reduce net revenues, are estimated based on historical experiences. Product warranties are estimated and recognized at the time the Company recognizes revenue. The warranty period is 1 year. The Company accrues warranty liabilities at the time of sale, based on historical and projected incident rates and expected future warranty costs.

(ii) Revenues from online games

Since 2018, the Group discontinued its web game business and started to operate web game business again under a co-operation model with third party games operators in 2019.

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2. Summary of significant accounting policies (Continued)

(q) Revenue recognition (Continued)

(IV) Cloud computing and other internet value-added services (Continued)

(ii) Revenues from online games (Continued)

Web games – cooperating with third parties

The Group enters into a series of technical cooperation agreements with third party online game operators. Users access to the Group's platform and purchase in-game virtual items which can then be used in games provided by the third-party online game operators. The Group provides the third-party online game operators with a portal which the online game operators can host the online games. The Group charges the online game operators based on a pre-determined portion of proceeds earned from paying users pursuant to the revenue sharing arrangements for the provision of portal and payment collection service to the online game operators. The third-party online game operators are the principal in the provision of games to users and the Group provide the relevant platform to the game operators, therefore, the game operators are viewed as the customers in these transactions.

The service fees receivable from the third-party online game operators are variable, which are contingent upon future events (future cash proceeds paid by game players), and are recognized when the contingency is met provided that collectability is reasonably assured.

(r) Sales and marketing expenses

Sales and marketing expenses comprise primarily salary, benefits of sales and marketing personnel and external advertising and market promotion expenses. The external advertising and market promotion expenses from continuing operations amounted to approximately USD 22,935,000, USD 20,974,000 and USD 11,026,000 for the years ended December 31, 2018, 2019 and 2020, respectively.

Shipping and handling fee is recorded in sales and marketing expenses.

(s) General and administrative expenses

General and administrative expenses consist primarily of salary and benefits, professional service fees, legal expenses and other administrative expenses.

(t) Research and development costs

The Group incurred research and development costs to develop its downloading software and bandwidth crowdsourcing technologies to enhance the competitive advantages of the Group's key products, such as Xunlei Accelerator and cloud computing services. Costs incurred during the research phase are expensed as incurred. Costs incurred for the development of the downloading software and bandwidth crowdsourcing technologies prior to the establishment of technological feasibility, which is when a working model is available, are expensed when incurred. The development costs qualified for capitalization have been immaterial for the periods presented.

In addition, the Group incurred other research and development costs in relation to software used to support its operations. Any development costs qualified for capitalization were immaterial for the periods presented.

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2. Summary of significant accounting policies (Continued)

(u) Taxation and uncertain tax positions

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements' carrying amounts of existing assets and liabilities and their respective tax bases and tax loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which the difference is expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statement of operations in the period that includes the enactment date. A valuation allowance is provided to reduce the carrying amount of deferred tax assets if it is considered more likely than not that some portion, or all, of the deferred tax assets will not be realized. The estimation of future taxable income involves significant judgement and estimates. Based on management's estimated future taxable income, management concluded that it is more likely than not that the net operating losses carried forward can be utilized prior to their respective expiration dates. The Group adopted the guidance regarding uncertain tax positions and evaluated its open tax positions that exist in each jurisdiction for each reporting period. If an uncertain tax position is taken or expected to be taken in a tax return, the tax benefit from that uncertain position is recognized in the Group's consolidated financial statements if it is more likely than not that the position is sustainable upon examination by the relevant taxing authority. The Group did not have any significant uncertain tax position and there was no effect on its financial condition or results of operations as a result of implementing the new guidance. The Group recognizes interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense, if any.

PRC Value Added Tax

VAT payable on goods sold or taxable labor 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. In addition to the product revenues currently subject to VAT at a rate of 13% (16% before April 1, 2019 and 17% before May 1, 2018), the Group's advertising revenues, subscription revenue, online game revenue, revenue from cloud computing services and live streaming revenue are now subject to VAT at a rate of 6%.

According to the policy of the PRC State Tax Bureau, starting from April 1, 2019 to December 31, 2021 enterprises that engage in postal services, telecommunication services and consumer services are entitled to claim 110% of the input tax incurred as tax credit in determining VAT payable.

(v) Retirement benefits

Full-time employees of the Company's subsidiaries, consolidated VIE and its subsidiaries in the PRC participate in a government mandated multi-employer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require that the subsidiaries and VIEs of the Company 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 from continuing operations for such employee benefits, which are expensed as incurred, were USD 12,501,000, USD 12,337,000 and USD 7,949,000 for the years ended December 31, 2018, 2019 and 2020, respectively.

(w) Share-based compensation

The Group measures share-based compensation at the grant date based on the fair value of the award determined using the Black-Scholes option pricing model. As the Group has granted share options and restricted shares with service-only condition, the Group elected to recognize compensation costs net of estimated forfeitures on a straight-line basis over the requisite service period, which is generally the same as the vesting period. The amount of compensation cost recognized at any date is at least equal to the portion of the grant-date value of the award that is vested at that date.

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2. Summary of significant accounting policies (Continued)

(x) Government subsidies

The Group receives subsidies from the local PRC government for general use or purchase of equipment. General-use subsidies which are not subject to any conditions or specific use requirements are recorded as subsidy income in the consolidated statements of operations. Subsidies for purchase of equipment are recorded as deferred government grant when received, and are recorded as other income over the expected useful life of the assets after the related equipment has been purchased.

(y) Segment reporting

The Group's Chief Executive Officer has been identified as the chief operating decision maker, who reviews consolidated operating results of the Group when making decisions about allocating resources and assessing performance of the Group as a whole. The Group has internal reporting of revenue, cost and expenses that does not distinguish between segments, and reports costs and expense by nature as a whole. The Group does not distinguish between markets or segments for the purpose of internal reporting. Management has determined that the Group operates and manages its business as a single segment, over 99%of revenues of the Group were derived from mainland China.

An analysis of the different types of revenues for the years ended December 31, 2018, 2019 and 2020 are summarized as follows:

Revenue from continuing operations (In thousands)	Years ended December 31, 2018	2019	2020
Subscription revenue	81,877	81,532	84,299
Product revenue (note a)	54,604	8,269	1,412
Live streaming revenue	31,031	26,920	20,866
Advertising revenue	27,781	15,643	13,206
Cloud computing service and other internet value-added services (note b)	36,839	48,903	66,900
Total	**232,132**	**181,267**	**186,683**

Notes:

(a) Product revenue comprise sales of OneThing Cloud devices and hard disks.

(b) Other internet value-added services mainly comprise provision of technical services.

(z) Net loss per share

Net basic loss per share is computed by dividing net loss attributable to holders of common shares by the weighted-average number of common shares outstanding during the year using the two class method. Using the two class method, net loss is allocated between common shares and other participating securities based on their participating rights.

Net diluted loss per share is calculated by dividing net loss attributable to common shareholders as adjusted for the effect of dilutive common equivalent shares, if any, by the weighted-average number of common and dilutive common equivalents shares outstanding during the year. Dilutive equivalent shares are excluded from the computation of diluted loss per share if their effects would be anti-dilutive. Common share equivalents consist of the common shares issuable upon the conversion of the stock options, using the treasury stock method.

Xunlei Limited
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2. Summary of significant accounting policies (Continued)

(aa) Comprehensive income

Comprehensive income is defined as the change in equity of a Group during the period from transactions and other events and circumstances excluding transactions resulting from investments from shareholders and distributions to shareholders. Accumulated other comprehensive income, as presented on the accompanying consolidated balance sheets, consists of cumulative translation adjustments.

(bb) Profit appropriation and statutory reserves

The Group's subsidiaries, consolidated VIE and its subsidiaries incorporated in the PRC are required on an annual basis to make appropriations of retained earnings set at certain percentage of after-tax profit determined in accordance with PRC accounting standards and regulations ("PRC GAAP"). Appropriation to the statutory general reserve should be at least 10% of the after-tax net income determined in accordance with the legal requirements in the PRC until the reserve is equal to 50% of the entities' registered capital. The Group is not required to make appropriation to other reserve funds and the Group does not have any intentions to make appropriations to any other reserve funds.

The general reserve fund can only be used for specific purposes, such as setting off the accumulated losses, enterprise expansion or increasing the registered capital. Appropriations to the general reserve funds are classified in the consolidated balance sheets as statutory reserves.

There are no legal requirements in the PRC to fund these reserves by transfer of cash to restricted accounts, and the Group does not do so.

(cc) Dividends

Dividends are recognized when declared. No dividends were declared for the years ended December 31, 2018, 2019 and 2020. The Group does not have any present plan to pay any dividends on common shares in the foreseeable future. The Group currently intends to retain the available funds and any future earnings to operate and expand its business.

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2. Summary of significant accounting policies (Continued)

(dd) Recent accounting pronouncements

Income Tax (Topic 740): Simplifying the Accounting for Income Taxes. In December 2019, the FASB issued ASU 2019-12, Income Tax (Topic 740): Simplifying the Accounting for Income Taxes. ASU 2019-12 removes certain exceptions for recognizing deferred taxes for equity method investments, performing intra-period allocation and calculating income taxes in interim periods. The ASU also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for goodwill and allocating taxes to members of a consolidated group. ASU 2019-12 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the effect of the disclosure requirements of ASU 2019-12 will have on its consolidated financial statements and does not expect the impact to have a material effect on its consolidated financial statements.

Clarifying the interactions between Topic 321, Topic 323, and Topic 815: In January 2020, the FASB issued Accounting Standards Update ("ASU") No. 2020-01 to clarify the interaction of the accounting for equity securities under Topic 321 and investments under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. The amendments clarify that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. The amendments also clarify that for the purpose of applying paragraph 815-10-15-141(a) an entity should not consider whether, upon the settlement of the forward contract or exercise of the purchased option, individually or with existing investments, the underlying securities would be accounted for under the equity method in Topic 323 or the fair value option in accordance with the financial instruments guidance in Topic 825. An entity also would evaluate the remaining characteristics in paragraph 815-10-15-141 to determine the accounting for those forward contracts and purchased options. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2020.

3. Business combination

In September 2020, the Group entered into a sale and purchase agreement to acquire 100% equity interests of Shanxian Daojia from Weimin Luo, a director and Chief Operating Officer of the Company (see note 26), and a third party individual at nil consideration while taken up the net liabilities of Shanxian Daojia The allocation of the purchase price at the date of acquisition is as follows:

USD (In thousands)	As of acquisition date
Property and equipment, net	17
Accrued liabilities and other payables	(798)
Goodwill	781
Total	—

Shanxian Daojia is a company principally operating an internet platform for daily services. The purpose of this acquisition is to acquire the skilled talents of Shanxian Daojia and goodwill arising from this acquisition is attributable to the acquired workforce. This acquisition was completed on September 30, 2020. The acquired goodwill is not deductible for tax purposes. Acquisition related costs were immaterial and were included in general and administrative expenses for the year ended December 31, 2020.

Pro forma revenue data and pro forma earnings data was not disclosed because the impact was immaterial.

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4. Discontinued operations

In December 2017, the Company signed a contract ("Disposal Agreement") to divest its web game business, a major line of the Group's online game business, to Shenzhen Xunyi Network Technology Corp., Ltd. ("Shenzhen Xunyi"), a company operated by a few former core members of Xunlei's web game business at a consideration of RMB 4,180,000 (equivalent to approximately USD 640,000). The disposal was due to a shift of strategy to allow the Group better manages its internal resources, including internal traffic referral and corporate allocation. The disposal was completed in January 2018 and a gain of USD 1.4 million was recognized.

As part of the disposal and according to the Disposal Agreement, Xunlei agreed to assist the Buyer to collect and pay certain receivables and payables of the web game business for a period of no longer than one year after the completion of disposal. In addition, the Buyer agreed to enter into business cooperation services with Xunlei, including purchase of advertising services in the next 24 months, after signing the Disposal Agreement, under a separate negotiated term. Relevant business cooperation agreements have been signed in January 2018 at market term.

Results of the discontinued operation

USD (In thousands)	Year ended December 31, 2018
Revenues, net of rebates and discounts	656
Business taxes and surcharges	(1)
Net revenues	655
Cost of revenues	(16)
Gross profit	**639**
Operating expenses	
Research and development expenses	(419)
Sales and marketing expenses	(63)
General and administrative expenses	(18)
Total operating expenses	**(500)**
Operating income	139
Gain on disposal of web game	1,394
Income tax expenses	(230)
Income from discontinued operations	**1,303**

Cash flows generated from the discontinued operation

USD (In thousands)	Year ended December 31, 2018
Net cash generated from operating activities	1,065
Net cash flow for the year	**1,065**

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5. Cash and cash equivalents

Cash and cash equivalents represent cash on hand, cash held at bank, and time deposits placed with banks or other financial institutions, which have original maturities of three months or less. Cash on hand and cash held at bank balance as of December 31, 2019 and 2020 primarily consist of the following currencies:

	December 31, 2019		December 31, 2020	
(In thousands)	Amount	USD equivalent	Amount	USD equivalent
RMB	322,972	46,296	312,581	47,906
USD	115,805	115,805	89,050	89,050
Hong Kong Dollar	2,202	283	1,737	224
THB	2,417	81	2,052	68
Total		**162,465**		**137,248**

As at December 31, 2019 and 2020, included in the cash and cash equivalents are time deposits with original maturities of three months or less of USD 34,000,000 and USD 27,200,000 respectively.

6. Short-term investments

(In thousands)	December 31, 2019	December 31, 2020
Time deposits	102,555	68,828
Investments in financial instruments (note)	292	48,993
Total	**102,847**	**117,821**

Note: The investments were issued by commercial banks in the PRC with a variable interest rate indexed to performance of underlying assets. Since these investments' maturity dates are within one year, they are classified as short-term investments.

Time deposits and investments in financial instruments are stated on the balance sheets at the principal amount plus accrued interest. Interest income is recorded in "Other income, net" in the consolidated statements of comprehensive loss.

7. Accounts receivable, net

(In thousands)	December 31, 2019	December 31, 2020
Accounts receivable	35,137	32,312
Less: Allowance for credit losses	(7,604)	(9,329)
Accounts receivable, net	**27,533**	**22,983**

The following table presents movement in the allowance for expected credit loss:

(In thousands)	December 31, 2018	December 31, 2019	December 31, 2020
Balance at beginning of the year	31	7,709	7,604
Additions	7,680	19	1,137
Exchange difference	(2)	(124)	588
Balance at end of the year	**7,709**	**7,604**	**9,329**

The top 10 customers accounted for about 63% and 65% of accounts receivable as of December 31, 2019 and 2020, respectively.

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8. Inventories

(In thousands)	December 31, 2019	December 31, 2020
Hardware devices (note)	9,091	4,830
Others	162	324
Less: Impairment	(3,716)	(3,428)
Total	**5,537**	**1,726**

Note: Hardware devices mainly include OneThing Cloud and hard disks. OneThing Cloud is a hardware, which can act as a micro server between users and Xunlei, which enables users to share their idle uplink capacity with Xunlei.

The inventory written down was USD 3,523,000 and USD 3,283,000 for the years ended December 31, 2019 and 2020, respectively.

9. Prepayments and other current assets

(In thousands)	December 31, 2019	December 31, 2020
Current portion:		
Advance to suppliers (note a)	3,579	1,483
Receivable related to Linktoken disposal (note b)	3,536	—
Interest-free loans to employees (note c)	3,185	1,896
Rental and other deposits	1,990	1,670
Proceed receivable	1,105	137
Prepayment for taxation	936	112
Prepaid management insurance	249	241
Advance to employees for business purposes	211	86
Interest receivable	4	2
Deposit related to an ongoing litigation (note d)	—	4,751
Others	1,748	1,156
Total of prepayments and other current assets	**16,543**	**11,534**
Non-current portion:		
Low-interest loans to employees, non-current portion (note c)	313	905
Total of long-term prepayments and other assets	**313**	**905**

Notes:

(a) Advances to suppliers primarily include prepayments to bandwidth suppliers.

(b) In September 2018, Onething entered into a sale and purchase agreement with Beijing LinkChain to dispose of the operation and related assets and liabilities of LinkToken program. In June 2019, certain supplemental agreements were entered into with Beijing LinkChain and Hainan LinkChain, the rights and obligations related to LinkToken program was transferred to Hainan LinkChain.

The receivable related to LinkToken disposal as of December 31, 2019 included the consideration receivable due from Hainan LinkChain and the amount recoverable from expenses paid on behalf of Hainan LinkChain.

An impairment provision of USD 3,536,000 was recognized as of December 31, 2020, due to the deterioration of Hainan LinkChain’s operation and financial position.

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9. Prepayments and other current assets (Continued)

(c) The Group had entered into loan contracts with certain employees as of December 31, 2020, under which the Group provided interest-free loans or low-interest loans to these employees. The loan amounts vary amongst different employees from repayable on demand to repayable in equal installments on a monthly basis over a term of 5 to 10 years. The balances classified as current represented loan amounts that are repayable on demand or repayable within the next twelve months from the balance sheet date.

(d) The balance as of December 31, 2020 represented the deposits placed in a custodian bank account of the court to secure an order for preservation of assets against a supplier of the Group.

10. Long-term investments

(In thousands)	December 31, 2019	December 31, 2020
Equity interests without a readily determinable fair value:		
Balance at beginning of the year	33,638	26,365
Additions	2,838	—
Disposal	(1,055)	—
Net unrealized gains on investments held	10,907	794
Exchange difference	(132)	369
Less: impairment loss on long-term investments	(19,831)	(794)
Balance at end of the year	26,365	26,734
Total long-term investments	**26,365**	**26,734**

Details of the Group's ownership of the long-term investments are as follows:

Investee	Percentage of ownership of shares as of December 31, 2019	2020
Equity method investments:		
Zhuhai Qianyou Technology Co., Ltd.	19.00 %	19.00 %
Shenzhen Mojingou Information Services Co., Ltd. (formerly named as “Xunlei Big Data Information Service Co., Ltd.”).	28.77 %	28.77 %
Equity interests without a readily determinable fair value: Guangzhou Yuechuan Network Technology Co., Ltd.	9.30 %	9.30 %
Shanghai Guozhi Electronic Technology Co., Ltd.	16.80 %	16.80 %
Guangzhou Hongsi Network Technology Co., Ltd.	19.90 %	19.90 %
Chengdu Diting Technology Co., Ltd.	12.74 %	12.74 %
Xiamen Diensi Network Technology Co., Ltd.	14.25 %	14.25 %
11.2 Capital I, L.P.	2.03 %	2.03 %
Cloudtropy	9.69 %	9.69 %
Tianjin Kunzhiyi Network Technology Co., Ltd. (note a)	19.90 %	N/A
Shanghai Lexiang Technology Co., Ltd. ("Shanghai Lexiang") (note b)	13.54 %	7.81 %
Hangzhou Feixiang Data Technology Co., Ltd.	28.00 %	28.00 %
Shenzhen Meizhi Interactive Technology Co., Ltd.	9.40 %	9.40 %
Beijing Yunhui Tianxia Technology Co., Ltd.	13.70 %	13.70 %
Yingshi Innovation Technology Co., Ltd. (formerly named as “Shenzhen Arashi Vision Interactive Technology Co., Ltd.” or “Insta360”)	8.73 %	8.73 %
Beijing Cloudin Technology Limited Co., Ltd.	4.12 %	4.12 %
Quanxun Huiju Networking Technology (Beijing) Co., Ltd.	5.40 %	5.40 %

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10. Long-term investments (Continued)

Notes :

(a) The company has been deregistered in May 2020.

(b) In October 2020, the Group disposed 4.82% of the equity interest in Shanghai Lexiang, for which full impairment have been provided in December 2019, at a consideration of USD 268,000. The remaining equity interest in Shanghai Lexiang was remeasured based on this observable price change from the disposal, a fair value gain of USD 794,000 was recognized accordingly.

The Group recognized impairment against this investment of USD 794,000 as of December 31, 2020, after considering Shanghai Lexiang's operation performance, financial and liquidity position after the above transaction.

11. Property and equipment

Property and equipment consist of the following:

(In thousands)	December 31, 2019	December 31, 2020
Servers and network equipment	39,130	35,827
Computer equipment	1,762	1,565
Furniture, fixtures and office equipment	806	836
Motor vehicles	406	481
Leasehold improvements	6,566	6,604
Total original costs	48,670	45,313
Less: Accumulated depreciation	(28,357)	(33,006)
Less: Accumulated impairment	(4)	(3)
Sub-total	**20,309**	**12,304**
Construction in progress	18,461	38,421
Total	**38,770**	**50,725**

No impairment loss was recognized for the years ended December 31, 2018, 2019 and 2020.

Impairment loss of USD 6,000 and USD 1,000 has been reversed as of December 31, 2019 and December 31, 2020 due to disposal.

Depreciation expense recognized for the years ended December 31, 2018, 2019 and 2020 are summarized as follows:

	Years ended December 31		
(In thousands)	2018	2019	2020
Cost of revenues	5,018	5,198	6,247
Research and development expenses	331	300	529
General and administrative expenses	245	317	2,492
Sales and marketing expenses	1	9	9
Total	**5,595**	**5,824**	**9,277**

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12. Right-of-use assets and lease liabilities

The right-of-use assets represented the office lease in the Group, are amortized over the lease terms, which are greater than 1 year but less than 3 years. Right-of-use assets for long-term operating leases were as below:

(In thousands)	Office leases
Balance at January 1, 2019 on adoption of ASC 842 Leases	11,819
Additions	3,830
Modification of operating lease	(1,107)
Amortization	(5,634)
Effect of foreign currency exchange differences	(161)
Net book amount at December 31, 2019	**8,747**
Additions	500
Modification of operating lease	(3,825)
Amortization	(3,685)
Effect of foreign currency exchange differences	217
Net book amount at December 31, 2020	**1,954**

During the years ended December 31, 2019 and 2020, the general and administrative expenses for long-term operating lease were USD 6,077,000 and USD 3,762,000, respectively. A charge of USD 301,000 and USD 291,000 were recognized in relation to short-term lease for the years ended December 31, 2019 and 2020. The future minimum payments under non-cancellable short-term operating leases of office rental will be USD 119,000 in 2021. The weighted average discount rate related to operating lease was 5.5% and 5.4% respectively as of December 31, 2019 and 2020, and the weighted average remaining lease term were 2 years and 1 year as of December 31, 2019 and 2020, respectively.

The total cash payments in respect of operating lease was USD 5,149,000 and USD 3,797,000 for the years ended December 31, 2019 and 2020, respectively.

The undiscounted cash payment for each of the next five years as of December 31, 2019 is:

(In thousands)	
2020	5,034
2021	3,000
2022	1,279
Total undiscounted payments	**9,313**
Less: effect of discounting	(488)
Discounted lease liabilities	**8,825**

The undiscounted cash payment for each of the next five years as of December 31, 2020 is:

(In thousands)	
2021	1,998
2022	28
Total undiscounted payments	**2,026**
Less: effect of discounting	(38)
Discounted lease liabilities	**1,988**

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13. Intangible assets, net

	December 31, 2019				December 31, 2020			
(In thousands)	Cost	Amortization	Impairment	Net book value	Cost	Amortization	Impairment	Net book value
Land use rights	4,769	(1,017)	—	3,752	5,099	(1,258)	—	3,841
Acquired computer software	2,391	(1,433)	—	958	3,530	(2,853)	—	677
Online game licenses	5,910	(5,193)	(717)	—	—	—	—	—
Audio-visual license	5,621	(905)	—	4,716	6,010	(1,671)	—	4,339
	18,691	(8,548)	(717)	9,426	14,639	(5,782)	—	8,857

Amortization expense recognized for the years ended December 31, 2018, 2019 and 2020 are summarized as follows:

	Years ended December 31		
(In thousands)	2018	2019	2020
Cost of revenues	266	5	—
General and administrative expenses	721	1,136	1,210
Research and development expenses	244	59	6
Total	**1,231**	**1,200**	**1,216**

The estimated aggregate amortization expense for each of the next five years as of December 31, 2020 is:

(In thousands)	Intangible assets
2021	1,107
2022	1,050
2023	1,036
2024	972
2025 and thereafter	4,692

The weighted average amortization periods of intangible assets as at December 31, 2019 and 2020 are as below:

(In year)	December 31, 2019	December 31, 2020
Land use rights	30	30
Acquired computer software	5	5
Online game licenses	3	—
Audio-visual license	9	9
Total weighted average amortization periods	**12**	**10**

14. Goodwill

(In thousands)	December 31, 2019	December 31, 2020
Beginning balance	20,717	20,382
Addition (note)	—	815
Foreign currency translation adjustment	(335)	1,410
Ending balance	**20,382**	**22,607**

Note: The addition of goodwill in 2020 was related to the acquisition of Shanxian Daojia, please refer to note 3 for the acquisition.

No impairment loss was recognized for the years ended December 31, 2018, 2019 and 2020.

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15. Contract liabilities and deferred income

(In thousands)	December 31, 2019	December 31, 2020
Contract liabilities (Note a)		
Membership subscription	29,769	31,981
Others	2,142	2,513
Other deferred income		
Government grants	1,300	466
Total	33,211	34,960
Less: non-current portion (Note b)	(1,223)	(920)
Contract liabilities and deferred income, current portion	31,988	34,040

Notes:

(a) Contract liabilities were related to unsatisfied performance obligations at the end of the year. Due to the generally short-term duration of the contracts, the majority of the performance obligations are satisfied in the following period. The amount of revenue recognized that was included in contract liabilities balance at the beginning of the year was USD 26,911,000 and USD 30,189,000 for the years ended December 31, 2019 and 2020, respectively.

(b) As of December 31, 2019 and 2020, the non-current portion consists of membership subscription of USD 781,000 and USD 751,000, and government grants of USD 442,000 and USD 169,000, respectively.

16. Accrued liabilities and other payables

(In thousands)	December 31, 2019	December 31, 2020
Payroll and welfare	14,995	12,871
Tax levies	4,538	3,394
Payables related to Kankan	3,733	2,581
Payables for advertisement	3,606	1,895
Legal and litigation related expenses (note 28)	2,765	1,640
Professional fees	2,714	2,106
Agency commissions and rebates—online advertising	2,521	2,696
Payables for construction in progress	1,382	5,291
Tax surcharges	1,076	1,095
Payables for technological services	778	617
Payables for gaming distribution	288	148
Deposits from customers	225	229
Payables for proceeds from selling exercised stock options and restricted shares	94	137
Payables for purchase of equipment	21	29
Others	4,104	3,960
Total	**42,840**	**38,689**

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17. Bank borrowings

(In thousands)	December 31, 2019	December 31, 2020
Bank borrowings	11,324	19,924

The bank borrowings were borrowed by Shenzhen Xunlei for the construction of Xunlei Building, which was pledged by the land use rights of Xunlei Building and the building under construction. The net interest expense of USD nil, USD 470,000 and USD 890,000 has been capitalized for the years ended December 31, 2018, 2019 and December 31, 2020 respectively.

The bank borrowings are denominated in RMB, and the interest rate is calculated based on LPR plus 15 or 30 basis points.

As of December 31, 2020, the bank borrowings will be due according to the following schedule:

(In thousands)	Principal amounts
Within 1 year	—
Between 1 to 2 years	—
Between 2 to 3 years	747
Between 3 to 4 years	996
Between 4 to 5 years	996
Beyond 5 years	17,185

18. Common shares

The Company’s Memorandum and Articles of Association authorizes the Company to issue 1,000,000,000 shares of USD 0.00025 par value per common share as of December 31, 2020. Each common share is entitled to one vote. The holders of common shares are also entitled to receive dividends whenever funds are legally available and when declared by the Board of Directors, which is subject to the approval by the holders of the common shares representing a majority of the aggregate voting power of all outstanding shares. As of December 31, 2019 and 2020, there were 339,165,241 and 334,401,981 common shares outstanding, respectively.

19. Repurchase of shares

In June 2020, the board of directors of the Company authorized a share buyback program (the "Share Buyback Program"), whereby the Company may repurchase up to USD 20 million of common shares or ADSs from June 29, 2020 for twelve months on the open market at the prevailing market prices, in privately negotiated transactions, in block trades and through other legally permissible means, depending on market conditions and in accordance with applicable rules and regulations.

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19. Repurchase of shares (Continued)

The following table is a summary of the shares repurchased by the Company under the Share Buyback Program. All shares were purchased through privately negotiated transactions and publicly purchasing from the open market pursuant to the Share Buyback Program:

Period	Total number of ADSs purchased as part of the publicly announced plan	Average price paid per ADS
July 8 - July 31	857,147	3.72
August 3 - August 18	334,245	3.86
Total for the year ended December 31, 2020	**1,191,392**	

During the year ended December 31, 2020, 1,191,392 ADSs were purchased at an aggregate consideration of USD 4,475,000 under the Share Buyback Program. No shares were repurchased during the years ended December 31, 2018 and 2019.

20. Share-based compensation

2010 share incentive plan

In December 2010, the Group adopted a share incentive plan, which is referred to as the 2010 Share Incentive Plan ("the 2010 Plan"). The purpose of the plan is to attract and retain the best available personnel by linking the personal interests of the members of the board, employees, and consultants to the success of the Group's business and by providing such individuals with an incentive for outstanding performance to generate superior returns for our shareholders. Under the 2010 Plan, the maximum number of shares in respect of which share options, restricted shares, or restricted share units may be granted is 26,822,828 shares (excluding the share options previously granted to the directors who are the founders of the Company). The number of shares available for such grants as of December 31, 2020 is 11,284,463.

The maximum term of any issued share option is seven or ten years from the grant date. Share options granted to employees and officers vest over a four-year schedule as stated below:

(1) One-fourth of the options shall be vested upon the first anniversary of the grant date;

(2) The remaining three quarters of the options shall be vested on monthly basis over the next thirty-six months. ($^1/_{48}$ of options shall be vested per month subsequently)

Share options granted to directors were subject to a vesting schedule of approximately 32 months.

All share-based payments to employees are measured based on their grant-date fair values. Compensation expense is recognized on a straight-line basis over the requisite service period.

In November 2014, the Company issued to the depositary bank of 10,000,000 common shares, which were reserved for the future exercise of share options or vesting of restricted shares.

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20. Share-based compensation (Continued)

2010 share incentive plan (Continued)

The following table summarizes the share option activities for the years ended December 31, 2018, 2019 and 2020:

	Number of share options	Weighted average exercise price (USD)	Weighted-average grant-date fair value (USD)	Weighted average remaining contractual life (years)	Aggregate intrinsic value (USD)
Outstanding, January 1, 2018	389,815	3.90	—	1.64	—
Vested and expected to vest at January 1, 2018	389,693	3.90	0.95	1.64	—
Exercisable at January 1, 2018	389,190	3.90	0.95	1.64	—
Expired	(373,315)	3.89			
Outstanding, December 31, 2018	16,500	3.97	—	1.37	—
Vested and expected to vest at December 31, 2018	16,500	3.97	1.56	1.37	—
Exercisable at December 31, 2018	16,500	3.97	1.56	1.37	—
Expired	(6,500)	3.97			
Outstanding, December 31, 2019	10,000	3.97	—	1.16	—
Vested and expected to vest at December 31, 2019	10,000	3.97	1.01	1.16	—
Exercisable at December 31, 2019	10,000	3.97	1.01	1.16	—
Expired	(10,000)	3.97			
Outstanding, December 31, 2020	—	—	—	—	—
Vested and expected to vest at December 31, 2020	—	—	—	—	—
Exercisable at December 31, 2020	—	—	—	—	—

The aggregate intrinsic value in the table above represents the difference between the estimated fair value of the Company's common shares as of December 31, 2019 and 2020 and the exercise price.

As at December 31, 2019 and 2020, there were no unrecognised share-based compensation costs related to share options of 2010 Plan.

In addition, the vesting schedule of the restricted shares under 2010 Plan are determined by the directors of the Company. As at December 31, 2020, 10,770,520 restricted shares (2019: 10,770,520), excluding those converted from share options, were granted to employees and officers under 2010 Plan and the unvested restricted shares granted to employees and officers vest as follows:

(1) 410,000 of these restricted shares shall be vested within 2021.

(2) 390,000 of these restricted shares shall be vested within 2022.

(3) 390,000 of these restricted shares shall be vested within 2023.

(4) 70,000 of these restricted shares shall be vested within 2024.

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20. Share-based compensation (Continued)

2010 share incentive plan (Continued)

A summary of the restricted shares activities under the 2010 Plan for the years ended December 31, 2018, 2019 and 2020 is presented below:

	Number of restricted shares	Weighted-average grant-date fair value
Unvested at January 1, 2018	1,272,150	
Expected to vest at January 1, 2018	1,081,327	
Granted	6,750,520	2.32
Vested	(267,630)	
Forfeited	(1,103,000)	
Unvested at December 31, 2018	6,652,040	
Expected to vest at December 31, 2018	5,654,234	
Granted	800,000	0.81
Vested	(1,296,540)	
Forfeited	(971,000)	
Unvested at December 31, 2019	5,184,500	
Expected to vest at December 31, 2019	4,406,825	
Vested	(965,500)	
Forfeited	(2,959,000)	
Unvested at December 31, 2020	1,260,000	
Expected to vest at December 31, 2020	1,071,000	

Forfeitures are estimated at the time of grant and are revised in subsequent periods if actual forfeitures differ from those estimates. Based upon the Company's historical and expected forfeitures for stock options granted, the directors of the Company estimated that its future forfeiture rate would be 15% for employees and nil for directors and advisors.

All restricted shares granted are measured based on their grant-date fair values. Compensation expense is recognized on a straight-line basis over the requisite service period. As of December 31, 2019 and 2020, total unrecognized compensation expense relating to the restricted shares was USD 8,981,000 and USD 2,000,000, respectively. The number of restricted shares issued to non-employees and vested as of December 31, 2019 and 2020 were both 60,000.

2013 share incentive plan

In November 2013, the Group adopted a share incentive plan, which is referred to as the 2013 Share Incentive Plan ("the 2013 Plan"). The purpose of the plan is to motivate, attract and retain the best available personnel by linking the personal interests of senior officers to the success of the Group's business. Under the 2013 Plan, the maximum number of restricted shares that may be granted is 9,073,732 shares.

The vesting schedule of the restricted shares under the 2013 Plan are determined by the directors of the Company. As at December 31, 2020, 8,664,980 restricted shares (2019: 8,664,980) were granted to senior officers under the 2013 Plan and there were no unvested restricted shares under the 2013 Plan.

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20. Share-based compensation (Continued)

2013 share incentive plan (Continued)

A summary of the restricted shares activities under the 2013 Plan for the years ended December 31, 2018, 2019 and 2020 is presented below:

	Number of restricted shares
Unvested at January 1, 2018	587,760
Vested	(525,140)
Forfeited	(28,445)
Unvested at December 31, 2018	34,175
Expected to vest at December 31, 2018	29,049
Unvested at January 1, 2019	34,175
Vested	(27,475)
Forfeited	(6,700)
Unvested at December 31, 2019	—
Expected to vest at December 31, 2019	—

Forfeitures are estimated at the time of grant and are revised in subsequent periods if actual forfeitures differ from those estimates.

All restricted shares granted are measured based on their grant-date fair values. Compensation expense is recognized on a straight-line basis over the requisite service period. As of December 31, 2019 and 2020, total unrecognized compensation expense relating to the restricted shares was both nil. The number of restricted shares issued to non-employees and vested as of December 31, 2019 and 2020 were 60,000.

2014 share incentive plan

In April 2014, the Group adopted a share incentive plan, which is referred to as the 2014 Share Incentive Plan (“the 2014 Plan”). The purpose of the plan is to motivate, attract and retain the best available personnel by linking the personal interests of senior management to the success of the Group’s business. Under the 2014 Plan, the maximum number of restricted shares that may be granted is 14,195,412 shares to certain officers, directors or employees of, or advisors or consultants to the Company and its subsidiaries and consolidated affiliated entities. The company issued 14,195,412 common shares to Leading Advice Holdings Limited, a company owned by the co-founder, to facilitate the administration of the 2014 Plan. The 2014 Plan was administered by the Company’s compensation committee.

The vesting schedule of the restricted shares under the 2014 Plan is determined by the directors of the Company. As of December 31, 2020, 14,536,000 restricted shares (2019: 14,536,000) were granted to employees and officers under the 2014 Plan and the 26,000 unvested restricted shares granted to employees and officers shall be vested within 2021.

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20. Share-based compensation (Continued)

2014 share incentive plan (Continued)

A summary of the restricted shares activities under the 2014 Plan for the years ended December 31, 2018, 2019 and 2020 is presented below:

	Number of restricted shares
Unvested at January 1, 2018	5,806,350
Vested	(2,086,450)
Forfeited	(243,250)
Unvested at December 31, 2018	3,476,650
Expected to vest at December 31, 2018	2,955,153
Unvested at January 1, 2019	3,476,650
Vested	(1,318,450)
Forfeited	(837,000)
Unvested at December 31, 2019	1,321,200
Expected to vest at December 31, 2019	1,123,020
Unvested at January 1, 2020	1,321,200
Vested	(228,200)
Forfeited	(1,067,000)
Unvested at December 31, 2020	26,000
Expected to vest at December 31, 2020	22,100

Forfeitures are estimated at the time of grant and are revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

All restricted shares granted are measured based on their grant-date fair values. Compensation expense is recognized on a straight-line basis over the requisite service period. As of December 31, 2020, the total unrecognized compensation expense relating to the restricted shares was USD 12,000 (2019: USD 766,000).

2020 share incentive plan

In June 2020, the Group terminated its 2010 Plan, 2013 Plan and 2014 Plan (the “Existing Plans”) and adopted a 2020 share incentive plan, which is referred to as the 2020 Share Incentive Plan (“the 2020 Plan”). Under the 2020 Plan, the maximum aggregate number of shares of the Company that may be granted is 31,000,000.

Upon termination of the Existing Plans, the awards that are granted and outstanding under the Existing Plans remain effective under the 2020 Plan, subject to any amendment and modification to the original award agreements that the Company shall determine.

As of December 31, 2020, no shares have been granted under the 2020 Plan.

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20. Share-based compensation (Continued)

2020 share incentive plan (Continued)

Total compensation costs recognized for the years ended December 31, 2018, 2019 and 2020 are as follows:

	Years ended December 31,		
(In thousands)	2018	2019	2020
Sales and marketing expenses	404	381	185
General and administrative expenses	2,245	2,453	1,209
Research and development expenses	2,645	2,594	916
Total	**5,294**	**5,428**	**2,310**

21. Non-controlling interests

Non-controlling interests are recognized to reflect the portion of the equity of majority-owned subsidiaries and VIE's which is not attributable, directly or indirectly, to the controlling shareholder. The non-controlling interests in the Company's consolidated financial statements consist primarily of the non-controlling interests in Xunlei Games, Thailand Onething and Henan Tourism.

22. Cost of revenues

	Years ended December 31,		
Cost of revenues from continuing operations (In thousands)	2018	2019	2020
Bandwidth costs	48,118	57,093	62,384
Cost of inventories sold	31,634	7,181	1,660
Cost of live streaming	23,928	20,734	15,640
Depreciation of servers and other equipment	5,018	5,198	6,247
Payment handling charges	3,016	1,658	1,459
Other costs (note)	3,953	8,049	5,247
Total	**115,667**	**99,913**	**92,637**

Note: Other costs mainly included write-down of inventories.

23. Other income, net

Continuing Operations	Years ended December 31,		
(In thousands)	2018	2019	2020
Government subsidy income	2,096	2,061	2,287
Investment income from short-term investments	5,817	4,020	2,943
Net unrealized gains arising from long-term investments	—	10,907	794
Investment income on disposal of long-term investments	—	579	214
Impairment of long-term investments	(7,794)	(19,831)	(794)
Exchange gain/(loss), net	1,216	(402)	(2,948)
Settlement income	414	1,531	—
Gains from disposal of Linktoken program	—	6,630	—
Value-added tax deduction	—	427	1,361
Others	1,061	(61)	880
Total	**2,810**	**5,861**	**4,737**

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24. Taxation

(i) Cayman Islands

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

(ii) PRC Enterprise Income Tax ("EIT")

The PRC enterprise income tax is calculated based on the taxable income determined under the PRC laws and accounting standards.

Under the Enterprise Income Tax ("EIT") Law, foreign invested enterprises and domestic enterprises are subject to a unified EIT rate of 25%. In accordance with the implementation rules of the EIT Law, a qualified "High and New Technology Enterprise" ("HNTE") is eligible for a preferential tax rate of 15%, a "Software Enterprise" ("SE") is entitled exemption from income taxation for the first two years, counting from the first profitable year, and reduction by half for the next three years, and a certified National Key Software Enterprise ("NKSE") is entitled a preferential tax rate of 10%.

Shenzhen Xunlei, Wangwenhua and Xunlei Computer have been recognized as HNTE and entitled to preferential tax rate of 15%for the years ended December 31, 2018, 2019 and 2020. Onething has been recognized as HNTE and entitled to preferential tax rate of 15% for the years ended December 31, 2018 and 2019. Onething continued to adopt a preferential tax rate of 15% for the year ended December 31, 2020, as it was established in Qianhai Shenzhen-Hongkong Modern Service Industry Cooperation Zone and met the requirements set out by local authorities for the preferential tax rate.

According to a policy of the PRC State Tax Bureau, enterprises that engage in research and development activities are entitled to claim 175% of the research and development expenses incurred in a year as tax deductible expenses in determining their tax assessable profits for that year ("Super Deduction").

The other PRC subsidiaries and consolidated VIEs are subject to a 25% EIT rate.

In addition, according to the EIT Law and its implementation rules, foreign enterprises, which have no establishment or place in the PRC but derive dividends, interest, rents, royalties and other income (including capital gains) from sources in the PRC are subject to PRC withholding tax, or WHT, at 10% (a further reduced WHT rate may be available according to the applicable double tax treaty or arrangement). The 10% WHT is generally applicable to any dividends to be distributed from Giganology Shenzhen and Xunlei Computer to the Company out of any profits of Giganology Shenzhen and Xunlei Computer derived after January 1, 2008. Up to December 31, 2020, both Giganology Shenzhen and Xunlei Computer did not declare any dividend to the parent company and have determined that they have no present plan to declare and pay any dividends. The Group currently plans to continue to reinvest its subsidiaries' undistributed earnings, if any, in its operations in China indefinitely. Accordingly, no withholding income tax was accrued or required to be accrued for the years ended December 31, 2018, 2019 and 2020.

Moreover, the current EIT Law treats enterprises established outside of China with "effective management and control" located in the PRC as PRC resident enterprises for tax purposes. The term "effective management and control" is generally defined as exercising overall management and control over the business, personnel, accounting, properties, etc. of an enterprise. The Company, if considered a PRC resident enterprise for tax purposes, would be subject to the PRC EIT at the rate of 25% on its worldwide income for the period after January 1, 2008. As of December 31, 2019 and 2020, the Company has not accrued for PRC tax on such basis. The Company will continue to monitor its tax status.

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24. Taxation (Continued)

(ii) PRC Enterprise Income Tax ("EIT") (Continued)

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

Continuing operations	**Years ended December 31,**		
(In thousands)	**2018**	**2019**	**2020**
Current income tax (benefits)/expenses	(471)	315	183
Deferred income tax expenses	382	4,361	966
Income tax (benefits)/expenses	**(89)**	**4,676**	**1,149**

The aggregate amount and per share effect of the tax holidays and concession are as follows:

	Years ended December 31,		
	2018	**2019**	**2020**
Aggregate dollar effect **(In thousands)**	(3,776)	(3,856)	197
Per share effect—basic	(0.01)	(0.01)	(0.00)
Per share effect—diluted	(0.01)	(0.01)	(0.00)

The reconciliation of total tax (benefits)/expenses computed by applying the respective statutory income tax rates to pre-tax loss is as follows:

Continuing operations	**Years ended December 31,**		
(In thousands)	**2018**	**2019**	**2020**
Income tax benefit at PRC statutory rate (based on statutory tax rate applicable to enterprises in China)	(10,384)	(11,886)	(3,736)
Effects of differences in tax rates in different jurisdictions applicable to entities of the Group outside of the PRC	485	788	787
Non-deductible expenses	245	228	101
Effect of Super Deduction	(881)	(1,920)	(733)
Effect of tax holidays and tax concessions	3,776	3,856	(197)
Change in valuation allowance of deferred tax assets	6,720	13,180	4,704
Effect on deferred tax assets due to change in tax rates	(167)	—	—
Expiration of tax loss	562	400	84
Others	(445)	30	139
Income tax (benefits)/expenses	**(89)**	**4,676**	**1,149**

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24. Taxation (Continued)

(ii) PRC Enterprise Income Tax ("EIT") (Continued)

The tax effects of temporary differences that give rise to the deferred tax assets and liabilities balances of December 31, 2019 and 2020 are as follows:

(In thousands)	December 31, 2019	December 31, 2020
Deferred tax assets:		
Net operating losses carried forward (note a)	27,712	32,458
Impairment of long-term equity investments	4,061	4,233
Impairment of other receivables	1,553	1,858
Impairment of accounts receivable	1,140	1,451
Impairment of inventories	549	540
Allowance for advance to suppliers	346	369
Impairment of property and equipment	14	15
Valuation allowance	(34,257)	(40,924)
Deferred tax assets, net (note b)	1,118	—
Deferred tax liabilities:		
Deferred credit arising from an asset acquisition	(1,179)	(1,085)

Notes:

(a) As of December 31, 2020, the accumulated net operating loss of USD 3,079,000 of the Group's subsidiaries incorporated in Hong Kong can be carried forward indefinitely to offset future taxable income, the remaining accumulated net operating loss of USD 179,797,000 mainly arose from the Company's subsidiaries and consolidated VIEs established in the PRC, which can be carried forward to offset future taxable income and will expire during the period from 2021 to 2030.

(b) As of December 31, 2019 and 2020, the deferred tax assets and liabilities balances are expected to be recoverable as follows:

Deferred tax assets

(In thousands)	2019	2020
Within one year	133	—
After one year	985	—
	1,118	**—**

Deferred tax liabilities

(In thousands)	2019	2020
Within one year	(165)	(176)
After one year	(1,014)	(909)
	(1,179)	**(1,085)**

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24. Taxation (Continued)

(ii) PRC Enterprise Income Tax ("EIT") (Continued)

Movement of valuation allowance is as follows:

	Years ended December 31,		
(In thousands)	**2018**	**2019**	**2020**
Beginning balance	(16,599)	(20,181)	(34,257)
Additions	(6,720)	(13,180)	(4,704)
Exchange difference	3,138	(896)	(1,963)
Ending balance	(20,181)	(34,257)	(40,924)

In 2018, valuation allowance was provided for net operating loss carryforwards of Onething, Xunlei Games, Beijing Xunjing and Crystal Interactive because it was more likely than not that such deferred tax assets will not be realized based on the Group's estimate of their future taxable income, and the fact that the these entities were not included in the tax strategy plan.

In 2019 and 2020, valuation allowance was provided for net operating loss carryforwards of the Group because it was more likely than not that such deferred tax assets will be realized based on the Group's estimate of future taxable income of those companies.

As of December 31, 2020, the tax returns of the Group's subsidiaries, VIE and its subsidiaries since their respective dates of incorporation are still open to examination.

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25. Basic and diluted net loss per share

Basic and diluted net loss per share for the years ended December 31, 2018, 2019 and 2020 are calculated as follows:

(Amounts expressed in thousands of USD, except for number of shares and per share data)	Years ended December 31, 2018	2019	2020
Numerator:			
Net loss from continuing operations	(40,793)	(53,415)	(14,140)
Net income from discontinued operations	1,303	—	—
Net loss	(39,490)	(53,415)	(14,140)
Less: Net loss attributable to the non-controlling interest	(212)	(246)	(300)
Net loss attributable to Xunlei Limited's common shareholders	(39,278)	(53,169)	(13,840)
Numerator of basic net loss per share from continuing operations	(40,581)	(53,169)	(13,840)
Numerator of basic net income per share from discontinued operations.	1,303	—	—
Numerator for diluted loss per share from continuing operations	(40,581)	(53,169)	(13,840)
Numerator for diluted income per share from discontinued operations	1,303	—	—
Denominator:			
Denominator for basic net loss per share-weighted average shares outstanding	334,965,987	337,845,675	337,429,601
Denominator for diluted net loss per share	334,965,987	337,845,675	337,429,601
Basic net loss per share from continuing operations	(0.12)	(0.16)	(0.04)
Basic net income per share from discontinued operations	0.00	N/A	N/A
Diluted net loss per share from continuing operations	(0.12)	(0.16)	(0.04)
Diluted net income per share from discontinued operations	0.00	N/A	N/A

All potentially dilutive securities were not included in the calculation of dilutive net income per share for the years ended December 31, 2018, 2019 and 2020 as their effects would be anti-dilutive.

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26. Related party transactions

The table below sets forth the related parties and their relationships with the Group:

Related Party	Relationship with the Group
Chuan Wang	Chairman and director of the Company (note i)
Shenglong Zou	Co-founder, director and shareholder of the Company
Weimin Luo	Director and Chief Operating Officer of the Company
Shenzhen Crystal Technology Co., Ltd. ("Shenzhen Crystal")	Company owned by a co-founder and director of the Company
Vantage Point Global Limited	Shareholder of the Company
Aiden & Jasmine Limited	Shareholder of the Company
Millet Technology Co., Ltd. ("Xiaomi Technology")	Note ii
Millet Communication Technology Co., Ltd. ("Millet Communication Technology")	Note ii
Beijing Xiaomi Mobile Software Co., Ltd. ("Beijing Xiaomi Mobile Software")	Note ii
Beijing Millet Payment Technologies Co., Ltd. ("Beijing Millet Payment Technologies")	Note ii
Guangzhou Millet Information Service Co., Ltd. ("Guangzhou Millet")	Note ii
Shenzhen Xiaomi Technology Co., Ltd. ("Shenzhen Xiaomi")	Note ii
Beijing Itui	Company owned by the principal shareholder of the Company (note iii)
Beijing Itui Online Network Technology Co., Ltd. ("Itui Online")	Company owned by the principal shareholder of the Company (note iii)

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26. Related party transactions (Continued)

Note:

(i) Chuan Wang has resigned from the board on April 2, 2020.

(ii) Prior to April 2, 2020, these companies were related companies to the Company as they were affiliated companies of a shareholder of the Company, Xiaomi Ventures Limited ("Xiaomi Ventures").

On April 2, 2020, Xiaomi Ventures ceased to be the shareholder of the Company as Xiaomi Ventures together with certain shareholders of the Company exchanged their common shares of the Company for the shares of Itui International Inc. ("Itui"). In addition, Xiaomi Ventures entitled to certain veto rights in determining Itui's voting on the Company. As a result, Xiaomi Ventures and the companies controlled by Xiaomi Ventures continued to be related parties of the Company.

(iii) These companies become related parties of Xunlei since April 2, 2020.

During the years ended December 31, 2018, 2019 and 2020, significant related party transactions were as follows:

	Years ended December 31,		
(In thousands)	**2018**	**2019**	**2020**
Game sharing costs paid and payable to an investee company	9	—	—
Bandwidth revenue from Beijing Xiaomi Mobile Software (note a)	4,254	1,815	—
Bandwidth revenue from Xiaomi Technology (note a)	—	875	2,211
Forum service fees paid and payable to Xiaomi Technology (note b)	38	13	—
Advertisement revenue from Guangzhou Millet (note c)	—	19	—
Technology service revenue from Guangzhou Millet (note d)	3,932	2,460	2,466
Advertisement revenue from Shenzhen Xunyi (note e)	493	—	—
Bandwidth revenue from Shenzhen Xunyi (note e)	160	—	—
Accrued to Vantage Point Global Limited (note f)	146	46	243
Accrued to Aiden & Jasmine Limited (note f)	54	17	91
Advertisement revenues from Beijing Itui (note g)	—	—	7,269
Bandwidth revenues from Itui Online (note h)	—	—	1,119
Bandwidth cost from an investee company	—	—	594
Advertisement revenue from Shenzhen Xiaomi (note i)	—	—	53
Repayment of loans to Weimin Luo arising from a business combination (note 3)	—	—	662

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26. Related party transactions (Continued)

Notes:

(a) From July 2017 to July 2019, Onething entered into a contract with Beijing Xiaomi Mobile Software for the provision of bandwidth to Beijing Xiaomi Mobile Software at a price benchmarking against market price, based on actual usage.

From August 2019 till now, Onething entered into the contract with Xiaomi Technology for the provision of bandwidth to Xiaomi Technology at a price benchmarking against market price, based on actual usage.

(b) Onething Cloud devices were available for sale on the online platform operated by Xiaomi Technology starting from August 2018 till April 2019, during which Xiaomi Technology was entitled to receive service fees based on a certain percentage of sales on the platform.

(c) From 2017, an advertising services contract was entered into with Guangzhou Millet at a price benchmarking against market price.

(d) The Group is entitled to receive a mutually agreed sharing of net advertising revenue covering a period from mid-June 2017 to mid-June 2019, as compensation for technology solution services provided to Guangzhou Millet. The contract was extended for two years from mid-June 2019 to mid-June 2021 based on the same term.

(e) In 2018, a sales contract was entered into with Shenzhen Xunyi for provision of bandwidth and advertising services at a price benchmarking against market price, based on actual usage.

(f) In 2014, the Group repurchased 3,860,733 common shares from Aiden & Jasmine Limited (Co founder's company) for USD10,879,000 and 10,334,679 common shares from Vantage Point Global Limited for USD29,121,000. According to the repurchase contract, the Company was entitled to an amount (the "Withheld Price") to withhold any taxes with respect to this repurchase as required under the applicable laws. If the Seller has not been specifically required by the applicable governmental or regulatory authority to pay any taxes as required under the applicable laws in connection with the repurchase, after the fifth anniversary of the Closing Date, the Company will pay to the Seller the Withheld Price with a simple interest thereon at the rate of five percent (5%) per annum from the Closing Date. Therefore, the Withheld Price for Aiden & Jasmine Limited and Vantage Point Global Limited was USD 1,451,000 (including interest of USD 363,000) and USD 3,883,000 (including interest of USD 971,000) respectively. The interest accrued for the year ended December 31, 2020 was USD 91,000 and USD 243,000 for Aiden & Jasmine Limited and Vantage Point Global Limited respectively.

The Group has repaid USD 3,883,000 to Vantage Point Global Limited in January 2021.

(g) In 2020, an user traffic monetization agreement was entered into with Beijing Itui, according to which Xunlei is entitled to receive a mutually agreed sharing of net advertising revenue covering a period from mid-May 2020 to mid-May 2021.

(h) The Company entered into a sales contract with Itui Online for provision of bandwidth at a price benchmarking against market price and charged based on actual usage since 2019.

(i) In 2020, a user traffic monetization agreement was entered into with Shenzhen Xiaomi, according to which Xunlei is entitled to receive a mutually agreed sharing of net advertising revenue

Xunlei Limited
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26. Related party transactions (Continued)

As of December 31, 2019 and 2020, the amounts due from/to related parties were as follows:

(In thousands)	December 31, 2019	December 31, 2020
Amounts due from related parties		
Accounts receivable from Guangzhou Millet	1,361	1,456
Accounts receivable from Xiaomi Technology	262	576
Accounts receivable from Itui Online	—	1,153
Accounts receivable from Beijing Itui	—	7,689
Accounts receivable from Shenzhen Xiaomi	—	60
Other receivable from Xiaomi Technology	14	15
Other receivable from Shenzhen Crystal	6	6
Other receivable from Shenglong Zou	9	9
Other receivable from Chuan Wang	6	6

(In thousands)	December 31, 2019	December 31, 2020
Amounts due to related parties		
Accounts payable to investee companies	2	55
Other payable to Vantage Point Global Limited	3,640	3,883
Other payable to Aiden & Jasmine Limited	1,360	1,451

27. Fair value measurements

ASC 820-10 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1—Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets
Level 2—Include other inputs that are directly or indirectly observable in the marketplace or based on quoted price in markets that are not active
Level 3—Unobservable inputs which are supported by little or no market activity and are significant to the overall fair value measurement

ASC 820-10 describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

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27. Fair value measurements (Continued)

The following table sets forth the financial instruments, measured at fair value, by level within the fair value hierarchy as of December 31, 2019 and 2020.

	Fair value measurements as at December 31, 2019			
(In thousands)	Total	Quoted prices in active market for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Short term investments:				
Investments in financial instruments	292	—	292	—
	292	**—**	**292**	—

	Fair value measurements as at December 31, 2020			
(In thousands)	Total	Quoted prices in active market for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Short term investments:				
Investments in financial instruments	48,993	—	48,993	—
	48,993	**—**	**48,993**	—

Investments in privately held companies for which the Company elected to record using the measurement alternative are re-measured on a non-recurring basis, and are categorized within Level 3 under the fair value hierarchy. The values are estimated based on valuation methods using the observable transaction price at the transaction date and other unobservable inputs including volatility, as well as rights and obligations of the securities.

28. Commitments and contingencies

Bandwidth purchase commitments

The Group purchase bandwidth in the PRC under non-cancellable contract expiring on different dates. Payments under purchase of bandwidth are expensed on a straight-line basis over the duration of the respective periods.

Future minimum payments under non-cancellable bandwidth contracts consist of the following as of December 31, 2020:

(In thousands)	
2021	3,388
2022	406
	3,794

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28. Commitments and contingencies (Continued)

Capital commitments

As at December 31, 2020, the Group has unconditional purchase obligations for office software and construction in progress that had not been recognized in the amount of USD 7,953,000.

(In thousands)	
2021	7,040
2022	—
2023	913
	7,953

Litigation

The Group is involved in a number of cases pending in various courts. These cases are substantially related to alleged copyright infringement as well as routine and incidental matters to its business, among others. Adverse results in these lawsuits may include awards of damages and may also result in, or even compel, a change in the Group's business practices, which could impact the Group's future financial results. The Group had incurred USD 4,667,000 and USD 1,955,000 legal and litigation related expenses for the years ended December 31, 2018 and 2019, respectively, while the Group had reversed USD 1,217,000 legal expense for the year ended December 31, 2020.

Up to April 26, 2021, which is the date when the consolidated financial statements were issued, the Group had 16 lawsuits pending against the Group with an aggregate amount of claimed damages of approximately RMB 13.3 million (USD 1.9 million) which occurred before December 31, 2020 (2019: RMB 82.0 million (USD 11.9 million)). Of the 16 pending lawsuits, 13 lawsuits were relating to the alleged copyright infringement in the PRC. The Group had accrued for USD 1,640,000 litigation related expenses in ''Accrued liabilities and other payables'' in the consolidated balance sheet as of December 31, 2020 (2019: USD 2,765,000), which is the most probable and reasonably estimable outcome.

The Group estimated the litigation compensation based on judgments handed down by the court, out-of-court settlements of similar cases as well as advices from the Group's legal counsels. The Group is in the process of appealing certain judgments for which the losses had been accrued. Although the results of unsettled litigation and claims cannot be predicted with certainty, the Group does not expect that the outcome of the 16 lawsuits will result in the amounts accrued materially different from the range of reasonably possible losses. In the opinion of management, there was not at least a reasonable possibility the Company may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to loss contingencies for asserted legal and other claims. However, the outcome of litigation is inherently uncertain. If one or more of these legal matters were resolved against the Company in a reporting period for amounts in excess of management's expectations, the Company's consolidated financial statements for that reporting period could be materially adversely affected.

In May 2014, the Group entered into a content protection agreement with the Motion Picture Association of America, Inc., or MPAA, and its members, which are six major U.S. entertainment content providers. In that agreement, the Group agreed to implement a comprehensive system of measures designed to prevent unauthorized downloading of and access to such content providers' works. Despite the fact that the Group put in place preventive measures, the Group may still be subject to copyright infringement suits. In January 2015, a number of MPAA member studios filed 28 copyright infringement lawsuits against the Group on 28 video products in the Shenzhen Nanshan District Court in China. The court combined these cases into two cases for trial and entered a judgment on both cases on August 21, 2017. The court held, among others, that the Group infringed the plaintiffs' copyright on 28 video products and were required by the court to compensate the plaintiff for a total of RMB 1.4 million (USD 0.2 million), the compensation costs was paid by the Group in 2018.

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28. Commitments and contingencies (Continued)

Litigation (Continued)

In addition, two putative shareholder class action lawsuits have been filed in the United States District Courts for the Southern District of New York against the Company and certain current and former officers and directors of the Company. Purporting to sue on behalf of all investors who purchased or acquired Xunlei stock from October 10, 2017 to January 11, 2018, plaintiffs allege that certain statements regarding OneCoin, later renamed as LinkToken, in the Company's press releases and on a quarterly investor call were false and misleading because, among other things, they failed to disclose that OneCoin was a disguised "initial coin offering" and "initial miner offering" and constituted "unlawful financial activity." Plaintiffs seek to recover under Sections 10(b) and 20(a) of the U.S. Securities Exchange Act of 1934 and Rule 10b-5 thereunder. On April 12, 2018, the court consolidated the actions under the caption *In re Xunlei Limited Securities Litigation*, No. 18-cv-467 (RJS) and appointed lead plaintiffs who filed a consolidated amended compliant on June 4, 2018. The Company filed a motion to dismiss the amended compliant on August 3, 2018, and the motion of dismiss was granted by United States District Court Southern District of New York on September 11, 2019 and no notice of appeal or motion for extension of time was filed by the plaintiffs within 60 days after entry of the court's motion, therefore the class action was dismissed in November 2019.

29. Certain risks and concentration

PRC regulations

Current PRC laws and regulations place certain restrictions on foreign ownership of companies that engage in internet businesses, including the provision of online video and online advertising services. Specifically, foreign ownership in an internet content provider or other value-added telecommunication service providers may not exceed 50%. The Group conducts its operations in China principally through contractual arrangements among Giganology Shenzhen, its wholly owned PRC subsidiary, and Shenzhen Xunlei and its shareholders. Shenzhen Xunlei holds the licenses and permits necessary to conduct its resource discovery network, online advertising, online games and related businesses in China and hold various operating subsidiaries that conduct a majority of its operations in China. The Company conducts all of its operations in China through, Shenzhen Xunlei, a variable interest entity, which it consolidates as a result of a series contractual arrangements enacted. If the Company had direct ownership of Shenzhen Xunlei, it would be able to exercise its rights as a shareholder to effect changes in the board of directors of Shenzhen Xunlei, which in turn could effect changes at the management level, subject to any applicable fiduciary obligations. However, under the current contractual arrangements, it relies on Shenzhen Xunlei and its shareholders' performance of their contractual obligations to exercise effective control. In addition, its operating contract with Shenzhen Xunlei has a term of ten years, which is subject to Giganology Shenzhen's unilateral termination right. None of Shenzhen Xunlei or its shareholders may terminate the contracts prior to the expiration date.

Xunlei Limited
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29. Certain risks and concentration (Continued)

PRC regulations (Continued)

Further, the Group believes that the contractual arrangements among Giganology Shenzhen, Shenzhen Xunlei and its shareholders are in compliance with PRC law and are legally enforceable. However, the Chinese government may issue from time to time new laws or new interpretations on existing laws to regulate this industry. Regulatory risk also encompasses the interpretation by the tax authorities of current tax laws, and the Group's legal structure and scope of operations in the PRC, which could be subject to further restrictions resulting in limitations on the Company's ability to conduct business in the PRC. The PRC government may also require the Company to restructure the Group's operations entirely if it finds that its contractual arrangements do not comply with applicable laws and regulations. Furthermore, it could revoke the Group's business and operating licenses, require it to discontinue or restrict its operations, restrict its right to collect revenues, block its website, require it to restructure its operations, impose additional conditions or requirements with which the Group may not be able to comply, or take other regulatory or enforcement actions against the Group that could be harmful to its business. The imposition of any of these penalties may result in a material and adverse effect on the Group's ability to conduct the Group's business. In addition, if the imposition of any of these penalties causes the Group to lose the rights to direct the activities of the VIE and its subsidiaries or the right to receive their economic benefits, the Group would no longer be able to consolidate the VIE. The Group does not believe that any penalties imposed or actions taken by the PRC Government would result in the liquidation of the Company, Giganology Shenzhen or Shenzhen Xunlei.

As stated above, Shenzhen Xunlei holds assets that are important to the operation of the Group's business, including patents for proprietary technology, related domain names and trademarks. If Shenzhen Xunlei or its subsidiaries falls into bankruptcy and all or part of its assets become subject to liens or rights of third-party creditors, the Group may be unable to conduct its business activities in China, which could have a material adverse effect on the Group's future financial position, results of operations or cash flows. However, the Group believes this is a normal business risk many companies face. The Group will continue to closely monitor the financial conditions of Shenzhen Xunlei and its subsidiaries.

Shenzhen Xunlei and its subsidiaries' assets comprise both recognized and unrecognized revenue-producing assets. The recognized revenue-producing assets include intangible assets, purchased property and equipment. The balances of these assets held by the VIE and its subsidiaries are included in "property and equipment, net" and "intangible assets, net" in the consolidated balance sheet and specifically in the VIE table on the following page. The unrecognized revenue-producing assets mainly consist of license, patents, trademarks, and domain names which are not recorded in the financial statement as they did not meet the recognition criteria set in ASC 350-30-25. The licenses stated above primarily consist of licenses that grant the VIE and its subsidiaries the right to produce and broadcast internet, radio, and television programs. One of them is the ICP licenses as described in note 1.

As of December 31, 2020, Shenzhen Xunlei and its subsidiaries held patents granted in the PRC and in the United States. Presently, certain patent applications are being examined by the State Intellectual Property Office of the PRC.

As of December 31, 2020, Shenzhen Xunlei and its subsidiaries have applied to register trademarks, of which the Company has received registered trademarks in different applicable trademark categories including registered with World Intellectual Property Organization.

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29. Certain risks and concentration (Continued)

PRC regulations (Continued)

The following consolidated financial information of the Group's VIE and its subsidiaries from continuing operations was included in the accompanying consolidated financial statements, before elimination of balances with the Company and its subsidiaries, as of and for the years ended:

	As of December 31,	
(In thousands)	2019	2020
Current assets:		
Cash and cash equivalents	34,847	14,284
Short-term investments	292	—
Accounts receivable, net	30,686	32,485
Due from related parties	1,644	10,955
Inventories	5,330	1,726
Prepayments and other current assets	20,747	15,712
Total current assets	**93,546**	**75,162**
Non-current assets:		
Long-term investments	5,337	5,706
Deferred tax assets	985	—
Property and equipment, net	38,417	50,532
Intangible assets, net	9,426	8,857
Goodwill	20,382	22,607
Other long-term prepayments and non-current assets	313	905
Right-of-use assets	8,619	1,915
Restricted cash	2,983	1,541
Total non-current assets	**86,462**	**92,063**
Total assets	**180,008**	**167,225**
Current liabilities:		
Accounts payable (including inter-companies balances with the Company and its subsidiaries of USD 21,297 and USD 30,439 as of December 31, 2019 and 2020, respectively (note a))	45,162	51,027
Due to a related party	2	55
Contract liabilities and deferred income, current portion	31,988	34,040
Income tax payable	2,436	2,500
Accrued liabilities and other payables (including inter-companies balances with the Company and its subsidiaries of USD 152,904 and USD 152,611 as of December 31, 2019 and 2020, respectively (note b))	191,406	185,972
Lease liabilities, current portion	4,621	1,912
Total current liabilities	**275,615**	**275,506**
Non-current liabilities:		
Contract liabilities and deferred income, non-current portion	1,223	920
Deferred tax liabilities	1,179	1,085
Lease liabilities, non-current portion	4,073	27
Bank borrowings	11,324	19,924
Total non-current liabilities	**17,799**	**21,956**
Total liabilities	**293,414**	**297,462**

Xunlei Limited
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29. Certain risks and concentration (Continued)

PRC regulations (Continued)

Notes:

(a) Excluding the inter-companies balances with the Company and its subsidiaries of USD 21,297,000 and USD 30,439,000, the balance of accounts payable as of December 31, 2019 and 2020, was USD 23,865,000 and USD 20,588,000, respectively.

(b) Excluding the inter-companies balances with the Company and its subsidiaries of USD 152,904,000 and USD 152,611,000, the balance of accrued liabilities and other payables as of December 31, 2019 and 2020 was USD 38,502,000 and USD 33,361,000, respectively.

	Years ended December 31,		
(In thousands)	2018	2019	2020
Net revenues from continuing operations	231,616	177,520	186,413
Net loss attributable to Xunlei Limited	(40,728)	(56,328)	(10,673)

	Years ended December 31,		
(In thousands)	2018	2019	2020
Net cash provided by/(used in) operating activities	7,548	(16,047)	(21,008)
Net cash used in investing activities	(7,925)	(5,001)	(9,160)
Net cash provided by financing activities	2,096	11,707	7,154
	1,719	**(9,341)**	**(23,014)**

Foreign exchange risk

The Group's financing activities are denominated mainly in USD. The RMB is not freely convertible into foreign currencies. Remittances of foreign currencies into the PRC and exchange of foreign currencies into the RMB require approval by foreign exchange administrative authorities and certain supporting documentation. The State Administration for Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into other currencies. The revenues and expenses of the Company's subsidiaries, consolidated VIE and its subsidiaries are generally denominated in RMB and their assets and liabilities are denominated in RMB.

Concentration of customer risk

The top 10 customers accounted for 23%, 31% and 38% of the net revenues for the years ended December 31, 2018, 2019 and 2020, respectively.

Credit risk

As of December 31, 2019 and 2020, substantially all of the Group's cash and cash equivalents, restrict cash and short-term investments were held at reputable financial institutions in the jurisdictions where the Group and its subsidiaries are located. The Group believes that it is not exposed to unusual risks as these financial institutions have high credit quality. The Group has not experienced any losses on its deposits of cash and cash equivalents, restricted cash and short-term investments.

Prior to entering into sales agreements, the Group performs ongoing credit assessments of its customers, taking into account their financial position, credit history and other factors such as current market conditions. Further, the Group has not experienced any significant bad debts with respect to its accounts receivable for the years ended December 31, 2019 and 2020, the addition of allowance for doubtful accounts for the year ended December 31, 2018 was mainly arisen from the cloud computing service to a customer.

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29. Certain risks and concentration (Continued)

Credit risk (Continued)

The Group is exposed to credit risk in relation to other assets comprised of due from related parties and other receivables, which are typically unsecured. In evaluating the collectability of the balances, the Group considered various factors, including the related parties and third parties' repayment history and their credit-worthiness. An allowance for credit losses is made when collection of the full amount is no longer probable.

Restricted net assets

Relevant PRC laws and regulations permit payments of dividends by the Company's subsidiaries, VIE and VIE's subsidiaries in China only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, the Company's subsidiaries, VIE and VIE's subsidiaries in China are required to make certain appropriation of net after-tax profits or increase in net assets to the statutory surplus fund (see note 2(bb)) prior to payment of any dividends. As a result of these and other restrictions under PRC laws and regulations, the Company's subsidiaries, VIE and VIE's subsidiaries in China are restricted in their ability to transfer their net assets to the Company in terms of cash dividends, loans or advances, which restricted portion amounted to USD 168,493,000 as of December 31, 2020, or 58% of the Company's total consolidated net assets. Even though the Company currently does not require any such dividends, loans or advances from the PRC subsidiaries, VIE and VIE's subsidiaries for working capital and other funding purposes, the Company may in the future require additional cash resources from the Company's subsidiaries, VIE and a VIE's subsidiaries in China due to changes in business conditions, to fund future acquisitions and development, or merely to declare and pay dividends to make distributions to shareholders.

30. Subsequent events

The Company performed an evaluation of subsequent events through April 26, 2021, which is the date the financial statements were issued, and did not identify any material events or transactions that would require adjustment to or disclosure in the financial statements.

31. Additional information: condensed financial statements of the Company

Regulation S-X requires condensed financial information as to financial position, statements of cash flows and results of operations of a parent company as of the same dates and for the same periods for which audited consolidated financial statements have been presented when the restricted net assets of consolidated and unconsolidated subsidiaries together exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year.

The Company records its investment in its subsidiaries, VIE and VIE's subsidiaries under the equity method of accounting.

Such investments are presented on the separate condensed balance sheets of the Company as "long-term investments".

The subsidiaries did not pay any dividends to the Company for the periods presented. Certain information and footnote disclosures generally included in financial statements prepared in accordance with U.S. GAAP have been condensed and omitted. The footnote disclosures represent supplemental information relating to the operations of the Company, as such, these statements should be read in conjunction with the notes to the consolidated financial statements of the Group.

Xunlei Limited
Notes to the consolidated financial statements
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31. Additional information: condensed financial statements of the Company (Continued)

The Company did not have significant other commitments, long-term obligations, or guarantees as of December 31, 2020.

Condensed Balance Sheets

(In thousands)	December 31, 2019	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	7,683	57,585
Short-term investments	102,555	47,525
Due from subsidiaries and consolidated VIEs	277,241	279,043
Prepayments and other current assets	274	860
Total current assets	**387,753**	**385,013**
Non-current assets:		
Investments in subsidiaries and consolidated VIEs	(79,165)	(79,936)
Total assets	**308,588**	**305,077**
Liabilities		
Current liabilities:		
Accounts payable	55	55
Due to subsidiaries and consolidated VIEs	9,737	10,750
Contract liabilities and deferred income, current portion	1	1
Accrued liabilities and other payables	1,918	2,118
Total current liabilities	**11,711**	**12,924**
Total liabilities	**11,711**	**12,924**
Commitments and contingencies		
Shareholders' equity		
Common shares	85	84
Treasury shares (29,711,964 shares and 34,475,224 shares as of December 31, 2019 and 2020, respectively)	7	8
Other shareholders' equity	296,785	292,061
Total Xunlei Limited's shareholders' equity	**296,877**	**292,153**
Total liabilities and shareholders' equity	**308,588**	**305,077**

Xunlei Limited
Notes to the consolidated financial statements
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31. Additional information: condensed financial statements of the Company (Continued)

Condensed Statements of Operations

(In thousands)	Years ended December 31, 2018	2019	2020
Operating expenses			
Sales and marketing expenses	—	(1)	—
General and administrative expenses	(1,483)	(1,247)	(1,438)
Total operating expenses	**(1,483)**	**(1,248)**	**(1,438)**
Operating loss	**(1,483)**	**(1,248)**	**(1,438)**
Interest income	879	1,496	2
Interest expense	(239)	(75)	(399)
Other income, net	4,646	4,712	2,455
(Loss)/profit from subsidiaries and consolidated VIE			
- Continuing operations	(43,221)	(57,787)	(14,361)
- Discontinued operations	139	—	—
Loss before income tax	**(39,279)**	**(52,902)**	**(13,741)**
Income tax expenses	—	(267)	(99)
Net loss	**(39,279)**	**(53,169)**	**(13,840)**
Net loss attributable to Xunlei Limited's common shareholders	**(39,279)**	**(53,169)**	**(13,840)**

Condensed Statements of Cash Flows

(In thousands)	Years ended December 31, 2018	2019	2020
Cash flows from operating activities			
Net cash used in operating activities	(88,309)	(171,796)	(12,704)
Cash flows from investing activities			
Net cash generated from investing activities	37,788	52,359	12,051
Cash flows from financing activities			
Net cash used in financing activities	—	—	(4,475)
Net decrease in cash and cash equivalents	**(50,521)**	**(119,437)**	**(5,128)**
Cash and cash equivalents at beginning of year	280,196	229,675	110,238
Effect of exchange rates on cash and cash equivalents	—	—	—
Cash and cash equivalents at end of year	**229,675**	**110,238**	**105,110**

XUNLEI LIMITED

AND

THE BANK OF NEW YORK MELLON

As Depositary

AND

OWNERS AND HOLDERS OF AMERICAN DEPOSITARY SHARES

Deposit Agreement

Dated as of June 23, 2014

DEPOSIT AGREEMENT

DEPOSIT AGREEMENT dated as of June 23, 2014, among XUNLEI LIMITED, a company incorporated under the laws of the Cayman Islands (herein called the Company), THE BANK OF NEW YORK MELLON, a New York banking corporation (herein called the Depositary), and all Owners and Holders (each as hereinafter defined) from time to time of American Depositary Shares issued hereunder.

WITNESSETH:

WHEREAS, the Company desires to provide, as hereinafter set forth in this Deposit Agreement, for the deposit of Shares (as hereinafter defined) of the Company from time to time with the Depositary or with the Custodian (as hereinafter defined) as agent of the Depositary for the purposes set forth in this Deposit Agreement, for the creation of American Depositary Shares representing the Shares so deposited and for the execution and delivery of American Depositary Receipts evidencing the American Depositary Shares; and

WHEREAS, the American Depositary Receipts are to be substantially in the form of Exhibit A annexed hereto, with appropriate insertions, modifications and omissions, as hereinafter provided in this Deposit Agreement;

NOW, THEREFORE, in consideration of the premises, it is agreed by and between the parties hereto as follows:

ARTICLE 1. DEFINITIONS

The following definitions shall for all purposes, unless otherwise clearly indicated, apply to the respective terms used in this Deposit Agreement:

Section 1.01 American Depositary Shares.

The term “American Depositary-Shares” shall mean the securities created under this Deposit Agreement representing rights with respect to the Deposited Securities. American Depositary Shares may be certificated securities evidenced by Receipts or uncertificated securities. The form of Receipt annexed as Exhibit A to this Deposit Agreement shall be the prospectus required under the Securities Act of 1933 for sales of both certificated and uncertificated American Depositary Shares. Except for those provisions of this Deposit Agreement that refer specifically to Receipts, all the provisions of this Deposit Agreement shall apply to both certificated and uncertificated American Depositary Shares. Each American Depositary Share shall represent the number of Shares specified in Exhibit A to this Deposit Agreement, until there shall occur a distribution upon Deposited Securities covered by Section 4.03 or a change in Deposited Securities covered by Section 4.08 with respect to which additional American Depositary Shares are not delivered, and thereafter American Depositary Shares shall represent the amount of Shares or Deposited Securities specified in such Sections.

Section 1.02 Commission.

The term “Commission” shall mean the Securities and Exchange Commission of the United States or any successor governmental agency in the United States.

Section 1.03 Company.

The term “Company” shall mean Xunlei Limited, a company incorporated under the laws of the Cayman Islands, and its successors.

Section 1.04 Custodian.

The term “Custodian” shall mean the principal Hong Kong office of The Hongkong and Shanghai Banking Corporation Limited, as agent of the Depositary for the purposes of this Deposit Agreement, and any other firm or corporation which may hereafter be appointed by the Depositary pursuant to the terms of Section 5.05, as substitute or additional custodian or custodians hereunder, as the context shall require and shall also mean all of them collectively.

Section 1.05 Deliver; Surrender.

(a) The term “deliver”, or its noun form, when used with respect to Shares or other Deposited Securities, shall mean (i) book-entry transfer of those Shares or other Deposited Securities to an account maintained by an institution authorized under applicable law to effect transfers of such securities designated by the person entitled to that delivery or (ii) physical transfer of certificates evidencing those Shares or other Deposited Securities registered in the name of, or duly endorsed or accompanied by proper instruments of transfer to, the person entitled to that delivery.

(b) The term “deliver”, or its noun form, when used with respect to American Depositary Shares, shall mean (i) book-entry transfer of American Depositary Shares to an account at DTC designated by the person entitled to such delivery, (ii) registration of American Depositary Shares not evidenced by a Receipt on the books of the Depositary in the name requested by the person entitled to such delivery and mailing to that person of a statement confirming that registration or (iii) if requested by the person entitled to such delivery, delivery at the Corporate Trust Office of the Depositary to the person entitled to such delivery of one or more Receipts evidencing American Depositary Shares registered in the name requested by that person.

(c) The term “surrender”, when used with respect to American Depositary Shares, shall mean (i) one or more book-entry transfers of American Depositary Shares to the DTC account of the Depositary, (ii) delivery to the Depositary at its Corporate Trust Office of an instruction to surrender American Depositary Shares not evidenced by a Receipt or (iii) surrender to the Depositary at its Corporate Trust Office of one or more Receipts evidencing American Depositary Shares.

Section 1.06 Deposit Agreement.

The term “Deposit Agreement” shall mean this Deposit Agreement, as the same may be amended from time to time in accordance with the provisions hereof.

Section 1.07 Depositary; Corporate Trust Office.

The term “Depositary” shall mean The Bank of New York Mellon, a New York banking corporation, and any successor as depositary hereunder. The term “Corporate Trust Office”, when used with respect to the Depositary, shall mean the office of the Depositary which at the date of this Deposit Agreement is 101 Barclay Street, New York, New York 10286.

Section 1.08 Deposited Securities.

The term “Deposited Securities” as of any time shall mean Shares at such time deposited or deemed to be deposited under this Deposit Agreement, including without limitation Shares that have not

been successfully delivered upon surrender of American Depositary Shares, and any and all other securities, property and cash received by the Depositary or the Custodian in respect thereof and at such time held under this Deposit Agreement, subject as to cash to the provisions of Section 4.05.

Section 1.09 Dollars.

The term "Dollars" shall mean United States dollars.

Section 1.10 DTC.

The term "DTC" shall mean The Depository Trust Company or its successor.

Section 1.11 Foreign Registrar.

The term "Foreign Registrar" shall mean the entity that presently carries out the duties of registrar for the Shares or any successor as registrar for the Shares and any other agent of the Company for the transfer and registration of Shares, including without limitation any securities depository for the Shares.

Section 1.12 Holder.

The term "Holder" shall mean any person holding a Receipt or a security entitlement or other interest in American Depositary Shares, whether for its own account or for the account of another person, but that is not the Owner of that Receipt or those American Depositary Shares.

Section 1.13 Owner.

The term "Owner" shall mean the person in whose name American Depositary Shares are registered on the books of the Depositary maintained for such purpose.

Section 1.14 Receipts.

The term "Receipts" shall mean the American Depositary Receipts issued hereunder evidencing certificated American Depositary Shares, as the same may be amended from time to time in accordance with the provisions hereof.

Section 1.15 Registrar.

The term "Registrar" shall mean any bank or trust company having an office in the Borough of Manhattan, The City of New York, that is appointed by the Depositary to register American Depositary Shares and transfers of American Depositary Shares as herein provided.

Section 1.16 Restricted Securities.

The term "Restricted Securities" shall mean Shares, or American Depositary Shares representing Shares, that are acquired directly or indirectly from the Company or its affiliates (as defined in Rule 144 under the Securities Act of 1933) in a transaction or chain of transactions not involving any public offering, or that are subject to resale limitations under Regulation D under the Securities Act of 1933 or both, or that are owned by an officer, director (or persons performing similar functions) or other affiliate of the Company, or that would otherwise require registration under the Securities Act of 1933 in connection with the offer and sale thereof in the United States, or that are subject to other restrictions on sale or deposit under the laws of the United States or the Cayman Islands, or under a shareholder agreement or the articles of association or similar document of the Company.

Section 1.17 Securities Act of 1933.

The term "Securities Act of 1933" shall mean the United States Securities Act of 1933, as from time to time amended.

Section 1.18 Shares.

The term "Shares" shall mean common shares of the Company that are validly issued and outstanding and fully paid, nonassessable and that were not issued in violation of any pre-emptive or similar rights of the holders of outstanding securities of the Company; provided, however, that, if there shall occur any change in nominal value, a split-up or consolidation or any other reclassification or, upon the occurrence of an event described in Section 4.08, an exchange or conversion in respect of the Shares of the Company, the term "Shares" shall thereafter also mean the successor securities resulting from such change in nominal value, split-up or consolidation or such other reclassification or such exchange or conversion.

ARTICLE 2. FORM OF RECEIPTS, DEPOSIT OF SHARES, DELIVERY, TRANSFER AND SURRENDER OF AMERICAN DEPOSITARY SHARES

Section 2.01 Form of Receipts; Registration and Transferability of American Depositary Shares.

Definitive Receipts shall be substantially in the form set forth in Exhibit A annexed to this Deposit Agreement, with appropriate insertions, modifications and omissions, as hereinafter provided. No Receipt shall be entitled to any benefits under this Deposit Agreement or be valid or obligatory for any purpose, unless such Receipt shall have been (i) executed by the Depositary by the manual signature of a duly authorized officer of the Depositary or (ii) executed by the facsimile signature of a duly authorized officer of the Depositary and countersigned by the manual signature of a duly authorized signatory of the Depositary or a Registrar. The Depositary shall maintain books on which (x) each Receipt so executed and delivered as hereinafter provided and the transfer of each such Receipt shall be registered and (y) all American Depositary Shares delivered as hereinafter provided and all registrations of transfer of American Depositary Shares shall be registered. A Receipt bearing the facsimile signature of a person that was at any time a proper officer of the Depositary shall, subject to the other provisions of this paragraph, bind the Depositary, notwithstanding that such person was not a proper officer of the Depositary on the date of issuance of that Receipt.

The Receipts may be endorsed with or have incorporated in the text thereof such legends or recitals or modifications not inconsistent with the provisions of this Deposit Agreement as may be required by the Depositary or required to comply with any applicable law or regulations thereunder or with the rules and regulations of any securities exchange upon which American Depositary Shares may be listed or to conform with any usage with respect thereto, or to indicate any special limitations or restrictions to which any particular Receipts are subject by reason of the date of issuance of the underlying Deposited Securities or otherwise.

American Depositary Shares evidenced by a Receipt, when properly endorsed or accompanied by proper instruments of transfer, shall be transferable as certificated registered securities under the laws of New York. American Depositary Shares not evidenced by Receipts shall be transferable as uncertificated registered securities under the laws of New York. The Depositary, notwithstanding any notice to the contrary, may treat the Owner of American Depositary Shares as the absolute owner thereof for the purpose of determining the person entitled to distribution of dividends or other distributions or to any notice provided for in this Deposit Agreement and for all other purposes, and neither the Depositary

nor the Company shall have any obligation or be subject to any liability under this Deposit Agreement to any Holder of American Depositary Shares, but only to the Owner of those American Depositary Shares.

Section 2.02 Deposit of Shares.

Subject to the terms and conditions of this Deposit Agreement, Shares or evidence of rights to receive Shares may be deposited by delivery thereof to any Custodian hereunder, accompanied by any appropriate instruments or instructions for transfer, or endorsement, in form satisfactory to the Custodian, together with all such certifications as may be required by the Depositary or the Custodian in accordance with the provisions of this Deposit Agreement, and, if the Depositary requires, together with a written order directing the Depositary to deliver to, or upon the written order of, the person or persons stated in such order, the number of American Depositary Shares representing such deposit.

No Share shall be accepted for deposit unless accompanied by evidence satisfactory to the Depositary that any necessary approval has been granted by any governmental body in each applicable jurisdiction that is then performing the function of the regulation of currency exchange. If required by the Depositary, Shares presented for deposit at any time, whether or not the transfer books of the Company or the Foreign Registrar, if applicable, are closed, shall also be accompanied by an agreement or assignment, or other instrument satisfactory to the Depositary, which will provide for the prompt transfer to the Custodian of any dividend, or right to subscribe for additional Shares or to receive other property which any person in whose name the Shares are or have been recorded may thereafter receive upon, or in respect of such deposited Shares, or in lieu thereof, such agreement of indemnity or other agreement as shall be satisfactory to the Depositary.

At the request and risk and expense of any person proposing to deposit Shares, and for the account of such person, the Depositary may receive certificates for Shares to be deposited, together with the other instruments herein specified, for the purpose of forwarding such Share certificates to the Custodian for deposit hereunder.

Upon each delivery to a Custodian of a certificate or certificates for Shares to be deposited hereunder, together with the other documents specified above, such Custodian shall, as soon as transfer and recordation can be accomplished, present such certificate or certificates to the Company or the Foreign Registrar, if applicable, for transfer and recordation of the Shares being deposited in the name of the Depositary or its nominee or such Custodian or its nominee.

Deposited Securities shall be held by the Depositary or by a Custodian for the account and to the order of the Depositary or at such other place or places as the Depositary shall determine.

Section 2.03 Delivery of American Depositary Shares.

Upon receipt by any Custodian of any deposit pursuant to Section 2.02 hereunder, together with the other documents required as specified above, such Custodian shall notify the Depositary of such deposit and the person or persons to whom or upon whose written order American Depositary Shares are deliverable in respect thereof and the number of American Depositary Shares to be so delivered. Such notification shall be made by letter or, at the request, risk and expense of the person making the deposit, by cable, telex or facsimile transmission (and in addition, if the transfer books of the Company or the Foreign Registrar, if applicable, are open, the Depositary may in its sole discretion require a proper acknowledgment or other evidence from the Company or the Foreign Registrar that any Deposited Securities have been recorded upon the books of the Company or the Foreign Registrar, if applicable, in the name of the Depositary or its nominee or such Custodian or its nominee). Upon receiving such notice from such Custodian, or upon the receipt of Shares or evidence of the right to receive Shares by the Depositary, the

Depositary, subject to the terms and conditions of this Deposit Agreement, shall deliver, to or upon the order of the person or persons entitled thereto, the number of American Depositary Shares issuable in respect of that deposit, but only upon payment to the Depositary of the fees and expenses of the Depositary for the delivery of such American Depositary Shares as provided in Section 5.09, and of all taxes and governmental charges and fees payable in connection with such deposit and the transfer of the Deposited Securities.

Section 2.04 Registration of Transfer of American Depositary Shares; Combination and Split-up of Receipts; Interchange of Certificated and Uncertificated American Depositary Shares.

The Depositary, subject to the terms and conditions of this Deposit Agreement, shall register transfers of American Depositary Shares on its transfer books from time to time, upon (i) in the case of certificated American Depositary Shares, surrender of the Receipt evidencing those American Depositary Shares, by the Owner in person or by a duly authorized attorney, properly endorsed or accompanied by proper instruments of transfer or (ii) in the case of uncertificated American Depositary Shares, receipt from the Owner of a proper instruction (including, for the avoidance of doubt, instructions through DRS and Profile as provided in Section 2.10), and, in either case, duly stamped as may be required by the laws of the State of New York and of the United States of America. Thereupon the Depositary shall deliver those American Depositary Shares to or upon the order of the person entitled thereto.

The Depositary, subject to the terms and conditions of this Deposit Agreement, shall upon surrender of a Receipt or Receipts for the purpose of effecting a split-up or combination of such Receipt or Receipts, execute and deliver a new Receipt or Receipts for any authorized number of American Depositary Shares requested, evidencing the same aggregate number of American Depositary Shares as the Receipt or Receipts surrendered.

The Depositary, upon surrender of certificated American Depositary Shares for the purpose of exchanging for uncertificated American Depositary Shares, shall cancel those certificated American Depositary Shares and send the Owner a statement confirming that the Owner is the owner of the same number of uncertificated American Depositary Shares. The Depositary, upon receipt of a proper instruction (including, for the avoidance of doubt, instructions through DRS and Profile as provided in Section 2.10) from the Owner of uncertificated American Depositary Shares for the purpose of exchanging for certificated American Depositary Shares, shall cancel those uncertificated American Depositary Shares and deliver to the Owner the same number of certificated American Depositary Shares.

The Depositary may appoint one or more co-transfer agents for the purpose of effecting registration of transfers of American Depositary Shares and combinations and split-ups of Receipts at designated transfer offices on behalf of the Depositary. In carrying out its functions, a co-transfer agent may require evidence of authority and compliance with applicable laws and other requirements by Owners or persons entitled to American Depositary Shares and will be entitled to protection and indemnity to the same extent as the Depositary.

Section 2.05 Surrender of American Depositary Shares and Withdrawal of Deposited Securities.

Upon surrender at the Corporate Trust Office of the Depositary of American Depositary Shares for the purpose of withdrawal of the Deposited Securities represented thereby, and upon payment of the fee of the Depositary for the surrender of American Depositary Shares as provided in Section 5.09 and payment of all taxes and governmental charges payable in connection with such surrender and withdrawal of the Deposited Securities, and subject to the terms and conditions of this Deposit Agreement, the Owner of those American Depositary Shares shall be entitled to delivery, to him or as instructed, of the

amount of Deposited Securities at the time represented by those American Depositary Shares. Such delivery shall be made, as hereinafter provided, without unreasonable delay.

A Receipt surrendered for such purposes may be required by the Depositary to be properly endorsed in blank or accompanied by proper instruments of transfer in blank. The Depositary may require the surrendering Owner to execute and deliver to the Depositary a written order directing the Depositary to cause the Deposited Securities being withdrawn to be delivered to or upon the written order of a person or persons designated in such order. Thereupon the Depositary shall direct the Custodian to deliver at the office of such Custodian, subject to Sections 2.06, 3.01 and 3.02 and to the other terms and conditions of this Deposit Agreement, to or upon the written order of the person or persons designated in the order delivered to the Depositary as above provided, the amount of Deposited Securities represented by the surrendered American Depositary Shares, except that the Depositary may make delivery to such person or persons at the Corporate Trust Office of the Depositary of any dividends or distributions with respect to the Deposited Securities represented by those American Depositary Shares, or of any proceeds of sale of any dividends, distributions or rights, which may at the time be held by the Depositary.

At the request, risk and expense of any Owner so surrendering American Depositary Shares, and for the account of such Owner, the Depositary shall direct the Custodian to forward any cash or other property (other than rights) comprising, and forward a certificate or certificates, if applicable, and other proper documents of title for, the Deposited Securities represented by the surrendered American Depositary Shares to the Depositary for delivery at the Corporate Trust Office of the Depositary. Such direction shall be given by letter or, at the request, risk and expense of such Owner, by cable, telex or facsimile transmission.

Section 2.06 Limitations on Delivery, Transfer and Surrender of American Depositary Shares.

As a condition precedent to the delivery, registration of transfer or surrender of any American Depositary Shares or split-up or combination of any Receipt or withdrawal of any Deposited Securities, the Depositary, Custodian or Registrar may require payment from the depositor of Shares or the presenter of the Receipt or instruction for registration of transfer or surrender of American Depositary Shares not evidenced by a Receipt of a sum sufficient to reimburse it for any tax or other governmental charge and any stock transfer or registration fee with respect thereto (including any such tax or charge and fee with respect to Shares being deposited or withdrawn) and payment of any applicable fees as herein provided, may require the production of proof satisfactory to it as to the identity and genuineness of any signature and may also require compliance with any regulations the Depositary may establish consistent with the provisions of this Deposit Agreement, including, without limitation, this Section 2.06.

The delivery of American Depositary Shares against deposit of Shares generally or against deposit of particular Shares may be suspended, or the transfer of American Depositary Shares in particular instances may be refused, or the registration of transfer of outstanding American Depositary Shares generally may be suspended, during any period when the transfer books of the Depositary are closed, or if any such action is deemed necessary or advisable by the Depositary or the Company at any time or from time to time because of any requirement of law or of any government or governmental body or commission, or under any provision of this Deposit Agreement, or for any other reason, subject to the provisions of the following sentence. Notwithstanding anything to the contrary in this Deposit Agreement, the surrender of outstanding American Depositary Shares and withdrawal of Deposited Securities may not be suspended subject only to (i) temporary delays caused by closing the transfer books of the Depositary or the Company or the Foreign Registrar, if applicable, or the deposit of Shares in connection with voting at a shareholders' meeting, or the payment of dividends, (ii) the payment of fees, taxes and similar charges, and (iii) compliance with any U.S. or foreign laws or governmental regulations relating to the American Depositary

Shares or to the withdrawal of the Deposited Securities. Without limitation of the foregoing, the Depositary shall not knowingly accept for deposit under this Deposit Agreement any Shares which would be required to be registered under the provisions of the Securities Act of 1933 for public offer and sale in the United States unless a registration statement is in effect as to such Shares for such offer and sale.

Section 2.07 Lost Receipts, etc.

In case any Receipt shall be mutilated, destroyed, lost or stolen, the Depositary shall deliver to the Owner the American Depositary Shares evidenced by that Receipt in uncertificated form or, if requested by the Owner, execute and deliver a new Receipt of like tenor in exchange and substitution for such mutilated Receipt, upon cancellation thereof, or in lieu of and in substitution for such destroyed, lost or stolen Receipt. Before the Depositary shall deliver American Depositary Shares in uncertificated form or execute and deliver a new Receipt, in substitution for a destroyed, lost or stolen Receipt, the Owner thereof shall have (a) filed with the Depositary (i) a request for such execution and delivery before the Depositary has notice that the Receipt has been acquired by a bona fide purchaser and (ii) a sufficient indemnity bond and (b) satisfied any other reasonable requirements imposed by the Depositary.

Section 2.08 Cancellation and Destruction of Surrendered Receipts.

All Receipts surrendered to the Depositary shall be cancelled by the Depositary. The Depositary is authorized to destroy Receipts so cancelled.

Section 2.09 Pre-Release of American Depositary Shares.

Notwithstanding Section 2.03 hereof, unless requested in writing by the Company to cease doing so, the Depositary may deliver American Depositary Shares prior to the receipt of Shares pursuant to Section 2.02 (a "Pre-Release"). The Depositary may, pursuant to Section 2.05, deliver Shares upon the surrender of American Depositary Shares that have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such American Depositary Shares have been Pre-Released. The Depositary may receive American Depositary Shares in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation from the person to whom American Depositary Shares or Shares are to be delivered, that such person, or its customer, owns the Shares or American Depositary Shares to be remitted, as the case may be, (b) at all times fully collateralized with cash or such other collateral as the Depositary deems appropriate, (c) terminable by the Depositary on not more than five (5) business days' notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of Shares represented by American Depositary Shares which are outstanding at any time as a result of Pre-Release will not normally exceed thirty percent (30%) of the Shares deposited hereunder; provided, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate.

The Depositary may retain for its own account any compensation received by it in connection with the foregoing.

Section 2.10 DTC Direct Registration System and Profile Modification System.

(a) Notwithstanding the provisions of Section 2.04, the parties acknowledge that the Direct Registration System ("DRS") and Profile Modification System ("Profile") shall apply to uncertificated American Depositary Shares upon acceptance thereof to DRS by DTC. DRS is the system administered by DTC pursuant to which the Depositary may register the ownership of uncertificated American Depositary Shares, which ownership shall be evidenced by periodic statements issued by the

Depositary to the Owners entitled thereto. Profile is a required feature of DRS which allows a DTC participant, claiming to act on behalf of an Owner of American Depositary Shares, to direct the Depositary to register a transfer of those American Depositary Shares to DTC or its nominee and to deliver those American Depositary Shares to the DTC account of that DTC participant without receipt by the Depositary of prior authorization from the Owner to register such transfer.

(b) In connection with and in accordance with the arrangements and procedures relating to DRS/Profile, the parties understand that the Depositary will not verify, determine or otherwise ascertain that the DTC participant which is claiming to be acting on behalf of an Owner in requesting a registration of transfer and delivery as described in subsection (a) has the actual authority to act on behalf of the Owner (notwithstanding any requirements under the Uniform Commercial Code). For the avoidance of doubt, the provisions of Sections 5.03 and 5.08 shall apply to the matters arising from the use of the DRS. The parties agree that the Depositary's reliance on and compliance with instructions received by the Depositary through the DRS/Profile System and in accordance with this Deposit Agreement shall not constitute negligence or bad faith on the part of the Depositary.

Section 2.11 Records of the Depositary.

The Depositary agrees to maintain or cause its agents to maintain records of all Receipts surrendered and Deposited Securities withdrawn under Section 2.05, substitute Receipts delivered under Section 2.07 and canceled or destroyed Receipts under Section 2.08, in each case in keeping with the procedures ordinarily followed by stock transfer agents in the United States or as required by the laws or regulations governing the Depositary.

ARTICLE 3. CERTAIN OBLIGATIONS OF OWNERS AND HOLDERS OF AMERICAN DEPOSITARY SHARES

Section 3.01 Filing Proofs, Certificates and Other Information.

Any person presenting Shares for deposit or any Owner or Holder may be required from time to time to file with the Depositary or the Custodian such proof of citizenship or residence, exchange control approval, or such information relating to the registration on the books of the Company or the Foreign Registrar, if applicable, to execute such certificates and to make such representations and warranties, as the Depositary may deem necessary or proper. The Depositary may withhold the delivery or registration of transfer of American Depositary Shares or the distribution of any dividend or sale or distribution of rights or of the proceeds thereof or the delivery of any Deposited Securities until such proof or other information is filed or such certificates are executed or such representations and warranties made. The Depositary shall provide the Company, upon the Company's written request and at the Company's expense, as promptly as practicable, with copies of any information or other materials which it receives pursuant to this Section 3.01, to the extent that disclosure is permitted under applicable law.

Section 3.02 Liability of Owner for Taxes.

If any tax or other governmental charge shall become payable by the Custodian or the Depositary with respect to any American Depositary Shares or any Deposited Securities represented by any American Depositary Shares, such tax or other governmental charge shall be payable by the Owner of such American Depositary Shares to the Depositary. The Depositary may refuse to register any transfer of those American Depositary Shares or any withdrawal of Deposited Securities represented by those American Depositary Shares until such payment is made, and may withhold any dividends or other distributions, or may sell for the account of the Owner thereof any part or all of the Deposited Securities represented by those American Depositary Shares, and may apply such dividends or other distributions or the proceeds of

any such sale in payment of such tax or other governmental charge and the Owner of such American Depositary Shares shall remain liable for any deficiency.

Section 3.03 Warranties on Deposit of Shares.

Every person depositing Shares under this Deposit Agreement shall be deemed thereby to represent and warrant that such Shares and each certificate therefor, if applicable, are validly issued, fully paid, nonassessable and free of any preemptive rights of the holders of outstanding Shares and that the person making such deposit is duly authorized so to do. Every such person shall also be deemed to represent that the deposit of such Shares and the sale of American Depositary Shares representing such Shares by that person are not restricted under the Securities Act of 1933. Such representations and warranties shall survive the deposit of Shares and delivery of American Depositary Shares.

Section 3.04 Disclosure of Interests.

The Company may from time to time request Owners to provide information as to the capacity in which such Owners own or owned American Depositary Shares and regarding the identity of any other persons then or previously interested in such American Depositary Shares and the nature of such interest. Each Owner agrees to provide any information requested by the Company or the Depositary pursuant to this Section 3.04. The Depositary agrees to comply with reasonable written instructions received from the Company requesting that the Depositary forward any such requests to the Owners and to forward to the Company any such responses to such requests received by the Depositary. The Depositary shall provide reasonable assistance to the Company, at the Company's request and expense, in obtaining information sought by the Company pursuant to this Section 3.04.

ARTICLE 4. THE DEPOSITED SECURITIES

Section 4.01 Cash Distributions.

Whenever the Depositary shall receive any cash dividend or other cash distribution on any Deposited Securities, the Depositary shall, subject to the provisions of Section 4.05, convert such dividend or distribution into Dollars and shall distribute the amount thus received (net of the fees and expenses of the Depositary as provided in Section 5.09) to the Owners entitled thereto, in proportion to the number of American Depositary Shares representing such Deposited Securities held by them respectively; provided, however, that in the event that the Custodian or the Depositary shall be required to withhold and does withhold from such cash dividend or such other cash distribution an amount on account of taxes or other governmental charges, the amount distributed to the Owner of the American Depositary Shares representing such Deposited Securities shall be reduced accordingly. The Depositary shall distribute only such amount, however, as can be distributed without attributing to any Owner a fraction of one cent. Any such fractional amounts shall be rounded to the nearest whole cent and so distributed to Owners entitled thereto. The Company or its agent will remit to the appropriate governmental agencies in the Cayman Islands and the People's Republic of China all amounts withheld and owing to such agency. The Depositary will forward to the Company or its agent such information from its records as the Company may reasonably request to enable the Company or its agent to file necessary reports with governmental agencies.

Section 4.02 Distributions Other Than Cash, Shares or Rights.

Subject to the provisions of Sections 4.11 and 5.09, whenever the Depositary shall receive any distribution other than a distribution described in Section 4.01, 4.03 or 4.04, the Depositary shall cause the securities or property received by it to be distributed to the Owners entitled thereto, after deduction or upon payment of any fees and expenses of the Depositary or any taxes or other governmental charges, in

proportion to the number of American Depositary Shares representing such Deposited Securities held by them respectively, in any manner that the Depositary may deem equitable and practicable for accomplishing such distribution; provided, however, that if in the opinion of the Depositary such distribution cannot be made proportionately among the Owners entitled thereto, or if for any other reason (including, but not limited to, any requirement that the Company or the Depositary withhold an amount on account of taxes or other governmental charges or that such securities must be registered under the Securities Act of 1933 in order to be distributed to Owners or Holders) the Depositary deems such distribution not to be feasible, the Depositary may adopt such method as it may deem equitable and practicable for the purpose of effecting such distribution, including, but not limited to, the public or private sale of the securities or property thus received, or any part thereof, and the net proceeds of any such sale (net of the fees and expenses of the Depositary as provided in Section 5.09) shall be distributed by the Depositary to the Owners entitled thereto, all in the manner and subject to the conditions described in Section 4.01. The Depositary may withhold any distribution of securities under this Section 4.02 if it has not received reasonably satisfactory assurances from the Company that the distribution does not require registration under the Securities Act of 1933. The Depositary may sell, by public or private sale, an amount of securities or other property it would otherwise distribute under this Section 4.02 that is sufficient to pay its fees and expenses in respect of that distribution.

Section 4.03 Distributions in Shares.

If any distribution upon any Deposited Securities consists of a dividend in, or free distribution of, Shares, the Depositary may, and shall if the Company requests so in writing, deliver to the Owners entitled thereto, in proportion to the number of American Depositary Shares representing such Deposited Securities held by them respectively, an aggregate number of American Depositary Shares representing the amount of Shares received as such dividend or free distribution, subject to the terms and conditions of this Deposit Agreement with respect to the deposit of Shares and issuance of American Depositary Shares, including the withholding of any tax or other governmental charge as provided in Section 4.11 and the payment of the fees and expenses of the Depositary as provided in Section 5.09 (and the Depositary may sell, by public or private sale, an amount of the Shares received sufficient to pay its fees and expenses in respect of that distribution). The Depositary may withhold any such delivery of American Depositary Shares if it has not received reasonably satisfactory assurances from the Company that such distribution does not require registration under the Securities Act of 1933. In lieu of delivering fractional American Depositary Shares in any such case, the Depositary shall use reasonable efforts to sell the amount of Shares represented by the aggregate of such fractions (or American Depositary Shares representing those Shares) and distribute the net proceeds, all in the manner and subject to the conditions described in Section 4.01. If additional American Depositary Shares are not so delivered, each American Depositary Share shall thenceforth also represent the additional Shares distributed upon the Deposited Securities represented thereby.

Section 4.04 Rights.

In the event that the Company shall offer or cause to be offered to the holders of any Deposited Securities any rights to subscribe for additional Shares or any rights of any other nature, the Depositary shall have discretion as to the procedure to be followed in making such rights available to any Owners or in disposing of such rights on behalf of any Owners and making the net proceeds available to such Owners or, if by the terms of such rights offering or for any other reason, the Depositary may not either make such rights available to any Owners or dispose of such rights and make the net proceeds available to such Owners, then the Depositary shall allow the rights to lapse. If at the time of the offering of any rights the Depositary determines in its discretion that it is lawful and feasible to make such rights available to all or certain Owners but not to other Owners, the Depositary may distribute to any Owner to whom it determines the distribution to be lawful and feasible, in proportion to the number of American

Depositary Shares held by such Owner, warrants or other instruments therefor in such form as it deems appropriate.

In circumstances in which rights would otherwise not be distributed, if an Owner requests the distribution of warrants or other instruments in order to exercise the rights allocable to the American Depositary Shares of such Owner hereunder, the Depositary will make such rights available to such Owner upon written notice from the Company to the Depositary that (a) the Company has elected in its sole discretion to permit such rights to be exercised and (b) such Owner has executed such documents as the Company has determined in its sole discretion are reasonably required under applicable law.

If the Depositary has distributed warrants or other instruments for rights to all or certain Owners, then upon instruction from such an Owner pursuant to such warrants or other instruments to the Depositary from such Owner to exercise such rights, upon payment by such Owner to the Depositary for the account of such Owner of an amount equal to the purchase price of the Shares to be received upon the exercise of the rights, and upon payment of the fees and expenses of the Depositary and any other charges as set forth in such warrants or other instruments, the Depositary shall, on behalf of such Owner, exercise the rights and purchase the Shares, and the Company shall cause the Shares so purchased to be delivered to the Depositary on behalf of such Owner. As agent for such Owner, the Depositary will cause the Shares so purchased to be deposited pursuant to Section 2.02 of this Deposit Agreement, and shall, pursuant to Section 2.03 of this Deposit Agreement, deliver American Depositary Shares to such Owner. In the case of a distribution pursuant to the second paragraph of this Section, such deposit shall be made, and depositary shares shall be delivered, under depositary arrangements which provide for issuance of depositary shares subject to the appropriate restrictions on sale, deposit, cancellation, and transfer under applicable United States laws.

If the Depositary determines in its discretion that it is not lawful and feasible to make such rights available to all or certain Owners, it may sell the rights, warrants or other instruments in proportion to the number of American Depositary Shares held by the Owners to whom it has determined it may not lawfully or feasibly make such rights available, and allocate the net proceeds of such sales (net of the fees and expenses of the Depositary as provided in Section 5.09 and all taxes and governmental charges payable in connection with such rights and subject to the terms and conditions of this Deposit Agreement) for the account of such Owners otherwise entitled to such rights, warrants or other instruments, upon an averaged or other practical basis without regard to any distinctions among such Owners because of exchange restrictions or the date of delivery of any American Depositary Shares or otherwise.

The Depositary will not offer rights to Owners unless both the rights and the securities to which such rights relate are either exempt from registration under the Securities Act of 1933 with respect to a distribution to all Owners or are registered under the provisions of such Act; provided, that nothing in this Deposit Agreement shall create any obligation on the part of the Company to file a registration statement with respect to such rights or underlying securities or to endeavor to have such a registration statement declared effective. If an Owner requests the distribution of warrants or other instruments, notwithstanding that there has been no such registration under the Securities Act of 1933, the Depositary shall not effect such distribution unless it has received an opinion from recognized counsel in the United States for the Company upon which the Depositary may rely that such distribution to such Owner is exempt from such registration; provided, however, that the Company will have no obligation to cause its counsel to issue such opinion at the request at such Owner.

The Depositary shall not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Owners in general or any Owner in particular.

Section 4.05 Conversion of Foreign Currency.

Whenever the Depositary or the Custodian shall receive foreign currency, by way of dividends or other distributions or the net proceeds from the sale of securities, property or rights, and if at the time of the receipt thereof the foreign currency so received can in the judgment of the Depositary be converted on a reasonable basis into Dollars and the resulting Dollars transferred to the United States, the Depositary shall convert or cause to be converted by sale or in any other manner that it may determine such foreign currency into Dollars, and such Dollars shall be distributed to the Owners entitled thereto or, if the Depositary shall have distributed any warrants or other instruments which entitle the holders thereof to such Dollars, then to the holders of such warrants and/or instruments upon surrender thereof for cancellation. Such distribution may be made upon an averaged or other practicable basis without regard to any distinctions among Owners on account of exchange restrictions, the date of delivery of any American Depositary Shares or otherwise and shall be net of any expenses of conversion into Dollars incurred by the Depositary as provided in Section 5.09.

If such conversion or distribution can be effected only with the approval or license of any government or agency thereof, the Depositary shall file such application for approval or license, if any, as it may deem desirable.

If at any time the Depositary shall determine that in its judgment any foreign currency received by the Depositary or the Custodian is not convertible on a reasonable basis into Dollars transferable to the United States, or if any approval or license of any government or agency thereof which is required for such conversion is denied or in the opinion of the Depositary is not obtainable, or if any such approval or license is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute the foreign currency (or an appropriate document evidencing the right to receive such foreign currency) received by the Depositary to, or in its discretion may hold such foreign currency uninvested and without liability for interest thereon for the respective accounts of, the Owners entitled to receive the same.

If any such conversion of foreign currency, in whole or in part, cannot be effected for distribution to some of the Owners entitled thereto, the Depositary may in its discretion make such conversion and distribution in Dollars to the extent permissible to the Owners entitled thereto and may distribute the balance of the foreign currency received by the Depositary to, or hold such balance uninvested and without liability for interest thereon for the respective accounts of, the Owners entitled thereto.

Section 4.06 Fixing of Record Date.

Whenever any cash dividend or other cash distribution shall become payable or any distribution other than cash shall be made, or whenever rights shall be issued with respect to the Deposited Securities,' or whenever the Depositary shall receive notice of any meeting of holders of Shares or other Deposited Securities, or whenever for any reason the Depositary causes a change in the number of Shares that are represented by each American Depositary Share, or whenever the Depositary shall find it necessary or convenient, the Depositary shall fix a record date, which shall be the same as, or as near as practicable to, any corresponding record date established by the Company in respect of the Shares or other Deposited Securities, (a) for the determination of the Owners who shall be (i) entitled to receive such dividend, distribution or rights or the net proceeds of the sale thereof, (ii) entitled to give instructions for the exercise of voting rights at any such meeting or (iii) responsible for any fee or charge assessed by the Depositary pursuant to this Deposit Agreement, or (b) on or after which each American Depositary Share will represent the changed number of Shares. Subject to the provisions of Sections 4.01 through 4.05 and to the other terms and conditions of this Deposit Agreement, the Owners on such record date shall be entitled, as the case may be, to receive the amount distributable by the Depositary with respect to such dividend or other distribution or such rights or the net proceeds of sale thereof in proportion to the number of American Depositary Shares held by them respectively and to give voting instructions and to act in respect of any other such matter.

Section 4.07 Voting of Deposited Securities.

Upon receipt of notice of any- meeting of holders of Shares or other Deposited Securities, if requested in writing by the Company, the Depositary shall, as soon as practicable thereafter, mail to the Owners a notice, the form of which notice shall be in the sole discretion of the Depositary, which shall contain (a) such information as is contained in such notice of meeting received by the Depositary from the Company, (b) a statement that the Owners as of the close of business on a specified record date will be entitled, subject to any applicable provision of Cayman Islands law and of the articles of association or similar documents of the Company, to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the amount of Shares or other Deposited Securities represented by their respective American Depositary Shares and (c) a statement as to the manner in which such instructions may be given, including an express indication that instructions may be given or deemed given in accordance with the last sentence of this paragraph if no instruction is received to the Depositary to give a discretionary proxy to a person designated by the Company. Upon the written request of an Owner of American Depositary Shares on such record date, received on or before the date established by the Depositary for such purpose, the Depositary shall endeavor, in so far as practicable, to vote or cause to be voted the amount of Shares or other Deposited Securities represented by those American Depositary Shares in accordance with the instructions set forth in such request. The Depositary shall not vote or attempt to exercise the right to vote that attaches to the Shares or other Deposited Securities, other than in accordance with such instructions or as provided in the following sentence. If (i) the Company instructed the Depositary to send a notice under this Section 4.07 and has provided the Depositary not less than 30 days' prior notice of the meeting and details of the matters to be voted upon and (ii) no instructions are received by the Depositary from an Owner with respect to an amount of Deposited Securities represented by American Depositary Shares of that Owner on or before the date established by the Depositary for such purpose, the Depositary shall deem that Owner to have instructed the Depositary to give a discretionary proxy to a person designated by the Company with respect to that amount of Deposited Securities and the Depositary shall give a discretionary proxy to a person designated by the Company to vote that amount of Deposited Securities; provided, that no such instruction shall be deemed given and no such discretionary proxy shall be given with respect to any matter as to which the Company informs the Depositary (and the Company agrees to provide such information as promptly as practicable in writing, if applicable) that (x) the Company does not wish to receive a proxy, (y) substantial opposition exists or (z) such matter materially and adversely affects the rights of holders of Shares.

There can be no assurance that Owners generally or any Owner in particular will receive the notice described in the preceding paragraph sufficiently prior to the instruction cutoff date to ensure that the Depositary will vote the Shares or Deposited Securities in accordance with the provisions set forth in the preceding paragraph.

If the Company will request the Depositary to act under this Section 4.07, the Company shall give the Depositary notice of any such meeting and details concerning the matters to be voted upon as far in advance of the meeting date as practicable.

Section 4.08 Changes Affecting Deposited Securities.

Upon any change in nominal value, change in par value, split-up, consolidation or any other reclassification of Deposited Securities, or upon any recapitalization, reorganization, merger or consolidation or sale of assets affecting the Company or to which it is a party, or upon the redemption or cancellation by the Company of the Deposited Securities, any securities, cash or property which shall be received by the Depositary or a Custodian in exchange for, in conversion of, in lieu of or in respect of Deposited Securities, shall be treated as new Deposited Securities under this Deposit Agreement, and American Depositary Shares shall thenceforth represent, in addition to the existing Deposited Securities, the right to receive the new Deposited Securities so received, unless additional American Depositary Shares

are delivered pursuant to the following sentence. In any. such case the Depositary may deliver additional American Depositary Shares as in the case of a dividend in Shares, or call for the surrender of outstanding Receipts to be exchanged for new Receipts specifically describing such new Deposited Securities.

Section 4.09 Reports.

The Depositary shall make available for inspection by Owners at its Corporate Trust Office any reports and communications, including any proxy solicitation material, received from the Company which are both (a) received by the Depositary as the holder of the Deposited Securities and (b) made generally available to the holders of such Deposited Securities by the Company. The Depositary shall also, upon written request by the Company, send to the Owners copies of such reports when furnished by the Company pursuant to Section 5.06. Any such reports and communications, including any such proxy soliciting material, furnished to the Depositary by the Company shall be furnished in English, to the extent such materials are required to be translated into English pursuant to any regulations of the Commission.

Section 4.10 Lists of Owners.

Promptly upon request by the - Company, the Depositary shall, at the expense of the Company, furnish to it a list, as of a recent date, of the names, addresses and holdings of American Depositary Shares by all persons in whose names American Depositary Shares are registered on the books of the Depositary.

Section 4.11 Withholding.

In the event that the Depositary determines that any distribution in property (including Shares and rights to subscribe therefor) is subject to any tax or other governmental charge which the Depositary is obligated to withhold, the Depositary may by public or private sale dispose of all or a portion of such property (including Shares and rights to subscribe therefor) in such amounts and in such manner as the Depositary deems necessary and practicable to pay such taxes or charges and the Depositary shall distribute the net proceeds of any such sale after deduction of such taxes or charges to the Owners entitled thereto in proportion to the number of American Depositary Shares held by them respectively.

ARTICLE 5. THE DEPOSITARY, THE CUSTODIANS AND THE COMPANY

Section 5.01 Maintenance of Office and Transfer Books by the Depositary.

Until termination of this Deposit Agreement in accordance with its terms, the Depositary shall maintain in the Borough of Manhattan, The City of New York, facilities for the execution and delivery, registration, registration of transfers and surrender of American Depositary Shares in - accordance with the provisions of this Deposit Agreement.

The Depositary shall keep books, at its Corporate Trust Office, for the registration of American Depositary Shares and transfers of American Depositary Shares which at all reasonable times shall be open for inspection by the Owners, provided that such inspection shall not be for the purpose of communicating with Owners in the interest of a business or object other than the business of the Company or a matter related to this Deposit Agreement or the American Depositary Shares.

The Depositary may close the transfer books, at any time or from time to time, when deemed expedient by it in connection with the performance of its duties hereunder or upon written request of the Company.

If any American Depositary Shares are listed on one or more stock exchanges in the United States, the Depositary shall act as Registrar or appoint a Registrar or one or more co-registrars for registry of such American Depositary Shares in accordance with any requirements of such exchange or exchanges.

Section 5.02 Prevention or Delay in Performance by the Depositary or the Company.

Neither the Depositary nor the Company nor any of their respective directors, employees, agents or affiliates shall incur any liability to any Owner or Holder (i) if by reason of any provision of any present or future law or regulation of the United States or any other country, or of any governmental or regulatory authority or stock exchange, or by reason of any provision, present or future, of the articles of association or similar document of the Company, or by reason of any provision of any securities issued or distributed by the Company, or any offering or distribution thereof, or by reason of any act of God or war or terrorism or other circumstances beyond its control, the Depositary or the Company shall be prevented, delayed or forbidden from, or be subject to any civil or criminal penalty on account of, doing or performing any act or thing which by the terms of this Deposit Agreement or the Deposited Securities it is provided shall be done or performed, (ii) by reason of any non-performance or delay, caused as aforesaid, in the performance of any act or thing which by the terms of this Deposit Agreement it is provided shall or may be done or performed, (iii) by reason of any exercise of, or failure to exercise, any discretion provided for in this Deposit Agreement, (iv) for the inability of any Owner or Holder to benefit from any distribution, offering, right or other benefit which is made available to holders of Deposited Securities but is not, under the terms of this Deposit Agreement, made available to Owners or Holders, or (v) for any special, consequential or punitive damages for any breach of the terms of this Deposit Agreement. Where, by the terms of a distribution pursuant to Section 4.01, 4.02 or 4.03, or an offering or distribution pursuant to Section 4.04, or for any other reason, such distribution or offering may not be made available to Owners, and the Depositary may not dispose of such distribution or offering on behalf of such Owners and make the net proceeds available to such Owners, then the Depositary shall not make such distribution or offering, and shall allow any rights, if applicable, to lapse.

Section 5.03 Obligations of the Depositary, the Custodian and the Company.

The Company assumes no obligation nor shall it be subject to any liability under this Deposit Agreement to any Owner or Holder, except that the Company agrees to perform its obligations specifically set forth in this Deposit Agreement without negligence or bad faith.

The Depositary assumes no obligation nor shall it be subject to any liability under this Deposit Agreement to any Owner or Holder (including, without limitation, liability with respect to the validity or worth of the Deposited Securities), except that the Depositary agrees to perform its obligations specifically set forth in this Deposit Agreement without negligence or bad faith.

Neither the Depositary nor the Company shall be under any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Securities or in respect of the American Depositary Shares on behalf of any Owner or Holder or any other person.

Neither the Depositary nor the Company shall be liable for any action or nonaction by it in reliance upon the advice of or information from legal counsel, accountants, any person presenting Shares for deposit, any Owner or any other person believed by it in good faith to be competent to give such advice or information.

The Depositary shall not be liable for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the Depositary or in connection with any matter arising wholly after the removal or resignation of the Depositary, provided that in connection with the issue

out of which such potential liability arises the Depositary performed its obligations without negligence or bad faith while it acted as Depositary.

The Depositary shall not be liable for the acts or omissions of any securities depository, clearing agency or settlement system in connection with or arising out of book-entry settlement of Deposited Securities or otherwise, provided that any such acts or omissions are not the direct result of the negligence or bad faith of the Depositary.

The Depositary shall not be responsible for any failure to carry out any instructions to vote any of the Deposited Securities, or for the manner in which any such vote is cast or the effect of any such vote, provided that any such action or nonaction is in good faith.

No disclaimer of liability under the Securities Act of 1933 is intended by any provision of this Deposit Agreement.

Section 5.04 Resignation and Removal of the Depositary.

The Depositary may at any time resign as Depositary hereunder by written notice of its election so to do delivered to the Company, such resignation to take effect upon the appointment of a successor depositary and its acceptance of such appointment as hereinafter provided.

The Depositary may at any time be removed by the Company by 120 days prior written notice of such removal, to become effective upon the later of (i) the 120th day after delivery of the notice to the Depositary and (ii) the appointment of a successor depositary and its acceptance of such appointment as hereinafter provided.

In case at any time the Depositary acting hereunder shall resign or be removed, the Company shall use its reasonable efforts to appoint a successor depositary, which shall be a bank or trust company having an office in the Borough of Manhattan, The City of New York. Every successor depositary shall execute and deliver to its predecessor and to the Company an instrument in writing accepting its appointment hereunder, and thereupon such successor depositary, without any further act or deed, shall become fully vested with all the rights, powers, duties and obligations of its predecessor; but such predecessor, nevertheless, upon payment of all sums due it and on the written request of the Company shall execute and deliver an instrument transferring to such successor all rights and powers of such predecessor hereunder, shall duly assign, transfer and deliver all right, title and interest in the Deposited Securities to such successor and shall deliver to such successor a list of the Owners of all outstanding American Depositary Shares. Any such successor depositary shall promptly mail notice of its appointment to the Owners.

Any corporation into or with which the Depositary may be merged or consolidated shall be the successor of the Depositary without the execution or filing of any document or any further act.

Section 5.05 The Custodians.

The Custodian shall be subject at all times and in all respects to the directions of the Depositary and shall be responsible solely to it. Any Custodian may resign and be discharged from its duties hereunder by notice of such resignation delivered to the Depositary at least 30 days prior to the date on which such resignation is to become effective. If upon such resignation there shall be no Custodian acting hereunder, the Depositary shall, promptly after receiving such notice, appoint a substitute custodian or custodians, each of which shall thereafter be a Custodian hereunder. The Depositary in its discretion may appoint a substitute or additional custodian or custodians, each of which shall thereafter be one of the

Custodians hereunder. Upon demand of the Depositary any Custodian shall deliver such of the Deposited Securities held by it as are requested of it to any other Custodian or such substitute or additional custodian or custodians. Each such substitute or additional custodian shall deliver to the Depositary, forthwith upon its appointment, an acceptance of such appointment satisfactory in form and substance to the Depositary.

Upon the appointment of any successor depositary hereunder, each Custodian then acting hereunder shall forthwith become, without any further act or writing, the agent hereunder of such successor depositary and the appointment of such successor depositary shall in no way impair the authority of each Custodian hereunder; but the successor depositary so appointed shall, nevertheless, on the written request of any Custodian, execute and deliver to such Custodian all such instruments as may be proper to give to such Custodian full and complete power and authority as agent hereunder of such successor depositary.

Section 5.06 Notices and Reports.

On or before the first date on which the Company gives notice, by publication or otherwise, of any meeting of holders of Shares or other Deposited Securities, or of any adjourned meeting of such holders, or of the taking of any action in respect of any cash or other distributions or the offering of any rights, the Company agrees to transmit to the Depositary and the Custodian a copy of the notice thereof in the form given or to be given to holders of Shares or other Deposited Securities.

The Company will arrange for the translation into English, if not already in English, to the extent required pursuant to any regulations of the Commission, and the prompt transmittal by the Company to the Depositary and the Custodian of such notices and any other reports and communications which are made generally available by the Company to holders of its Shares. If requested in writing by the Company, the Depositary will arrange for the mailing, at the Company's expense, of copies of such notices, reports and communications to all Owners. The Company will timely provide the Depositary with the quantity of such notices, reports, and communications, as requested by the Depositary from time to time, in order for the Depositary to effect such mailings.

Section 5.07 Distribution of Additional Shares, Rights, etc.

If the Company or any affiliate of the Company determines to make any issuance or distribution of (1) additional Shares, (2) rights to subscribe for Shares, (3) securities convertible into Shares, or (4) rights to subscribe for such securities (each a "Distribution"), the Company shall notify the Depositary in writing in English as promptly as practicable and in any event before the Distribution starts and, if requested in writing by the Depositary, the Company shall promptly furnish to the Depositary a written opinion from U.S. counsel for the Company that is reasonably satisfactory to the Depositary, stating whether or not the Distribution requires, or, if made in the United States, would require, registration under the Securities Act of 1933. If, in the opinion of that counsel, the Distribution requires, or, if made in the United States, would require, registration under the Securities Act of 1933, that counsel shall furnish to the Depositary a written opinion as to whether or not there is a registration statement under the Securities Act of 1933 in effect that will cover that Distribution.

The Company agrees with the Depositary that neither the Company nor any company controlled by, controlling or under common control with the Company will at any time deposit any Shares, either originally issued or previously issued and reacquired by the Company or any such affiliate, unless a Registration Statement is in effect as to such Shares under the Securities Act of 1933 or the Company delivers to the Depositary an opinion of United States counsel, reasonably satisfactory to the Depositary, to the effect that, upon deposit, those Shares will be eligible for public resale in the United States without further registration under the Securities Act of 1933.

Notwithstanding anything else in this Deposit Agreement, nothing in this Deposit Agreement shall be deemed to obligate the Company to file any registration statement in respect of any proposed transactions.

Section 5.08 Indemnification.

The Company agrees to indemnify the Depositary, its directors, employees, agents and affiliates and any Custodian against, and hold each of them harmless from, any liability or expense (including, but not limited to any reasonable fees and expenses incurred in seeking, enforcing or collecting such indemnity and the reasonable fees and expenses of counsel) which may arise out of or in connection with (a) any registration with the Commission of American Depositary Shares or Deposited Securities or the offer or sale thereof in the United States or (b) acts performed or omitted, pursuant to the provisions of or in connection with this Deposit Agreement and of the American Depositary Shares, as the same may be amended, modified or supplemented from time to time, (i) by either the Depositary or a Custodian or their respective directors, employees, agents and affiliates, except for any liability or expense arising out of the negligence or bad faith of either of them, or (ii) by the Company or any of its directors, employees, agents and affiliates.

The indemnities contained in the preceding paragraph shall not extend to any liability or expense which arises solely and exclusively out of a Pre-Release (as defined in Section 2.09) of American Depositary Shares pursuant to Section 2.09 and which would not otherwise have arisen had those American Depositary Shares not been the subject of a Pre-Release pursuant to Section 2.09; provided, however, that the indemnities provided in the preceding paragraph shall apply to any such liability or expense (i) to the extent that such liability or expense would have arisen had those American Depositary Shares not been the subject of a Pre-Release, or (ii) which may arise out of any misstatement or alleged misstatement or omission or alleged omission in any registration statement, proxy statement, prospectus (or placement memorandum), or preliminary prospectus (or preliminary placement memorandum) relating to the offer or sale of American Depositary Shares, except to the extent any such liability or expense arises out of (x) information relating to the Depositary or any Custodian (other than the Company), as applicable, furnished in writing and not materially changed or altered by the Company expressly for use in any of the foregoing documents, or, (y) if such information is provided, the failure to state a material fact necessary to make the information provided not misleading.

The Depositary agrees to indemnify the Company, its directors, employees, agents and affiliates and hold theni harmless from any liability or expense (including, but not limited to any fees and expenses incurred in seeking, enforcing or collecting such indemnity and the reasonable fees and expenses of counsel) which may arise out of acts performed or omitted by the Depositary or its Custodian or their respective directors, employees, agents and affiliates due to their negligence or bad faith.

Section 5.09 Charges of Depositary.

The Company agrees to pay the fees and out-of-pocket expenses of the Depositary and those of any Registrar only in accordance with agreements in writing entered into between the Depositary and the Company from time to time. Except to the extent that the Company is a depositor or Owner hereunder, the Company is not liable for the payment of any of the charges of the Depositary under this Section 5.09.

The following charges shall be incurred by any party depositing or withdrawing Shares or by any party surrendering American Depositary Shares or to whom American Depositary Shares are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by the Company or an exchange of stock regarding the American Depositary Shares or Deposited Securities or a delivery of

American Depositary Shares pursuant to Section 4.03), or by Owners, as applicable: (1) taxes and other governmental charges, (2) such registration fees as may from time to time be in effect for the registration of transfers of Shares generally on the Share register of the Company or Foreign Registrar and applicable to transfers of Shares to or from the name of the Depositary or its nominee or the Custodian or its nominee on the making of deposits or withdrawals hereunder, (3) such cable, telex and facsimile transmission expenses as are expressly provided in this Deposit Agreement, (4) such expenses as are incurred by the Depositary in the conversion of foreign currency pursuant to Section 4.05, (5) a fee of $5.00 or less per 100 American Depositary Shares (or portion thereof) for the delivery of American Depositary Shares pursuant to Section 20.3, 4.03 or 4.04 and the surrender of American Depositary Shares pursuant to Section 2.05 or 6.02, (6) a fee of $.05 or less per American Depositary Share (or portion thereof) for any cash distribution made pursuant to this Deposit Agreement, including, but not limited to Sections 4.01 through 4.04 hereof, (7) a fee for the distribution of securities pursuant to Section 4.02, such fee being in an amount equal to the fee for the execution and delivery of American Depositary Shares referred to above which would have been charged as a result of the deposit of such securities (for purposes of this clause 7 treating all such securities as if they were Shares) but which securities are instead distributed by the Depositary to Owners, (8) in addition to any fee charged under clause 6, a fee of $.05 or less per American Depositary Share (or portion thereof) per annum for depositary services, which will be payable as provided in clause 9 below, (9) any other charges payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents in connection with the servicing of Shares or other Deposited Securities (which charge shall be assessed against Owners as of the date or dates set by the Depositary in accordance with Section 4.06 and shall be payable at the sole discretion of the Depositary by billing such Owners for such charge or by deducting such charge from one or more cash dividends or other cash distributions).

The Depositary may collect any of its fees by deduction from any cash distribution payable to Owners that are obligated to pay those fees.

The Depositary, subject to Section 2.09 hereof, may own and deal in any class of securities of the Company and its affiliates and in American Depositary Shares.

Section 5.10 Retention of Depositary Documents.

The Depositary is authorized to destroy those documents, records, bills and other data compiled during the term of this Deposit Agreement at the times permitted by the laws or regulations governing the Depositary unless the Company requests that such papers be retained for a longer period or turned over to the Company or to a successor depositary.

Section 5.11 Exclusivity.

Subject to Sections 5.04 and 6.02, the Company agrees not to appoint any other depositary for issuance of American or global depositary shares or receipts so long as The Bank of New York Mellon is acting as Depositary hereunder.

Section 5.12 List of Restricted Securities Owners.

From time to time, the Company shall provide to the Depositary a list setting forth, to the actual knowledge of the Company, those persons or entities who beneficially own Restricted Securities and the Company shall update that list on a regular basis. The Company agrees to advise in writing each of the persons or entities so listed that such Restricted Securities are ineligible for deposit hereunder. The Depositary may rely on such a list or update but shall not be liable for any action or omission made in reliance thereon.

ARTICLE 6. AMENDMENT AND TERMINATION

Section 6.01 Amendment.

The form of the Receipts and any provisions of this Deposit Agreement may at any time and from time to time be amended by agreement between the Company and the Depositary without the consent of Owners or Holders in any respect which they may deem necessary or desirable. Any amendment which shall impose or increase any fees or charges (other than taxes and other governmental charges, registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses), or which shall otherwise prejudice any substantial existing right of Owners, shall, however, not become effective as to outstanding American Depositary Shares until the expiration of thirty days after notice of such amendment shall have been given to the Owners of outstanding American Depositary Shares. Every Owner and Holder, at the time any amendment so becomes effective, shall be deemed, by continuing to hold such American Depositary Shares or any interest therein, to consent and agree to such amendment and to be bound by the Deposit Agreement as amended thereby. In no event shall any amendment impair the right of the Owner to surrender American Depositary Shares and receive therefor the Deposited Securities represented thereby, except in order to comply with mandatory provisions of applicable law.

Section 6.02 Termination.

The Company may at any time terminate this Deposit Agreement by instructing the Depositary to mail a notice of termination to the Owners of all American Depositary Shares then outstanding at least 30 days prior to the termination date included in such notice. The Depositary may likewise terminate this Deposit Agreement if at any time 60 days shall have expired after the Depositary delivered to the Company a written resignation notice and if a successor depositary shall not have been appointed and accepted its appointment as provided in Section 5.04; in such case the Depositary shall mail a notice of termination to the Owners of all American Depositary Shares then outstanding at least 30 days prior to the termination date. On and after the date of termination, the Owner of American Depositary Shares will, upon (a) surrender of such American Depositary Shares, (b) payment of the fee of the Depositary for the surrender of American Depositary Shares referred to in Section 2.05, and (c) payment of any applicable taxes or governmental charges, be entitled to delivery, to him or upon his order, of the amount of Deposited Securities represented by those American Depositary Shares. If any American Depositary Shares shall remain outstanding after the date of termination, the Depositary thereafter shall discontinue the registration of transfers of American Depositary Shares, shall suspend the distribution of dividends to the Owners thereof, and shall not give any further notices or perform any further acts under this Deposit Agreement, except that the Depositary shall continue to collect dividends and other distributions pertaining to Deposited Securities, shall sell rights and other property as provided in this Deposit Agreement, and shall continue to deliver Deposited Securities, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, upon surrender of American Depositary Shares (after deducting, in each case, the fee of the Depositary for the surrender of American Depositary Shares, any expenses for the account of the Owner of such American Depositary Shares in accordance with the terms and conditions of this Deposit Agreement, and any applicable taxes or governmental charges).

At any time after the expiration of four months from the date of termination, the Depositary may sell the Deposited Securities then held under this Deposit Agreement and may thereafter hold uninvested the net proceeds of any such sale, together with any other cash then held by it hereunder, unsegregated and without liability for interest, for the pro rata benefit of the Owners of American Depositary Shares that have not theretofore been surrendered, such Owners thereupon becoming general creditors of the Depositary with respect to such net proceeds. After making such sale, the Depositary shall be discharged from all obligations under this Deposit Agreement, except to account for such net proceeds

and other cash (after deducting, in each case, the fee of the Depositary for the surrender of American Depositary Shares, any expenses for the account of the Owner of such American Depositary Shares in accordance with the terms and conditions of this Deposit Agreement, and any applicable taxes or governmental charges. Upon the termination of this Deposit Agreement, the Company shall be discharged from all obligations under this Deposit Agreement except for its obligations to the Depositary under Sections 5.08 and 5.09.

ARTICLE 7. MISCELLANEOUS

Section 7.01 Counterparts; Signatures

This Deposit Agreement may be executed in any number of counterparts, each of which shall be deemed an original and all of such counterparts shall constitute one and the same instrument. Copies of this Deposit Agreement shall be filed with the Depositary and the Custodians and shall be open to inspection by any Owner or Holder during business hours.

Any manual signature on this Deposit Agreement that is faxed, scanned or photocopied, and any electronic signature valid under the Electronic Signatures in Global and National Commerce Act, 15 U.S.C. § 7001, et. seq., shall for all purposes have the same validity, legal effect and admissibility in evidence as an original manual signature, and the parties hereby waive any objection to the contrary.

Section 7.02 No Third Party Beneficiaries.

This Deposit Agreement is for the exclusive benefit of the parties hereto and shall not be deemed to give any legal or equitable right, remedy or claim whatsoever to any other person.

Section 7.03 Severability.

In case any one or more of the provisions contained in this Deposit Agreement or in the Receipts should be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein or therein shall in no way be affected, prejudiced or disturbed thereby.

Section 7.04 Owners and Holders as Parties; Binding Effect.

The Owners and Holders from time to time shall be parties to this Deposit Agreement and shall be bound by all of the terms and conditions hereof and of the Receipts by acceptance of American Depositary Shares or any interest therein.

Section 7.05 Notices.

Any and all notices to be given to the Company shall be deemed to have been duly given if personally delivered or sent by mail or cable, telex or facsimile transmission confirmed by letter, addressed to Xunlei Limited, 4/F, Hans Innovation Mansion, North Ring Road, No. 9018 High-Tech Park, Nanshan District, Shenzhen, 518057, People's Republic of China, Attention: Chief Financial Officer, Tao Thomas Wu, or any other place to which the Company may have transferred its principal office with notice to the Depositary.

Any and all notices to be given to the Depositary shall be deemed to have been duly given if in English and personally delivered or sent by mail or cable, telex or facsimile transmission confirmed by letter, addressed to The Bank of New York Mellon, 101 Barclay Street, New York, New York 10286,

Attention: American Depositary Receipt Administration, or any other place to which the Depositary may have transferred its Corporate Trust Office with notice to the Company.

Any and all notices to be given to any Owner shall be deemed to have been duly given if personally delivered or sent by mail or cable, telex or facsimile transmission confirmed by letter, addressed to such Owner at the address of such Owner as it appears on the transfer books for American Depositary Shares of the Depositary, or, if such Owner shall have filed with the Depositary a written request that notices intended for such Owner be mailed to some other address, at the address designated in such request.

Delivery of a notice sent by mail or cable, telex or facsimile transmission shall be deemed to be effected at the time when a duly addressed letter containing the same (or a confirmation thereof in the case of a cable, telex or facsimile transmission) is deposited, postage prepaid, in a post-office letter box. The Depositary or the Company may, however, act upon any cable, telex or facsimile transmission received by it, notwithstanding that such cable, telex or facsimile transmission shall not subsequently be confirmed by letter as aforesaid.

Section 7.06 Arbitration; Settlement of Disputes.

Any controversy, claim or cause of action brought by any party hereto against the Company arising out of or relating to the Shares or other Deposited Securities, the American Depositary Shares, the Receipts or this Deposit Agreement, or the breach hereof or thereof, if so elected by the claimant, shall be settled by arbitration in accordance with the International Arbitration Rules of the American Arbitration Association, and judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof.

The place of the arbitration shall be The City of New York, State of New York, United States of America, and the language of the arbitration shall be English.

The number of arbitrators shall be three, each of whom shall be disinterested in the dispute or controversy, shall have no connection with any party thereto, and shall be an attorney experienced in international securities transactions. Each party shall appoint one arbitrator and the two arbitrators shall select a third arbitrator who shall serve as chairperson of the tribunal. If a dispute, controversy or cause of action shall involve more than two parties, the parties shall attempt to align themselves in two sides (i.e., claimant(s) and respondent(s)), each of which shall appoint one arbitrator as if there were only two parties to such dispute, controversy or cause of action. If such alignment and appointment shall not have occurred within thirty (30) calendar days after the initiating party serves the arbitration demand, the American Arbitration Association shall appoint the three arbitrators, each of whom shall have the qualifications described above. The parties and the American Arbitration Association may appoint from among the nationals of any country, whether or not a party is a national of that country.

The arbitral tribunal shall have no authority to award any consequential, special or punitive damages or other damages not measured by the prevailing party’s actual damages and may not, in any event, make any ruling, finding or award that does not conform to the terms and conditions of this Deposit Agreement.

Section 7.07 Submission to Jurisdiction; Appointment of Agent for Service of Process; Jury Trial Waiver.

The Company hereby (i) irrevocably designates and appoints Law Debenture Corporate Services Inc., 400 Madison Avenue, 4th Floor, New York, New York 10017, in the State of New York, as the Company’s authorized agent upon which process may be served in any suit or proceeding (including

any arbitration proceeding) arising out of or relating to the Shares or Deposited Securities, the American Depositary Shares, the Receipts or this Deposit Agreement, (ii) consents and submits to the jurisdiction of any state or federal court in the State of New York in which any such suit or proceeding may be instituted, and (iii) agrees that service of process upon said authorized agent shall be deemed in every respect effective service of process upon the Company in any such suit or proceeding. The Company agrees to deliver, upon the execution and delivery of this Deposit Agreement, a written acceptance by such agent of its appointment as such agent. The Company further agrees to take any and all action, including the filing of any and all such documents and instruments, as may be necessary to continue such designation and appointment in full force and effect for so long as any American Depositary Shares or Receipts remain outstanding or this Deposit Agreement remains in force. In the event the Company fails to continue such designation and appointment in full force and effect, the Company hereby waives personal service of process upon it and consents that any such service of process may be made by certified or registered mail, return receipt requested, directed to the Company at its address last specified for notices hereunder, and service so made shall be deemed completed five (5) days after the same shall have been so mailed.

EACH PARTY TO THIS DEPOSIT AGREEMENT (INCLUDING, FOR AVOIDANCE OF DOUBT, EACH OWNER AND HOLDER) HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY SUIT, ACTION OR PROCEEDING AGAINST THE COMPANY AND/OR THE DEPOSITARY DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THE SHARES OR OTHER DEPOSITED SECURITIES, THE AMERICAN DEPOSITARY SHARES OR THE RECEIPTS, THIS DEPOSIT AGREEMENT OR ANY TRANSACTION CONTEMPLATED HEREIN OR THEREIN, OR THE BREACH HEREOF OR THEREOF, INCLUDING WITHOUT LIMITATION ANY QUESTION REGARDING EXISTENCE, VALIDITY OR TERMINATION (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY).

Section 7.08 Waiver of Immunities.

To the extent that the Company or any of its properties, assets or revenues may have or may hereafter become entitled to, or have attributed to it, any right of immunity, on the grounds of sovereignty or otherwise, from any legal action, suit or proceeding, from the giving of any relief in any respect thereof, from setoff or counterclaim, from the jurisdiction of any court, from service of process, from attachment upon or prior to judgment, from attachment in aid of execution or judgment, or from execution of judgment, or other legal process or proceeding for the giving of any relief or for the enforcement of any judgment, in any jurisdiction in which proceedings may at any time be commenced, with respect to its obligations, liabilities or any other matter under or arising out of or in connection with the Shares or Deposited Securities, the American Depositary Shares, the Receipts or this Deposit Agreement, the Company, to the fullest extent permitted by law, hereby irrevocably and unconditionally waives, and agrees not to plead or claim, any such immunity and consents to such relief and enforcement.

Section 7.09 Governing Law.

This Deposit Agreement and the Receipts shall be interpreted and all rights hereunder and thereunder and provisions hereof and thereof shall be governed by the laws of the State of New York, except with” respect to its authorization and execution by the Company, which shall be governed by the laws of the Cayman Islands.

IN WITNESS WHEREOF, XUNLEI LIMITED and THE BANK OF NEW YORK MELLON have duly executed this Deposit Agreement as of the day and year first set forth above and all Owners and Holders shall become parties hereto upon acceptance by them of American Depositary Shares or any interest therein.

XUNLEI LIMITED

By: /s/ Sean Shenglong Zou
Name: Sean Shenglong Zou
Title: Chairman and Chief Executive Officer

THE BANK OF NEW YORK MELLON,
as Depositary

By: /s/ Joanne DiGiovanni Hawke
Name: Joanne DiGiovanni Hawke
Title: Managing Director

[Signature Page to Deposit Agreement]

EXHIBIT A

AMERICAN DEPOSITARY SHARES
(Each American Depositary Share represents five deposited Shares)

THE BANK OF NEW YORK MELLON
AMERICAN DEPOSITARY RECEIPT
FOR COMMON SHARES
OF
XUNLEI LIMITED
(INCORPORATED UNDER THE LAWS OF THE CAYMAN ISLANDS)

The Bank of New York Mellon, as depositary (hereinafter called the "Depositary"), hereby certifies that _____ or registered assigns IS THE OWNER OF _____

AMERICAN DEPOSITARY SHARES

representing deposited common shares (herein called "Shares") of Xunlei Limited. incorporated under the laws of the Cayman Islands (herein called the "Company"). At the date hereof, each American Depositary Share represents five Shares deposited or subject to deposit under the Deposit Agreement (as such term is hereinafter defined) at the principal Hong Kong office of The Hongkong and Shanghai Banking Corporation Limited (herein called the "Custodian"). The Depositary's Corporate Trust Office is located at a different address than its principal executive office. Its Corporate Trust Office is located at 101 Barclay Street, New York, N.Y. 10286, and its principal executive office is located at One Wall Street, New York, N.Y. 10286.

THE DEPOSITARY'S CORPORATE TRUST OFFICE ADDRESS IS
101 BARCLAY STREET, NEW YORK, N.Y. 10286

1. THE DEPOSIT AGREEMENT.

This American Depositary Receipt is one of an issue (herein called "Receipts"), all issued and to be issued upon the terms and conditions set forth in the deposit agreement, dated as of June 23, 2014 (herein called the "Deposit Agreement"), by and among the Company, the Depositary, and all Owners and Holders from time to time of American Depositary Shares issued thereunder, each of whom by accepting American Depositary Shares agrees to become a party thereto and become bound by all the terms and conditions thereof. The Deposit Agreement sets forth the rights of Owners and Holders and the rights and duties of the Depositary in respect of the Shares deposited thereunder and any and all other securities, property and cash from time to time received in respect of such Shares and held thereunder (such Shares, securities, property, and cash are herein called "Deposited Securities"). Copies of the Deposit Agreement are on file at the Depositary's Corporate Trust Office in New York City and at the office of the Custodian.

The statements made on the face and reverse of this Receipt are summaries of certain provisions of the Deposit Agreement and are qualified by and subject to the detailed provisions of the Deposit Agreement, to which reference is hereby made. Capitalized terms defined in the Deposit Agreement and not defined herein shall have the meanings set forth in the Deposit Agreement.

2. SURRENDER OF RECEIPTS AND WITHDRAWAL OF SHARES.

Upon surrender at the Corporate Trust Office of the Depositary of American Depositary Shares, and upon payment of the fee of the Depositary provided in this Receipt, and subject to the terms and conditions of the Deposit Agreement, the Owner of those American Depositary Shares is entitled to delivery, to him or as instructed, of the amount of Deposited Securities at the time represented by those American Depositary Shares. Delivery of such Deposited Securities may be made by the delivery of (a) certificates or account transfer in the name of the Owner hereof or as ordered by him, with proper endorsement or accompanied by proper instruments or instructions of transfer and (b) any other securities, property and cash to which such Owner is then entitled in respect of this Receipt. Such delivery will be made at the option of the Owner hereof, either at the office of the Custodian or at the Corporate Trust Office of the Depositary, provided that the forwarding of certificates for Shares or other Deposited Securities for such delivery at the Corporate Trust Office of the Depositary shall be at the risk and expense of the Owner hereof.

3. TRANSFERS, SPLIT-UPS, AND COMBINATIONS OF RECEIPTS.

Transfers of American Depositary Shares may be registered on the books of the Depositary by the Owner in person or by a duly authorized attorney, upon surrender of those American Depositary Shares properly endorsed for transfer or accompanied by proper instruments of transfer, in the case of a Receipt, or pursuant to a proper instruction (including, for the avoidance of doubt, instructions through DRS and Profile as provided in Section 2.10 of the Deposit Agreement), in the case of uncertificated American Depositary Shares, and funds sufficient to pay any applicable transfer taxes and the expenses of the Depositary and upon compliance with such regulations, if any, as the Depositary may establish for such purpose. This Receipt may be split into other such Receipts, or may be combined with other such Receipts into one Receipt, evidencing the same aggregate number of American Depositary Shares as the Receipt or Receipts surrendered. The Depositary, upon surrender of certificated American Depositary Shares for the purpose of exchanging for uncertificated American Depositary Shares, shall cancel those certificated American Depositary Shares and send the Owner a statement confirming that the Owner is the Owner of uncertificated American Depositary Shares. The Depositary, upon receipt of a proper instruction (including, for the avoidance of doubt, instructions through DRS and Profile as provided in Section 2.10 of the Deposit Agreement) from the Owner of uncertificated American Depositary Shares for the purpose of exchanging for certificated American Depositary Shares, shall cancel those uncertificated American Depositary Shares and deliver to the Owner the same number of certificated American Depositary Shares. As a condition

precedent to the delivery, registration of transfer, or surrender of any American Depositary Shares or split-up or combination of any Receipt or withdrawal of any Deposited Securities, the Depositary, the Custodian, or Registrar may require payment from the depositor of the Shares or the presenter of the Receipt or instruction for registration of transfer or surrender of American Depositary Shares not evidenced by a Receipt of a sum sufficient to reimburse it for any tax or other governmental charge and.any stock transfer or registration fee with respect thereto (including any such tax or charge and fee with respect to Shares being deposited or withdrawn) and payment of any applicable fees as provided in the Deposit Agreement, may require the production of proof satisfactory to it as to the identity and genuineness of any signature and may also require compliance with any regulations the Depositary may establish consistent with the provisions of the Deposit Agreement.

The delivery of American Depositary Shares against deposit of Shares generally or against deposit of particular Shares may be suspended, or the transfer of American Depositary Shares in particular instances may be refused, or the registration of transfer of outstanding American Depositary Shares generally may be suspended, during any period when the transfer books of the Depositary are closed, or if any such action is deemed necessary or advisable by the Depositary or the Company at any time or from time to time because of any requirement of law or of any government or governmental body or commission, or under any provision of the Deposit Agreement, or for any other reason, subject to the provisions of the following sentence. Notwithstanding anything to the contrary in the Deposit Agreement or this Receipt, the surrender of outstanding American Depositary Shares and withdrawal of Deposited Securities may not be suspended subject only to (i) temporary delays caused by closing the transfer books of the Depositary or the Company or the Foreign Registrar, if applicable, or the deposit of Shares in connection with voting at a shareholders' meeting, or the payment of dividends, (ii) the payment of fees, taxes and similar charges, and (iii) compliance with any U.S. or foreign laws or governmental regulations relating to the American Depositary Shares or to the withdrawal of the Deposited Securities. Without limitation of the foregoing, the Depositary shall not knowingly accept for deposit under the Deposit Agreement any Shares which would be required to be registered under the provisions of the Securities Act of 1933, unless a registration statement is in effect as to such Shares or such Shares are exempt from registration thereunder.

4. LIABILITY OF OWNER FOR TAXES.

If any tax or other governmental charge shall become payable with respect to any American Depositary Shares or any Deposited Securities represented by any American Depositary Shares, such tax or other governmental charge shall be payable by the Owner to the Depositary. The Depositary may refuse to register any transfer of those American Depositary Shares or any withdrawal of Deposited Securities represented by those American Depositary Shares until such payment is made, and may withhold any dividends or other distributions, or may sell for the account of the Owner any part or all of the Deposited Securities represented by those American Depositary Shares, and may apply such dividends or other distributions or the proceeds of any such sale in payment of such tax or other governmental charge and the Owner shall remain liable for any deficiency.

5. WARRANTIES ON DEPOSIT OF SHARES.

Every person depositing Shares under the Deposit Agreement shall be deemed thereby to represent and warrant, that such Shares and each certificate therefor, if applicable, are validly issued, fully paid, nonassessable and free of any preemptive rights of the holders of outstanding Shares and that the person making such deposit is duly authorized so to do. Every such person shall also be deemed to represent that the deposit of such Shares and the sale of American Depositary Shares representing such Shares by that person are not restricted under the Securities Act of 1933. Such representations and warranties shall survive the deposit of Shares and delivery of American Depositary Shares.

6. FILING PROOFS, CERTIFICATES, AND OTHER INFORMATION.

Any person presenting Shares for deposit or any Owner or Holder may be required from time to time to file with the Depositary or the Custodian such proof of citizenship or residence, exchange control approval, or such information relating to the registration on the books of the Company or. the Foreign Registrar, if applicable, to execute such certificates and to make such representations and warranties, as the Depositary may deem necessary or proper. The Depositary may withhold the delivery or registration of transfer of any American Depositary Shares or the distribution of any dividend or sale or distribution of rights or of the proceeds thereof or the delivery of any Deposited Securities until such proof or other information is filed or such certificates are executed or such representations and warranties made. No Share shall be accepted for deposit unless accompanied by evidence satisfactory to the Depositary that any necessary approval has been granted by any governmental body in each applicable jurisdiction that is then performing the function of the regulation of currency exchange.

7. CHARGES OF DEPOSITARY.

The following charges shall be incurred by any party depositing or withdrawing Shares or by any party surrendering American Depositary Shares or to whom American Depositary Shares are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by the Company or an exchange of stock regarding the American Depositary Shares or Deposited Securities or a delivery of American Depositary Shares pursuant to Section 4.03 of the Deposit Agreement), or by Owners, as applicable: (1) taxes and other governmental charges, (2) such registration fees as may from time to time be in effect for the registration of transfers of Shares generally on the Share register of the Company or Foreign Registrar and applicable to transfers of Shares to or from the name of the Depositary or its nominee or the Custodian or its nominee on the making of deposits or withdrawals under the terms of the Deposit Agreement, (3) such cable, telex and facsimile transmission expenses as are expressly provided in the Deposit Agreement, (4) such expenses as are incurred by the Depositary in the conversion of foreign currency pursuant to Section 4.05 of the Deposit Agreement, (5) a fee of $5.00 or less per 100 American Depositary Shares (or portion thereof) for the delivery of American Depositary Shares pursuant to Section 2.03, 4.03 or 4.04 of the Deposit Agreement and the surrender of American Depositary Shares pursuant to Section 2.05 or 6.02 of the Deposit Agreement, (6) a fee of $.05 or less per American Depositary Share (or portion thereof) for any cash distribution made pursuant to the Deposit Agreement, including, but not limited to Sections 4.01 through 4.04 of the Deposit Agreement, (7) a fee for the distribution of securities pursuant to Section 4.02 of the Deposit Agreement, such fee being in an amount equal to the fee for the execution and delivery of American Depositary Shares referred to above which would have been charged as a result of the deposit of such securities (for purposes of this clause 7 treating all such securities as if they were Shares) but which securities are instead distributed by the Depositary to Owners, (8) in addition to any fee charged under clause 6, a fee of $.05 or less per American Depositary Share (or portion thereof) per annum for depositary services, which will be payable as provided in clause 9 below, and (9) any other charges payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents in connection with the servicing of Shares or other Deposited Securities (which charge shall be assessed against Owners as of the date or dates set by the Depositary in accordance with Section 4.06 of the Deposit Agreement and shall be payable at the sole discretion of the Depositary by billing such Owners for such charge or by deducting such charge from one or more cash dividends or other cash distributions).

The Depositary may collect any of its fees by deduction from any cash distribution payable to Owners that are obligated to pay those fees.

The Depositary, subject to Article 8 hereof, may own and deal in any class of securities of the Company and its affiliates and in American Depositary Shares.

From time to time, the Depositary may make payments to the Company to reimburse and / or share revenue from the fees collected from Owners or Holders, or waive fees and expenses for services provided, generally relating to costs and expenses arising out of establishment and maintenance of the American Depositary Shares program. In performing its duties under the Deposit Agreement, the Depositary may use brokers, dealers or other service providers that are affiliates of the Depositary and that may earn or share fees and commissions.

8. PRE-RELEASE OF RECEIPTS.

Notwithstanding Section 2.03 of the Deposit Agreement, unless requested in writing by the Company to cease doing so; the Depositary may deliver American Depositary Shares prior to the receipt of Shares pursuant to Section 2.02 of the Deposit Agreement (a "Pre-Release"). The Depositary may, pursuant to Section 2.05 of the Deposit Agreement, deliver Shares upon the surrender of American Depositary Shares that have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such American Depositary Shares have been Pre-Released. The Depositary may receive American Depositary Shares in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation from the person to whom American Depositary Shares or Shares are to be delivered, that such person, or its customer, owns the Shares or American Depositary Shares to be remitted, as the case may be, (b) at all times fully collateralized with cash or such other collateral as the Depositary deems appropriate, (c) terminable by the Depositary on not more than five (5) business days' notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of American Depositary Shares which are outstanding at any time as a result of Pre-Release will not normally exceed thirty percent (30%) of the Shares deposited under the Deposit Agreement; provided, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate.

The Depositary may retain for its own account any compensation received by it in connection with the foregoing.

9. TITLE TO RECEIPTS.

It is a condition of this Receipt and every successive Owner and Holder of this Receipt by accepting or holding the same consents and agrees that when properly endorsed or accompanied by proper instruments of transfer, the American Depositary

Shares evidenced by this Receipt shall be transferable as certificated registered securities under the laws of New York. American Depositary Shares not evidenced by Receipts shall be transferable as uncertificated registered securities under the laws of New York.

The Depositary, notwithstanding any notice to the contrary, may treat the Owner of American Depositary Shares as the absolute owner thereof for the purpose of determining the person entitled to distribution of dividends or other distributions or to any notice provided for in the Deposit Agreement and for all other purposes, and neither the Depositary nor the Company shall have any obligation or be subject to any liability under the Deposit Agreement to any Holder of American Depositary Shares unless that Holder is the Owner of those American Depositary Shares.

10. VALIDITY OF RECEIPT.

This Receipt shall not be entitled to any benefits under the Deposit Agreement or be valid or obligatory for any purpose, unless this Receipt shall have been (i) executed by the Depositary by the manual signature of a duly authorized officer of the Depositary or (ii) executed by the facsimile signature of a duly

authorized officer of the Depositary and countersigned by the manual signature of a duly authorized signatory of the Depositary or a Registrar.

11. REPORTS; INSPECTION OF TRANSFER BOOKS.

The Company is subject to the periodic reporting requirements of the Securities Exchange Act of 1934 and, accordingly, files certain reports with the Securities and Exchange Commission. Those reports will be available for inspection and copying through the Commission's EDGAR system or at public reference facilities maintained by the Commission in Washington, D.C.

The Depositary will make available for inspection by Owners at its Corporate Trust Office any reports, notices and other communications, including any proxy soliciting material, received from the Company which are both (a) received by the Depositary as the holder of the Deposited Securities and (b) made generally available to the holders of such Deposited Securities by the Company. The Depositary will also, upon written request by the Company, send to Owners copies of such reports when furnished by the Company pursuant to the Deposit Agreement. Any such reports and communications, including any such proxy soliciting material, furnished to the Depositary by the Company shall be furnished in English to the extent such materials are required to be translated into English pursuant to any regulations of the Commission.

The Depositary will keep books, at its Corporate Trust Office, for the registration of American Depositary Shares and transfers of American Depositary Shares which at all reasonable times shall be open for inspection by the Owners, provided that such inspection shall not be for the purpose of communicating with Owners in the interest of a business or object other than the business of the Company or a matter related to the Deposit Agreement or the American Depositary Shares.

12. DIVIDENDS AND DISTRIBUTIONS.

Whenever the Depositary receives any cash dividend or other cash distribution on any Deposited Securities, the Depositary will, if at the time of receipt thereof any amounts received in a foreign currency can in the judgment of the Depositary be converted on a reasonable basis into United States dollars transferable to the United States, and subject to the Deposit Agreement, convert such dividend or distribution into dollars and will distribute the amount thus received (net of the fees and expenses of the Depositary as provided in Article 7 hereof and Section 5.09 of the Deposit Agreement) to the Owners entitled thereto; provided, however, that in the event that the Company or the Depositary is required to withhold and does withhold from any cash dividend or other cash distribution in respect of any Deposited Securities an amount on account of taxes or other governmental charges, the amount distributed to the Owners of the American Depositary Shares representing such Deposited Securities shall be reduced accordingly.

Subject to the provisions of Section 4.11 and 5.09 of the Deposit Agreement, whenever the Depositary receives any distribution other than a distribution described in Section 4.01, 4.03 or 4.04 of the Deposit Agreement, the Depositary will cause the securities or property received by it to be distributed to the Owners entitled thereto, in any manner that the Depositary may deem equitable and practicable for accomplishing such distribution; provided, however, that if in the opinion of the Depositary such distribution cannot be made proportionately among the Owners of Receipts entitled thereto, or if for any other reason the Depositary deems such distribution not to be feasible, the Depositary may adopt such method as it may deem equitable and practicable for the purpose of effecting such distribution, including, but not limited to, the public or private sale of the securities or property thus received, or any part thereof, and the net proceeds of any such sale (net of the fees and expenses of the Depositary as provided in Article 7 hereof and Section 5.09 of the Deposit Agreement) will be distributed by the Depositary to the Owners

of Receipts entitled thereto all in the manner and subject to the conditions described in Section 4.01 of the Deposit Agreement. The Depositary may withhold any distribution of securities under Section 4.02 of the Deposit Agreement if it has not received reasonably satisfactory assurances from the Company that the distribution does not require registration under the Securities Act of 1933. The Depositary may sell, by public or private sale, an amount of securities or other property it would otherwise distribute under this Article that is sufficient to pay its fees and expenses in respect of that distribution.

If any distribution consists of a dividend in, or free distribution of, Shares, the Depositary may, and shall if the Company so requests in writing, deliver to the Owners entitled thereto, an aggregate number of American Depositary Shares representing the amount of Shares received as such dividend or free distribution, subject to the terms and conditions of the Deposit Agreement with respect to the deposit of Shares and issuance of American Depositary Shares, including the withholding of any tax or other governmental charge as provided in Section 4.11 of the Deposit Agreement and the payment of the fees and expenses of the Depositary as provided in Article 7 hereof and Section 5.09 of the Deposit Agreement (and the Depositary may sell, by public or private sale, an amount of Shares received sufficient to pay its fees and expenses in respect of that distribution. In lieu of delivering fractional American Depositary Shares in any such case, the Depositary will use reasonable efforts to sell the amount of Shares represented by the aggregate of such fractions (or American Depositary Shares representing those Shares) and distribute the net proceeds, all in the manner and subject to the conditions described in Section 4.01 of the Deposit Agreement. If additional American Depositary Shares are not so delivered, each American Depositary Share shall thenceforth also represent the additional Shares distributed upon the Deposited Securities represented thereby.

In the event that the Depositary determines that any distribution in property (including Shares and rights to subscribe therefor) is subject to any tax or other governmental charge which the Depositary is obligated to withhold, the Depositary may by public or private sale dispose of all or a portion of such property (including Shares and rights to subscribe therefor) in such amounts and in such manner as the Depositary deems necessary and practicable to pay any such taxes or charges, and the Depositary shall distribute the net proceeds of any such sale after deduction of such taxes or charges to the Owners of Receipts entitled thereto.

13. RIGHTS.

In the event that the Company shall offer or cause to be offered to the holders of any Deposited Securities any rights to subscribe for additional Shares or any rights of any other nature, the Depositary shall have discretion as to the procedure to be followed in making such rights available to any Owners or in disposing of such rights on behalf of any Owners and making the net proceeds available to such Owners or, if by the terms of such rights offering or for any other reason, the Depositary may not either make such rights available to any Owners or dispose of such rights and make the net proceeds available to such Owners, then the Depositary shall allow the rights to lapse. If at the time of the offering of any rights the Depositary determines in its discretion that it is lawful and feasible to make such rights available to all or certain Owners but not to other Owners, the Depositary may distribute to any Owner to whom it determines the distribution to be lawful and feasible, in proportion to the number of American Depositary Shares held by such Owner, warrants or other instruments therefor in such form as it deems appropriate.

In circumstances in which rights would otherwise not be distributed, if an Owner requests the distribution of warrants or other instruments in order to exercise the rights allocable to the American Depositary Shares of such Owner under the Deposit Agreement, the Depositary will make such rights available to such Owner upon written notice from the Company to the Depositary that (a) the Company has elected in its sole discretion to permit such rights to be exercised and (b) such Owner has executed such

documents as the Company has determined in its sole discretion are reasonably required under applicable law.

If the Depositary has distributed warrants or other instruments for rights to all or certain Owners, then upon instruction from such an Owner pursuant to such warrants or other instruments to the Depositary from such Owner to exercise such rights, upon payment by such Owner to the Depositary for the account of such Owner of an amount equal to the purchase price of the Shares to be received upon the exercise of the rights, and upon payment of the fees and expenses of the Depositary and any other charges as set forth in such warrants or other instruments, the Depositary shall, on behalf of such Owner, exercise the rights and purchase the Shares, and the Company shall cause the Shares so purchased to be delivered to the Depositary on behalf of such Owner. As agent for such Owner, the Depositary will cause the Shares so purchased to be deposited pursuant to Section 2.02 of the Deposit Agreement, and shall, pursuant to Section 2.03 of the Deposit Agreement, deliver American Depositary Shares to such Owner. In the case of a distribution pursuant to the second paragraph of this Article 13, such deposit shall be made, and depositary shares shall be delivered, under depositary arrangements which provide for issuance of depositary shares subject to the appropriate restrictions on sale, deposit, cancellation, and transfer under applicable United States laws.

If the Depositary determines in its discretion that it is not lawful and feasible to make such rights available to all or certain Owners, it may sell the rights, warrants or other instruments in proportion to the number of American Depositary Shares held by the Owners to whom it has determined it may not lawfully or feasibly make such rights available, and allocate the net proceeds of such sales (net of the fees and expenses of the Depositary as provided in Section 5.09 of the Deposit Agreement and all taxes and governmental charges payable in connection with such rights and subject to the terms and conditions of the Deposit Agreement) for the account of such Owners otherwise entitled to such rights, warrants or other instruments, upon an averaged or other practical basis without regard to any distinctions among such Owners because of exchange restrictions or the date of delivery of any American Depositary Shares or otherwise.

The Depositary will not offer rights to Owners unless both the rights and the securities to which such rights relate are either exempt from registration under the Securities Act of 1933 with respect to a distribution to all Owners or are registered under the provisions of such Act; provided, that nothing in the Deposit Agreement shall create any obligation on the part of the Company to file a registration statement with respect to such rights or underlying securities or to endeavor to have such a registration statement declared effective. If an Owner requests the distribution of warrants or other instruments, notwithstanding that there has been no such registration under the Securities Act of 1933, the Depositary shall not effect such distribution unless it has received an opinion from recognized counsel in the United States for the Company upon which the Depositary may rely that such distribution to such Owner is exempt from such registration.

The Depositary shall not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Owners in general or any Owner in particular.

14. CONVERSION OF FOREIGN CURRENCY.

Whenever the Depositary or the Custodian shall receive foreign currency, by way of dividends or other distributions or the net proceeds from the sale of securities, property or rights, and if at the time of the receipt thereof the foreign currency so received can in the judgment of the Depositary be converted on a reasonable basis into Dollars and the resulting Dollars transferred to the United States, the Depositary shall convert or cause to be converted by sale or in any other manner that it may determine, such foreign currency into Dollars, and such Dollars shall be distributed to the Owners entitled thereto or. i f the Depositary shall

have distributed any warrants or other instruments which entitle the holders thereof to such Dollars, then to the holders of such warrants and/or instruments upon surrender thereof for cancellation. Such distribution may be made upon an averaged or other practicable basis without regard to any distinctions among Owners on account of exchange restrictions, the date of delivery of any American Depositary Shares or otherwise and shall be net of any expenses of conversion into Dollars incurred by the Depositary as provided in Section 5.09 of the Deposit Agreement.

If such conversion or distribution can be effected only with the approval or license of any government or agency thereof, the Depositary shall file such application for approval or license, if any, as it may deem desirable.

If at any time the Depositary shall determine that in its judgment any foreign currency received by the Depositary or the Custodian is not convertible on a reasonable basis into Dollars transferable to the United States, or if any approval or license of any government or agency thereof which is required for such conversion is denied or in the opinion of the Depositary is not obtainable, or if any such approval or license is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute the foreign currency (or an appropriate document evidencing the right to receive such foreign currency) received by the Depositary to, or in its discretion may hold such foreign currency uninvested and without liability for interest thereon for the respective accounts of, the Owners entitled to receive the same.

If any such conversion of foreign currency, in whole or in part, cannot be effected for distribution to some of the Owners entitled thereto, the Depositary may in its discretion make such conversion and distribution in Dollars to the extent permissible to the Owners entitled thereto and may distribute the balance of the foreign currency received by the Depositary to, or hold such balance uninvested and without liability for interest thereon for the respective accounts of, the Owners entitled thereto.

15. RECORD DATES.

Whenever any cash dividend or other cash distribution shall become payable or any distribution other than cash shall be made, or whenever rights shall be issued with respect to the Deposited Securities, or whenever the Depositary shall receive notice of any meeting of holders of Shares or other Deposited Securities, or whenever for any reason the Depositary causes a change in the number of Shares that are represented by each American Depositary Share, or whenever the Depositary shall find it necessary or convenient, the Depositary shall fix a record date, which shall be the same as, or as near as practicable to, any corresponding record date established by the Company in respect of the Shares or other Deposited Securities, (a) for the determination of the Owners who shall be (i) entitled to receive such dividend, distribution or rights or the net proceeds of the sale thereof, (ii) entitled to give instructions for the exercise of voting rights at any such meeting or (iii) responsible for any fee assessed by the Depositary pursuant to the Deposit Agreement, or (b) on or after which each American Depositary Share will represent the changed number of Shares, subject to the provisions of the Deposit Agreement.

16. VOTING OF DEPOSITED SECURITIES.

Upon receipt of notice of any meeting of holders of Shares or other Deposited Securities, if requested in writing by the Company, the Depositary shall, as soon as practicable thereafter, mail to the Owners of Receipts a notice, the form of which notice shall be in the sole discretion of the Depositary, which shall contain (a) such information as is contained in such notice of meeting received by the Depositary from the Company, (b) a statement that the Owners as of the close of business on a specified record date will be entitled, subject to any applicable provision of law and of the articles of association or similar documents of the Company, to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the amount of Shares or other Deposited Securities represented by their respective American

Depositary Shares and (c) a statement as to the manner in which such instructions may be given including an express indication that instructions may be given or deemed given in accordance with the last sentence of this paragraph if no instruction is received to the Depositary to give a discretionary proxy to a person designated by the Company. Upon the written request of an Owner of American Depositary Shares on such record date, received on or before the date established by the Depositary for such purpose, the Depositary shall endeavor insofar as practicable to vote or cause to be voted the amount of Shares or other Deposited Securities represented by those American Depositary Shares in accordance with the instructions set forth in such request. The Depositary shall not vote or attempt to exercise the right to vote that attaches to the Shares or other Deposited Securities, other than in accordance with such instructions or as provided in the following sentence. If (i) the Company instructed the Depositary to send a notice under Section 4.07 and has provided the Depositary not less than 30 days' notice of the meeting and details of the matters to be voted upon and (ii) no instructions are received by the Depositary from an Owner with respect to an amount of Deposited Securities represented by American Depositary Shares of that Owner on or before the date established by the Depositary for that purpose, the Depositary shall deem that Owner to have instructed the Depositary to give a discretionary proxy to a person designated by the Company with respect to that amount of Deposited Securities and the Depositary shall give a discretionary proxy to a person designated by the Company to vote that amount of Deposited Securities; provided, that no such instruction shall be deemed given and no such discretionary proxy shall be given with respect to any matter as to which the Company informs the Depositary (and the Company agrees to provide such information as promptly as practicable in writing, if applicable) that that (x) the Company does not wish to receive a proxy, (y) substantial opposition exists or (z) such matter materially and adversely affects the rights of holders of Shares.

There can be no assurance that Owners generally or any Owner in particular will receive the notice described in the preceding paragraph sufficiently prior to the instruction cutoff date to ensure that the Depositary will vote the Shares or Deposited Securities in accordance with the provisions set forth in the preceding paragraph.

If the Company will request the Depositary to act under Section 4.07 of the Deposit Agreement, the Company shall give the Depositary notice of any such meeting and details concerning the matters to be voted upon as far in advance of the meeting date as practicable.

17. CHANGES AFFECTING DEPOSITED SECURITIES.

Upon any change in nominal value, change in par value, split-up, consolidation, or any other reclassification of Deposited Securities, or upon any recapitalization, reorganization, merger or consolidation, or sale of assets affecting the Company or to which it is a party, or upon the redemption or cancellation by the Company of the Deposited Securities, any securities, cash or property which shall be received by the Depositary or a Custodian in exchange for, in conversion of, in lieu of or in respect of Deposited Securities shall be treated as new · Deposited Securities under the Deposit Agreement, and American Depositary Shares shall thenceforth represent, in addition to the existing Deposited Securities, the right to receive the new Deposited Securities so received, unless additional Receipts are delivered pursuant to the following sentence. In any such case the Depositary may deliver additional American Depositary Shares as in the case of a dividend in Shares, or call for the surrender of outstanding Receipts to be exchanged for new Receipts specifically describing such new Deposited Securities.

18. LIABILITY OF THE COMPANY AND DEPOSITARY.

Neither the Depositary nor the Company nor any of their respective directors, employees, agents or affiliates shall incur any liability to any Owner or Holder, (i) if by reason of any provision of any present or future law or regulation of the United States or any other country, or of any governmental or regulatory authority, or by reason of any provision, present or future, of the articles of association or any similar

document of the Company, or by reason of any provision of any securities issued or distributed by the Company, or any offering or distribution thereof, or by reason of any act of God or war or terrorism or other circumstances beyond its control, the Depositary or the Company shall be prevented, delayed or forbidden from or be subject to any civil or criminal penalty on account of doing or performing any act or thing which by the terms of the Deposit Agreement or Deposited Securities it is provided shall be done or performed, (ii) by reason of any non-performance or delay, caused as aforesaid, in the performance of any act or thing which by the terms of the Deposit Agreement it is provided shall or may be done or performed, (iii) by reason of any exercise of, or failure to exercise, any discretion provided for in the Deposit Agreement, (iv) for the inability of any Owner or Holder to benefit from any distribution, offering, right or other benefit which is made available to holders of Deposited Securities but is not, under the terms of the Deposit Agreement, made available to Owners or Holders, or (v) for any special, consequential or punitive damages for any breach of the terms of the Deposit Agreement. Where, by the terms of a distribution pursuant to Section 4.01, 4.02 or 4.03 of the Deposit Agreement, or an offering or distribution pursuant to Section 4.04 of the Deposit Agreement, or for any other reason, such distribution or offering may not be made available to Owners of Receipts, and the Depositary may not dispose of such distribution or offering on behalf of such Owners and make the net proceeds available to such Owners, then the Depositary shall not make such distribution or offering, and shall allow any rights, if applicable, to lapse. Neither the Company nor the Depositary assumes any obligation or shall be subject to any liability under the Deposit Agreement to Owners or Holders, except that they agree to perform their obligations specifically set forth in the Deposit Agreement without negligence or bad faith. The Depositary shall not be subject to any liability with respect to the validity or worth of the Deposited Securities. Neither the Depositary nor the Company shall be under any obligation to appear in, prosecute or defend any action, suit, or other proceeding in respect of any Deposited Securities or in respect of the American Depositary Shares, on behalf of any Owner or Holder or other person. Neither the Depositary nor the Company shall be liable for any action or nonaction by it in reliance upon the advice- of or information from legal counsel, accountants, any person presenting Shares for deposit, any Owner or Holder, or any other person believed by it in good faith to be competent to give such advice or information. The Depositary shall not be liable for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the Depositary or in connection with a matter arising wholly after the removal or resignation of the Depositary, provided that in connection with the issue out of which such potential liability arises, the Depositary performed its obligations without negligence or bad faith while it acted as Depositary. The Depositary shall not be liable for the acts or omissions of any securities depository, clearing agency or settlement system in connection with or arising out of book-entry settlement of Deposited Securities or otherwise, provided that any such acts or omissions are not the direct result of negligence or bad faith of the Depositary. The Depositary shall not be responsible for any failure to carry out any instructions to vote any of the Deposited Securities or for the manner in which any such vote is cast or the effect of any such vote, provided that any such action or nonaction is in good faith.

No disclaimer of liability under the Securities Act of 1933 is intended by any provision of the Deposit Agreement.

19. RESIGNATION AND REMOVAL OF THE DEPOSITARY; APPOINTMENT OF SUCCESSOR CUSTODIAN.

The Depositary may at any time resign as Depositary under the Deposit Agreement by written notice of its election so to do delivered to the Company, such resignation to take effect upon the earlier of (i) the appointment of a successor depositary and its acceptance of such appointment as provided in the Deposit Agreement or (ii) termination by the Depositary pursuant to Section 6.02 of the Deposit Agreement. The Depositary may at any time be removed by the Company by 120 days prior written notice of such removal, to become effective upon the later of (i) the 120th day after delivery of the notice to the Depositary and (ii) the appointment of a successor depositary and its acceptance of such appointment as provided in

the Deposit Agreement. The Depositary in its discretion may appoint a substitute or additional custodian or custodians.

20. AMENDMENT.

The form of the Receipts and any provisions of the Deposit Agreement may at any time and from time to time be amended by agreement between the Company and the Depositary without the consent of Owners or Holders in any respect which they may deem necessary or desirable. Any amendment which shall impose or increase any fees or charges (other than taxes and other governmental charges, registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses), or which shall otherwise prejudice any substantial existing right of Owners, shall, however, not become effective as to outstanding American Depositary Shares until the expiration of thirty days after notice of such amendment shall have been given to the Owners of outstanding American Depositary Shares. Every Owner and Holder of American Depositary Shares, at the time any amendment so becomes effective, shall be deemed, by continuing to hold such American Depositary Shares or any interest therein, to consent and agree to such amendment and to be bound by the Deposit Agreement as amended thereby. In no event shall any amendment impair the right of the Owner to surrender American Depositary Shares and receive therefor the Deposited Securities represented thereby, except in order to comply with mandatory provisions of applicable law.

21. TERMINATION OF DEPOSIT AGREEMENT.

The Company may terminate the Deposit Agreement by instructing the Depositary to mail notice of termination to the Owners of all American Depositary Shares then outstanding at least 30 days prior to the termination date included in such notice. The Depositary may likewise terminate the Deposit Agreement, if at any time 60 days shall have expired after the Depositary delivered to the Company a written resignation notice and if a successor depositary shall not have been appointed and accepted its appointment as provided in the Deposit Agreement; in such case the Depositary shall mail a notice of termination to the Owners of all American Depositary Shares then outstanding at least 30 days prior to the termination date. On and after the date of termination, the Owner of American Depositary Shares will, upon (a) surrender of such American Depositary Shares, (b) payment of the fee of the Depositary for the surrender of American Depositary Shares referred to in Section 2.05, and (c) payment of any applicable taxes or governmental charges, be entitled to delivery, to him or upon his order, of the amount of Deposited Securities represented by those American Depositary Shares. If any American Depositary Shares shall remain outstanding after the date of termination, the Depositary thereafter shall discontinue the registration of transfers of American Depositary Shares, shall suspend the distribution of dividends to the Owners thereof, and shall not give any further notices or perform any further acts under the Deposit Agreement, except that the Depositary shall continue to collect dividends and other distributions pertaining to Deposited Securities, shall sell rights and other property as provided in the Deposit Agreement, and shall continue to deliver Deposited Securities, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, upon surrender of American Depositary Shares (after deducting, in each case, the fee of the Depositary for the surrender of American Depositary Shares, any expenses for the account of the Owner of such American Depositary Shares in accordance with the terms and conditions of the Deposit Agreement, and any applicable taxes or governmental charges). At any time after the expiration of four months from the date of termination, the Depositary may sell the Deposited Securities then held under the Deposit Agreement and may thereafter hold uninvested the net proceeds of any such sale, together with any other cash then held by it thereunder, unsegregated and without liability for interest, for the pro rata benefit of the Owners of American Depositary Shares that have not theretofore been surrendered, such Owners thereupon becoming general creditors of the Depositary with respect to such net proceeds. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement, except to account for such net proceeds and other cash (after deducting, in each case, the fee of the

Depositary for the surrender of American Depositary Shares, any expenses for the account of the Owner of such American Depositary Shares in accordance with the terms and conditions of the Deposit Agreement, and any applicable taxes or governmental charges). Upon the termination of the Deposit Agreement, the Company shall be discharged from all obligations under the Deposit Agreement except for its obligations to the Depositary with respect to indemnification, charges, and expenses.

22. DTC DIRECT REGISTRATION SYSTEM AND PROFILE MODIFICATION SYSTEM.

(a) Notwithstanding the provisions of Section 2.04 of the Deposit Agreement, the parties acknowledge that the Direct Registration System ("DRS") and Profile Modification System ("Profile") shall apply to uncertificated American Depositary Shares upon acceptance thereof to DRS by DTC. DRS is the system administered by DTC pursuant to which the Depositary may register the ownership of uncertificated American Depositary Shares, which ownership shall be evidenced by periodic statements issued by the Depositary to the Owners entitled thereto. Profile is a required feature of DRS which allows a DTC participant, claiming to act on behalf of an Owner, to direct the Depositary to register a transfer of those American Depositary Shares to DTC or its nominee and to deliver those American Depositary Shares to the DTC account of that DTC participant without receipt by the Depositary of prior authorization from the Owner to register such transfer.

(b) In connection with and in accordance with the arrangements and procedures relating to DRS/Profile, the parties understand that the Depositary will not verify, determine or otherwise ascertain that the DTC participant which is claiming to be acting on behalf of an Owner in requesting registration of transfer and delivery described in subsection (a) has the actual authority to act on behalf of the Owner (notwithstanding any requirements under the Uniform Commercial Code). For the avoidance of doubt, the provisions of Sections 5.03 and 5.08 of the Deposit Agreement shall apply to the matters arising from the use of the DRS. The parties agree that the Depositary's reliance on and compliance with instructions received by the Depositary through the DRS/Profile System and in accordance with the Deposit Agreement, shall not constitute negligence or bad faith on the part of the Depositary.

23. ARBITRATION; SETTLEMENT OF DISPUTES.

(a) Any controversy, claim or cause of action brought by any party hereto against the Company arising out of or relating to the Shares or other Deposited Securities, the American Depositary Shares, the Receipts or this Deposit Agreement, or the breach hereof or thereof, if so elected by the claimant, shall be settled by arbitration in accordance with the International Arbitration Rules of the American Arbitration Association, and judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof.

(b) The place of the arbitration shall be The City of New York, State of New York, United States of America, and the language of the arbitration shall be English.

(c) The number of arbitrators shall be three, each of whom shall be disinterested in the dispute or controversy, shall have no connection with any party thereto, and shall be an attorney experienced in international securities transactions. Each party shall appoint one arbitrator and the two arbitrators shall select a third arbitrator who shall serve as chairperson of the tribunal. If a dispute, controversy or cause of action shall involve more than two parties, the parties shall attempt to align themselves in two sides (i.e., claimant(s) and respondent(s)), each ·of which shall appoint one arbitrator as if there were only two parties

to such dispute, controversy or cause of action. If such alignment and appointment shall not have occurred within thirty (30) calendar days after the initiating party serves the arbitration demand, the American Arbitration Association shall appoint the three arbitrators, each of whom shall have the qualifications described above. The parties and the American Arbitration Association may appoint from among the nationals of any country, whether or not a party is a national of that country.

(d) The arbitral tribunal shall have no authority to award any consequential, special or punitive damages or other damages not measured by the prevailing party's actual damages and may not, in any event, make any ruling, finding or award that does not conform the terms and conditions of the Deposit Agreement.

24. SUBMISSION TO JURISDICTION; JURY TRIAL WAIVER; WAIVER OF IMMUNITIES.

In the Deposit Agreement, the Company has (i) appointed Law Debenture Corporate Services Inc., 400 Madison Avenue, 4th Floor, New York, New York 10017, in the State of New York, as the Company's authorized agent upon which process may be served in any suit or proceeding (including any arbitration proceeding) arising out of or relating to the Shares or Deposited Securities, the American Depositary Shares, the Receipts or this Agreement, (ii) consented and submitted to the jurisdiction of any state or federal court in the State of New York in which any such suit or proceeding may be instituted, and (iii) agreed that service of process upon said authorized agent shall be deemed in every respect effective service of process upon the Company in any such suit or proceeding.

EACH PARTY TO THE DEPOSIT AGREEMENT (INCLUDING, FOR AVOIDANCE OF DOUBT, EACH OWNER AND HOLDER) THEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY SUIT, ACTION OR PROCEEDING AGAINST THE COMPANY AND/OR THE DEPOSITARY DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THE SHARES OR OTHER DEPOSITED SECURITIES, THE AMERICAN DEPOSITARY SHARES OR THE RECEIPTS, THE DEPOSIT AGREEMENT OR ANY TRANSACTION CONTEMPLATED HEREIN OR THEREIN, OR THE BREACH HEREOF OR THEREOF, INCLUDING WITHOUT LIMITATION ANY QUESTION REGARDING EXISTENCE; VALIDITY OR TERMINATION (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY).

To the extent that the Company or any of its properties, assets or revenues may have or hereafter become entitled to, or have attributed to it, any right of immunity, on the grounds of sovereignty or otherwise, from any legal action, suit or proceeding, from the giving of any relief in any respect thereof, from setoff or counterclaim, from the jurisdiction of any court, from service of process, from attachment upon or prior to judgment, from attachment in aid of execution or judgment, or other legal process or proceeding for the giving of any relief or for the enforcement of any judgment, in any jurisdiction in which proceedings may at any time be commenced, with respect to its obligations, liabilities or any other matter under or arising out of or in connection with the Shares or Deposited Securities, the American Depositary Shares, the Receipts or the Deposit Agreement, the Company, to the fullest extent permitted by law, hereby irrevocably and unconditionally waives, and agrees not to plead or claim, any such immunity and consents to such relief and enforcement.

25. DISCLOSURE OF INTERESTS.

The Company may from time to time request Owners to provide information as to the capacity in which such Owners own or owned American Depositary Shares and regarding the identity of any other persons then or previously interested in such American Depositary Shares and the nature of such interest. Each Owner agrees to provide any information requested by the Company or the Depositary pursuant to

Section 3.04 of the Deposit Agreement. The Depositary agrees to comply with reasonable written instructions received from the Company requesting that the Depositary forward any such requests to the Owners and to forward to the Company any such responses to such requests received by the Depositary. The Depositary shall provide reasonable assistance to the Company, at the Company's request and expense, in obtaining information sought by the Company pursuant to Section 3.04 of the Deposit Agreement.

Exhibit 2.4

DESCRIPTION OF SECURITIES

As of December 31, 2020, Xunlei Limited ("Xunlei," "we," "our," "our company," or "us") had 334,401,981 common shares (excluding (i) 24,956,080 common shares that are (a) issued to our depositary bank for the purpose of bulk issuance and (b) repurchased by the company, and (ii) 9,519,144 common shares held by Leading Advice Holdings Limited, a share incentive awards holding platform). Each common share of the Company has a par value of US$0.00025. Our common shares may be held in either certified or uncertified form.

American Depositary Shares ("ADSs"), each representing five common shares of Xunlei are listed and traded on the NASDAQ Global Select Market under the symbol "XNET" and, in connection therewith, our common shares are registered under Section 12(b) of the Securities Exchange Act of 1934, as amended.

This exhibit contains a description of the rights of (i) the holders of our common shares, and (ii) the holders of ADSs. Common shares underlying the ADSs are held by the Bank of New York Mellon, as depositary, and holders of ADSs will not be treated as holders of common shares.

MEMORANDUM AND ARTICLES OF ASSOCIATION

On June 11, 2014, we adopted our eighth amended and restated memorandum of association and seventh amended and restated articles of association, or memorandum and articles of association, which will become effective upon the completion of this offering. The following are summaries of material provisions of our memorandum and articles of association and the Companies Law insofar as they relate to the material terms of our common shares. This summary is not complete, and you should read the form of our memorandum and articles of association, which have been filed as exhibits to the registration statement of which this prospectus is a part.

Exempted company

We are an exempted company with limited liability under the Companies Law. The Companies Law distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except for the exemptions and privileges listed below:

- an exempted company does not have to file an annual return of its shareholders with the Registrar of Companies;
- an exempted company is not required to open its register of members for inspection;
- an exempted company does not have to hold an annual general meeting;
- an exempted company may in certain circumstances issue no par value, negotiable or bearer shares;
- an exempted company may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- an exempted company may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- an exempted company may register as a limited duration company; and
- an exempted company may register as a segregated portfolio company.

Common shares

General. All of our issued and outstanding common shares are fully paid. Certificates representing the common shares are issued in registered form. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares. We will issue non-negotiable shares and may not issue bearer or negotiable shares.

Register of members. Under Cayman Islands law, we must keep a register of members and there shall be entered therein:

(a) the names and addresses of the members, together with a statement of the shares held by each member, and such statement shall confirm (i) the amount paid or agreed to be considered as paid, on the shares of each member, (ii) the number and category of shares held by each member, and (iii) whether each relevant category of shares held by a member carries voting rights under the articles of association of the company, and if so, whether such voting rights are conditional;

(b) the date on which the name of any person was entered on the register as a member; and

(c) the date on which any person ceased to be a member.

Under Cayman Islands law, the register of members of our company is prima facie evidence of the matters set out therein (i.e. the register of members will raise a presumption of fact on the matters referred to above unless rebutted) and a member registered in the register of members shall be deemed as a matter of Cayman Islands law to have legal title to the shares as set against its name in the register of members. Once the register of members of our company has been updated, the shareholders recorded in the register of members shall be deemed to have legal title to the shares set against their name. There is no requirement under Cayman Islands laws for the register of members to be filed with the Registrar of Companies in the Cayman Islands.

If the name of any person is incorrectly entered in or omitted from our register of members, or if there is any default or unnecessary delay in entering on the register the fact of any person having ceased to be a member of our company, the person or member aggrieved (or any member of our company or our company itself) may apply to the Cayman Islands Grand Court for an order that the register be rectified, and the Court may either refuse such application or it may, if satisfied of the justice of the case, make an order for the rectification of the register.

Dividends. The holders of our common shares are entitled to such dividends as may be declared by our board of directors. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. Under Cayman Islands law, dividends may be declared and paid only out of funds legally available therefor, namely out of either profit or our share premium account, and provided further that a dividend may not be paid if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business.

Voting rights. Each common share is entitled to one vote on all matters upon which the common shares are entitled to vote. Voting at any meeting of shareholders is by show of hands unless a poll is demanded. A poll may be demanded by the chairman of such meeting or any one or more shareholders present in person or by proxy entitled to vote and who together hold not less than 10 percent of our paid up voting share capital.

A quorum required for a meeting of shareholders consists of at least one shareholder present in person or by proxy or, if a corporation or other non-natural person, by its duly authorized representative, who hold in aggregate not less than fifty percent of the total voting power of the company. Shareholders' meetings may be held annually and may be convened by our board of directors on its own initiative or upon a request to the directors by shareholders holding in aggregate at least one-third of the total voting power of the company. Advance notice of at least seven calendar days is required for the convening of shareholders' meetings.

An ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the common shares cast in a general meeting, while a special resolution requires the

affirmative vote of at least two-thirds of the votes attaching to the common shares cast in a general meeting. Both ordinary resolutions and special resolutions may also be passed by a unanimous written resolution signed by all the shareholders of our company, as permitted by the Companies Law and our memorandum and articles of association. A special resolution is required for important matters such as a change of name or making changes to our memorandum and articles of association. Holders of the common shares may effect certain changes by ordinary resolution, including increasing the amount of our authorized share capital, consolidating all or any of our share capital and dividing all or any of our share capital into shares of larger amount than our existing shares, and cancelling any authorized but unissued shares.

Transfer of shares. Subject to the restrictions set out in our memorandum and articles of association, our shareholders may transfer all or any of their common shares by an instrument of transfer in writing and executed by or on behalf of the transferor (and if our directors so require, signed by the transferee). Our directors may also accept mechanically executed instruments of transfer.

Our board may decline to register any transfer of any common share which is not fully paid up or on which we have a lien. Our board may also decline to register any transfer of any share unless (a) the instrument of transfer is lodged with us, accompanied by the certificate for the common shares to which it relates and such other evidence as our board may reasonably require to show the right of the transferor to make the transfer; (b) the shares transferred are free of any lien in favor of us; and (c) a fee of such maximum sum as the NASDAQ Global Select Market may determine to be payable, or such lesser sum as our board may from time to time require, is paid to us in respect thereof.

If our board of directors refuses to register a transfer it shall, within two months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal. The registration of transfers may be suspended on 14 days' notice being given by advertisement in such one or more newspapers or by electronic means and the register closed at such times and for such periods as our board may from time to time determine.

Liquidation. On a return of capital on winding up, assets available for distribution shall be distributed among the holders of common shares on a pro rata basis. If our assets available for distribution are insufficient to pay all of the paid up capital, the assets will be distributed so that the losses are borne by our shareholders proportionately. We are an exempted company with "limited liability" incorporated under the Companies Law, and under the Companies Law, the liability of our members is limited to the amount, if any, unpaid on the shares respectively held by them. Our memorandum of association contains a declaration that the liability of our members is so limited.

Calls on shares and forfeiture of shares. Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares in a notice served to such shareholders at least 14 calendar days prior to the specified time and place of payment. Shares that have been called upon and remain unpaid on the specified time are subject to forfeiture.

Redemption, Repurchase and Surrender of Shares. We may issue shares on terms that such shares are subject to redemption, at our option or at the option of the holders thereof, on such terms and in such manner as may be determined, before the issue of such shares, by our board of directors. Our company may also repurchase any of our shares (including redeemable shares) provided that our shareholders shall have approved the manner of purchase by ordinary resolution unless (i) if the number of shares being purchased is less than 3% of the issued shares of our company, then we may purchase our own shares in such manner our board of directors may, by a simple majority of the entire board of directors (which must include one non-independent director), approve and on such terms as our board of directors may agree with the relevant shareholder, and (ii) if the number of shares being purchased is more than 3% but less than 5% of the issued shares of our company, then we may purchase our own shares in such manner our board of directors may, by a majority of two-thirds of our entire board of directors (which must include one non-independent director), approve and on such terms as our board of directors may agree with the relevant shareholder. Under the Companies Law, the redemption or repurchase of any share may be paid out of our

company's profits or out of the proceeds of a fresh issue of shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account and capital redemption reserve) if the company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Companies Law no such share may be redeemed or repurchased (a) unless it is fully paid up, (b) if such redemption or repurchase would result in there being no shares outstanding, or (c) if the company has commenced liquidation. In addition, our company may accept the surrender of any fully paid share for no consideration.

Variations of rights of shares. If at any time, our share capital is divided into different classes or series of shares, all or any of the rights attached to any class or series of shares may be varied or abrogated either with the written consent of the holders of a majority of the issued shares of that class or series or with the sanction of an ordinary resolution passed at a general meeting of the holders of the shares of that class or series.

General Meetings of Shareholders and Shareholder Proposals. As a Cayman Islands exempted company, we are not obliged by the Companies Law to call shareholders' annual general meetings. Our memorandum and articles of association provide that we may (but are not obliged to) in each year hold a general meeting as our annual general meeting in which case we shall specify the meeting as such in the notices calling it, and the annual general meeting shall be held at such time and place as may be determined by our directors.

Shareholders' annual general meetings and any other general meetings of our shareholders may be convened by a simple majority of our board of directors (which must include one non-independent director) or our chairman. Advance notice of at least seven calendar days is required for the convening of our annual general shareholders' meeting and any other general meeting of our shareholders.

Cayman Islands law provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. Our memorandum and articles of association allow our shareholders holding not less than one-third of the aggregate voting power of our company to requisition an extraordinary general meeting of our shareholders, in which case our directors are obliged to call such meeting and to put the resolutions so requisitioned to a vote at such meeting; however, our memorandum and articles of association do not provide our shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders.

No business can be transacted at any general meeting unless a quorum of shareholders is present at the time when the meeting proceeds to business. One or more shareholders holding not less than an aggregate of fifty percent of the total voting power of our company in issue present in person or by proxy and entitled to vote shall be a quorum for all purposes.

Election and Removal of Directors. Our memorandum and articles of association provide that, unless otherwise determined by us in general meeting, our board will consist of not less than five directors (two of which must be non-independent directors). Directors may be elected by an ordinary resolution of our shareholders, or by the affirmative vote of a simple majority of our directors (which must include one non-independent director) present and voting at a meeting of our board of directors, and shall hold office until the expiration of his term and until his successor has been elected and qualified. There are no provisions relating to retirement of directors upon reaching any age limit.

A director may be removed from office by ordinary resolution at any time before the expiration of his term. A director shall be automatically and immediately removed from office if (i) he is notified of, and fails to attend, an aggregate of three duly called and constituted board meetings within any 365-day period or (ii) if a simple majority of all directors determine at a duly called and constituted board meeting that such director has been guilty of actual fraud or willful neglect in performing his duties as a director. In addition, the office of a director will be vacated if such director (a) dies, becomes bankrupt or makes any arrangement or composition with his creditors, (b) is found to be or becomes of unsound mind, (c) resigns his office by notice in writing to us, or (d) or is removed as a director pursuant to our memorandum and articles of association.

If (i) a director was or is affiliated with or was appointed to our board by a holder or a group of affiliated holders of common shares converted from our preferred shares prior to the completion of our initial public offering, and (ii) such holder or holders cease to own in aggregate 5% or more of our total issued common shares, our board may request the director to resign from the board and the director should resign from the board when a suitable director replacement candidate is identified by our board after a reasonable period of time.

Proceedings of Board of Directors. Our memorandum and articles of association provide that our business is to be managed and conducted by our board of directors. The quorum necessary for the board meeting may be fixed by the board and, unless so fixed at another number, will be a simple majority of the directors then in office (which should include a non-independent director).

Our directors may appoint any person, whether or not a director of our company, to hold such office in our company as our directors may think necessary for the administration of our company, including a chief executive officer and chief financial officer, for such term as the directors think fit. Notwithstanding the foregoing, our chief executive officer may appoint any person, whether or not a director of our company, to hold such offices (other than chief executive officer or chief financial officer) as he may think necessary, including the office of one or more vice presidents, chief operating officer, chief technology officer, for such term and with such powers and duties as the chief executive officer may think fit. Our directors may also appoint one or more of our directors to the office of managing director, but any such appointment shall terminate if any managing director ceases from any cause to be a director, or if our shareholders by ordinary resolution resolve that his tenure of office be terminated.

Our memorandum and articles of association provide that all the powers of our company to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof, to issue debentures, debenture stock and other securities whenever money is borrowed or as security for any debt, liability or obligation of our company or of any third party may only be carried out jointly by our chief executive officer and chief financial officer.

Inspection of books and records. Holders of our common shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records (save for our memorandum and articles of association). However, we intend to provide our shareholders with annual audited financial statements.

DIFFERENCES IN CORPORATE LAW

The Companies Law of the Cayman Islands is modeled after that of the English Companies legislation but does not follow recent English statutory enactments. In addition, the Companies Law differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Law applicable to us and the laws applicable to companies incorporated in the United States and their shareholders.

Mergers and similar arrangements. The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company; and (b) a “consolidation” means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of the shareholders of each constituent company, and (b) such other authorization, if any, as may be specified in such constituent company’s articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the

members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

In addition, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

- the statutory provisions as to majority vote have been met;
- the shareholders have been fairly represented at the meeting in question;
- the arrangement is such that a businessman would reasonably approve; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

When a take-over offer is made and accepted by holders of 90.0% of the shares affected within four months, the offeror may, within a two month period commencing on the expiration of such four month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed unless there is evidence of fraud, bad faith or collusion.

If the arrangement and reconstruction is thus approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of United States corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

Shareholders' Suits. In principle, we will normally be the proper plaintiff and a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, the Cayman Islands courts ordinarily would be expected to apply and follow the common law principles (namely the rule in Foss v. Harbottle and the exceptions thereto) which permit a minority shareholder to commence a representative action against, or derivative actions in the name of, our company to challenge:

- an act which is illegal or ultra vires and is therefore incapable of ratification by the shareholders;
- an act which requires a resolution with a qualified (or special) majority (i.e. more than a simple majority) which has not been obtained; and
- an act which constitutes a fraud on the minority where the wrongdoers are themselves in control of the company.

Indemnification. Cayman Islands law does not limit the extent to which a company's memorandum and articles of association may provide for indemnification of officers and directors, except to the extent any such

provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime.

Under our memorandum and articles of association, we shall indemnify each of our directors and officers of our company against all actions, proceedings, costs, charges, expenses, losses, damages or liabilities incurred or sustained by him, otherwise than by reason of his own dishonesty, actual fraud or willful default, in connection with the execution or discharge of his duties, powers, authorities or discretions as a director or officer of our company.

We intend to enter into indemnification agreements with our directors and executive officers to indemnify them to the fullest extent permitted by applicable law and our articles of association, from and against all costs, charges, expenses, liabilities and losses incurred in connection with any litigation, suit or proceeding to which such director is or is threatened to be made a party, witness or other participant.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling us under the foregoing provisions, we have been advised that in the opinion of the Securities and Exchange Commission, or the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

General meetings and shareholder proposals. Cayman Islands law provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. Our memorandum and articles of association allow our shareholders holding not less than one-third of our voting share capital to requisition a general meeting of the shareholders, in which case the directors are obliged to call such meeting and to put the resolutions so requisitioned to a vote at such meeting; however, our articles of association do not provide our shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders.

As a Cayman Islands exempted company, we are not obliged by the Companies Law to call shareholders' annual general meetings. Our memorandum and articles of association provide that we may (but are not obliged to) in each year hold a general meeting as our annual general meeting in which case we shall specify the meeting as such in the notices calling it, and the annual general meeting shall be held at such time and place as may be determined by our directors. We, however, will hold an annual shareholders' meeting during each fiscal year, as required by the rules of the NASDAQ Global Select Market.

DESCRIPTION OF AMERICAN DEPOSITARY SHARES

American depositary shares

The Bank of New York Mellon, as depositary, will register and deliver American depositary shares, also referred to as ADSs. Each ADS represents five common shares (or a right to receive five common shares) deposited with the principal Hong Kong office of The Hong Kong and Shanghai Banking Corporation Limited, as custodian for the depositary. Each ADS will also represent any other securities, cash or other property which may be held by the depositary. 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 Bank of New York Mellon's principal executive office is located at One Wall Street, New York, New York 10286.

You may hold ADSs either (A) directly (i) by having an American depositary receipt, also referred to as an ADR, which is a certificate evidencing a specific number of ADSs, registered in your name, or (ii) by having ADSs registered in your name in the direct registration system, or (B) indirectly by holding a security entitlement in ADSs through your broker or other financial institution. If you hold ADSs directly, you are a registered ADS holder, also referred to as an ADS holder. This description assumes you are an ADS holder. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADS holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

The direct registration system, also referred to as DRS, is a system administered by The Depository Trust Company, also referred to DTC, under which the depositary may register the ownership of uncertificated ADSs, which ownership is confirmed by periodic statements sent by the depositary to the registered holders of uncertificated ADSs.

As an ADS holder, we will not treat you as one of our shareholders and you will not have shareholder rights. Cayman Islands law governs shareholder rights. The depositary will be the holder of the shares underlying your ADSs. As a registered holder of ADSs, you will have ADS holder rights. A deposit agreement among us, the depositary, ADS holders and all other persons indirectly or beneficially holding ADSs sets out ADS holder rights as well as the rights and obligations of the depositary. New York law governs the deposit agreement and the ADSs.

The following is a summary of the material provisions of the deposit agreement. For more complete information, you should read the entire deposit agreement and the form of ADR.

Dividends and other distributions

How will you receive dividends and other distributions on the shares?

The depositary has agreed to pay to ADS holders the cash dividends or other distributions it or the custodian receives on shares or other deposited securities, after deducting its fees and expenses. You will receive these distributions in proportion to the number of Shares your ADSs represent.

Cash. The depositary will convert any cash dividend or other cash distribution we pay on the shares into U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. dollars to the United States. If that is not possible or if any government approval is needed and cannot be obtained, the deposit agreement allows the depositary to distribute the foreign currency only to those ADS holders to whom it is possible to do so. It will hold the foreign currency it cannot convert for the account of the ADS holders who have not been paid. It will not invest the foreign currency and it will not be liable for any interest.

Before making a distribution, any withholding taxes, or other governmental charges that must be paid will be deducted. It will distribute only whole U.S. dollars and cents and will round fractional cents to the nearest whole cent. *If the exchange rates fluctuate during a time when the depositary cannot convert the foreign currency, you may lose some or all of the value of the distribution.*

Shares. The depositary may, and shall if we so request in writing, distribute additional ADSs representing any shares we distribute as a dividend or free distribution. The depositary will only distribute whole ADSs. It will sell shares which would require it to deliver a fractional ADS and distribute the net proceeds in the same way as it does with cash. If the depositary does not distribute additional ADSs, the outstanding ADSs will also represent the new shares. The depositary may sell a portion of the distributed shares sufficient to pay its fees and expenses in connection with that distribution.

Rights to purchase additional shares. If we offer holders of our securities any rights to subscribe for additional shares or any other rights, the depositary may make these rights available to ADS holders. If the depositary decides it is not legal and practical to make the rights available but that it is practical to sell the rights, the depositary will use reasonable efforts to sell the rights and distribute the proceeds in the same way as it does with cash. The depositary will allow rights that are not distributed or sold to lapse. *In that case, you will receive no value for them.*

If the depositary makes rights available to ADS holders, it will exercise the rights and purchase the shares on your behalf. The depositary will then deposit the shares and deliver ADSs to the persons entitled to them. It will only exercise rights if you pay it the exercise price and any other charges the rights require you to pay.

U.S. securities laws may restrict transfers and cancellation of the ADSs represented by shares purchased upon exercise of rights. For example, you may not be able to trade these ADSs freely in the United States. In this case, the depositary may deliver restricted depositary shares that have the same terms as the ADSs described in this section except for changes needed to put the necessary restrictions in place.

Other distributions. The depositary will send to ADS holders anything else we distribute on deposited securities by any means it thinks is legal, fair and practical. If it cannot make the distribution in that way, the depositary has a choice. It may decide to sell what we distributed and distribute the net proceeds, in the same way as it does with cash. Or, it may decide to hold what we distributed, in which case ADSs will also represent the newly distributed property. However, the depositary is not required to distribute any securities (other than ADSs) to ADS holders unless it receives reasonably satisfactory evidence from us that it is legal to make that distribution. The depositary may sell a portion of the distributed securities or property sufficient to pay its fees and expenses in connection with that distribution.

The depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADS holders. We have no obligation to register ADSs, shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ADSs, shares, rights or anything else to ADS holders. *This means that you may not receive the distributions we make on our shares or any value for them if it is illegal or impractical for us to make them available to you.*

Deposit, withdrawal and cancellation

How are ADSs issued?

The depositary will deliver ADSs if you or your broker deposit shares or evidence of rights to receive shares with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will register the appropriate number of ADSs in the names you request and will deliver the ADSs to or upon the order of the person or persons that made the deposit.

Except for common shares deposited by us in connection with this offering, no shares will be accepted for deposit during a period of 180 days after the date of this prospectus. The 180-day lock-up period is subject to adjustment under certain circumstances as described in the section entitled “Shares Eligible for Future Sale—Lock-up Agreements.”

How can ADS holders withdraw the deposited securities?

You may surrender your ADSs at the depositary’s corporate trust office. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will deliver the shares and any other deposited securities underlying the ADSs to the ADS holder or a person the ADS holder designates at the office of the custodian. Or, at your request, risk and expense, the depositary will deliver the deposited securities at its corporate trust office, if feasible.

How do ADS holders interchange between certificated ADSs and uncertificated ADSs?

You may surrender your ADR to the depositary for the purpose of exchanging your ADR for uncertificated ADSs. The depositary will cancel that ADR and will send to the ADS holder a statement confirming that the ADS holder is the registered holder of uncertificated ADSs. Alternatively, upon receipt by the depositary of a proper instruction from a registered holder of uncertificated ADSs requesting the exchange of uncertificated ADSs for certificated ADSs, the depositary will execute and deliver to the ADS holder an ADR evidencing those ADSs.

Voting rights

How do you vote?

ADS holders may instruct the depositary how to vote the number of deposited shares their ADSs represent. The depositary will notify ADS holders of shareholders' meetings and arrange to deliver our voting materials to them if we ask it to. Those materials will describe the matters to be voted on and explain how ADS holders may instruct the depositary how to vote. For instructions to be valid, they much reach the depositary by a date set by the depositary. Pursuant to the deposit agreement, there are no circumstances where we would not instruct the depositary to notify ADSs holders of shareholders' meetings or where the depositary may itself determine not to notify ADS holders of such meetings.

Otherwise, you will not be able to exercise your right to vote unless you withdraw the shares. However, you may not know about the meeting enough in advance to withdraw the shares.

The depositary will try, as far as practical, subject to the laws of the Cayman Islands and of our articles of association or similar documents, to vote or to have its agents vote the shares or other deposited securities as instructed by ADS holders. The depositary will only vote or attempt to vote as instructed. If we ask for your instructions but the depositary does not receive your instructions by the date the depositary sets, the depositary may give a discretionary proxy to a person designated by us to vote the amount of deposited shares your ADSs represent, unless we notify the depositary that (i) substantial opposition exists or (ii) the matter to be voted on would have a material adverse effect on the rights of holders of our common shares.

We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your shares. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. *This means that you may not be able to exercise your right to vote and there may be nothing you can do if your shares are not voted as you requested.*

We have agreed to give the Depositary notice of any such meeting and details concerning the matters to be voted upon as far in advance of the meeting date as practicable. Under our post-offering memorandum and articles of association, the minimum notice period required to convene a general meeting is seven calendar days.

Reclassifications, recapitalizations and mergers

If we:	**Then:**
· Change the nominal or par value of our shares · Reclassify, split up or consolidate any of the deposited securities · Distribute securities on the shares that are not distributed to you · Recapitalize, reorganize, merge, liquidate, sell all or substantially all of our assets, or take any similar action	The cash, shares or other securities received by the depositary will become deposited securities. Each ADS will automatically represent its equal share of the new deposited securities. The depositary may distribute new ADSs representing the new deposited securities or ask you to surrender your outstanding ADRs in exchange for new ADRs identifying the new deposited securities.

Amendment and termination

How may the deposit agreement be amended?

We may agree with the depositary to amend the deposit agreement and the ADRs without your consent for any reason. If an amendment adds or increases fees or charges, except for taxes and other governmental charges or expenses of the depositary for registration fees, facsimile costs, delivery charges or similar items, or prejudices a

substantial right of ADS holders, it will not become effective for outstanding ADSs until 30 days after the depositary notifies ADS holders of the amendment. *At the time an amendment becomes effective, you are considered, by continuing to hold your ADSs, to agree to the amendment and to be bound by the ADRs and the deposit agreement as amended.*

How may the deposit agreement be terminated?

The depositary will terminate the deposit agreement at our direction by mailing notice of termination to the ADS holders then outstanding at least 30 days prior to the date fixed in such notice for such termination. The depositary may also terminate the deposit agreement by mailing notice of termination to us and the ADS holders if 60 days have passed since the depositary told us it wants to resign but a successor depositary has not been appointed and accepted its appointment.

After termination, the depositary and its agents will do the following under the deposit agreement but nothing else: collect distributions on the deposited securities, sell rights and other property, and deliver shares, other deposited securities and distributions upon cancellation of ADSs. Four months after termination, the depositary may sell any remaining deposited securities by public or private sale. After that, the depositary will hold the money it received on the sale, as well as any other cash it is holding under the deposit agreement for the *pro rata* benefit of the ADS holders that have not surrendered their ADSs. It will not invest the money and has no liability for interest. The depositary's only obligations will be to account for the money and other cash. After termination our only obligations will be to indemnify the depositary and to pay fees and expenses of the depositary that we agreed to pay.

Limitations on obligations and liability

Limits on our obligations and the obligations of the depositary; limits on liability to holders of ADSs

The deposit agreement expressly limits our obligations and the obligations of the depositary. It also limits our liability and the liability of the depositary. We and the depositary:

- are only obligated to take the actions specifically set forth in the deposit agreement without negligence or bad faith;
- are not liable if we are or it is prevented or delayed by law or circumstances beyond our control from performing our or its obligations under the deposit agreement;
- are not liable if we or it exercises discretion permitted under the deposit agreement;
- are not liable for the inability of any holder of ADSs to benefit from any distribution on deposited securities that is not made available to holders of ADSs under the terms of the deposit agreement, or for any special, consequential or punitive damages for any breach of the terms of the deposit agreement;
- have no obligation to become involved in a lawsuit or other proceeding related to the ADSs or the deposit agreement on your behalf or on behalf of any other person;
- are not liable for the acts or omissions of any securities depository, clearing agency or settlement system; and
- may rely upon any documents we believe or it believes in good faith to be genuine and to have been signed or presented by the proper person.

In the deposit agreement, we and the depositary agree to indemnify each other under certain circumstances.

Requirements for depositary actions

Before the depositary will deliver or register a transfer of an ADS, make a distribution on an ADS, or permit withdrawal of shares, the depositary may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any shares or other deposited securities;

- satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and

- compliance with regulations it may establish, from time to time, consistent with the deposit agreement, including presentation of transfer documents.

The depositary may refuse to deliver ADSs or register transfers of ADSs when the transfer books of the depositary or our transfer books are closed or at any time if the depositary or we think it advisable to do so.

Your right to receive the shares underlying your ADSs

ADS holders have the right to cancel their ADSs and withdraw the underlying shares at any time except:

- When temporary delays arise because: (i) the depositary has closed its transfer books or we have closed our transfer books; (ii) the transfer of shares is blocked to permit voting at a shareholders' meeting; or (iii) we are paying a dividend on our shares.

- When you owe money to pay fees, taxes and similar charges.

- When it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADSs or to the withdrawal of shares or other deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

Pre-release of ADSs

The deposit agreement permits the depositary to deliver ADSs before deposit of the underlying shares, unless requested in writing by us to cease doing so. This is called a pre-release of the ADSs. The depositary may also deliver shares upon cancellation of pre-released ADSs (even if the ADSs are canceled before the pre-release transaction has been closed out). A pre-release is closed out as soon as the underlying shares are delivered to the depositary. The depositary may receive ADSs instead of shares to close out a pre-release. The depositary may pre-release ADSs only under the following conditions: (1) before or at the time of the pre-release, the person to whom the pre-release is being made represents to the depositary in writing that it or its customer owns the shares or ADSs to be deposited; (2) the pre-release is fully collateralized with cash or other collateral that the depositary considers appropriate; and (3) the depositary must be able to close out the pre-release on not more than five business days' notice. In addition, the depositary normally will limit the number of ADSs that may be outstanding at any time as a result of pre-release to no more than 30% of the amount of shares on deposit, although the depositary may disregard the limit from time to time if it thinks it is appropriate to do so. The depositary has full discretion on how and to what extent it may disregard the limit for the amount of ADSs that may be outstanding at any time as a result of pre-release.

Direct registration system

In the deposit agreement, all parties to the deposit agreement acknowledge that the DRS and Profile Modification System, or Profile, will apply to uncertificated ADSs upon acceptance thereof to DRS by DTC. DRS is

the system administered by DTC under which the depositary may register the ownership of uncertificated ADSs, which ownership will be confirmed by periodic statements sent by the depositary to the registered holders of uncertificated ADSs. Profile is a required feature of DRS that allows a DTC participant, claiming to act on behalf of a registered holder of ADSs, to direct the depositary to register a transfer of those ADSs to DTC or its nominee and to deliver those ADSs to the DTC account of that DTC participant without receipt by the depositary of prior authorization from the ADS holder to register that transfer.

In connection with and in accordance with the arrangements and procedures relating to DRS/Profile, the parties to the deposit agreement understand that the depositary will not determine whether the DTC participant that is claiming to be acting on behalf of an ADS holder in requesting registration of transfer and delivery described in the paragraph above has the actual authority to act on behalf of the ADS holder (notwithstanding any requirements under the Uniform Commercial Code). In the deposit agreement, the parties agree that the depositary's reliance on and compliance with instructions received by the depositary through the DRS/Profile System and in accordance with the deposit agreement will not constitute negligence or bad faith on the part of the depositary.

Shareholder communications; inspection of register of holders of ADSs

The depositary will make available for your inspection at its office all communications that it receives from us as a holder of deposited securities that we make generally available to holders of deposited securities. The depositary will send you copies of those communications if we ask it to. You have a right to inspect the register of holders of ADSs, but not for the purpose of contacting those holders about a matter unrelated to our business or the ADSs.

Credit Agreement

No.: 755XY2020027317

Credit Provider: China Merchants Bank Shenzhen Branch (hereinafter "Party A")

Credit Applicant: Shenzhen Thunder Network Technology Co., Ltd. (hereinafter "Party B")

Upon Party B's application, Party A hereby agrees to provide a credit line for Party B. Now therefore, in accordance with applicable laws and regulations, Party A and Party B (hereinafter "the Parties"), through adequate negotiation, hereby make and enter into this *Credit Agreement* (hereinafter "this Agreement"), subject to the following terms and conditions.

1. Credit Line

1.1 Under this Agreement, Party A will extend a credit line of Eighty-Five Million Yuan (including other currencies of equivalent value converted at the exchange rate published by Party A at the time when a specific transaction actually occurs, same below) (including revolving credit line and/or one-time credit line) (hereinafter "the Credit Line").

If there is an outstanding balance of any credit services under the previous Credit Agreement (No.: 755XY2019011381) (insert the name of the agreement here) between Party A (or its affiliate) and Party B, it shall be automatically included under this Agreement and directly occupy the Credit Line under this Agreement.

1.2 The Credit Extending Period is 12 months from September 20, 2020 to September 19, 2021.

If Party B needs to use the Credit Line to handle the specific credit services, Party B shall submit an application for the utilization of the Credit Line to Party A within that period, and Party A shall not accept Party B's application for the utilization of the credit limit beyond the expiry date of the Credit Extending Period, except as otherwise stipulated in this Agreement.

1.3 Credit products and services offered under the Credit Line include without limit one or more credit products or services of: loan/order loan, trade financing, bills

discount, commercial bills acceptance, commercial acceptance bills confirmation/ reimbursement, international/domestic guarantee, customs payment guarantee, legal-person account overdraft, derivative transaction, gold lease, etc. (hereinafter "Credit Services").

"Trade financing" includes without limit such service types as international/domestic letter of credit, import bill advance, delivery guarantee, advance against import documentary collection, packing finance, export bill advance, export negotiation, advance against export documentary collection, import/export remittance financing, credit insurance financing, factoring, commercial paper guarantee, etc.

1.4 Revolving credit line is the maximum balance sum of principals of one or more foregoing Credit Services offered by Party A to Party B during the Credit Extending Period, which can be used by Party B on a continuous and revolving basis.

One-time credit line is the one-time credit line approved by Party A which the cumulative amount of all foregoing Credit Products offered by Party A to Party B cannot exceed. Party B shall not the one-time credit line on a revolving basis, and the corresponding amounts of several credit services utilized by Party B shall occupy the one-time credit line until the cumulative amount is used up.

2. Credit line occupation arrangements

2.1 The specific credit services applied by Party B and approved by Party A during the Credit Extending Period shall be automatically included under this Agreement and occupy the Credit Line under this Agreement.

2.2 If Party A provides import factoring with Party B as the payer (accounts receivable debtor), the accounts receivable debt against Party B acquired by Party A under the service will occupy the foregoing Credit Line; if Party B applies for the provision of domestic seller factoring or export factoring service from Party A with Party B as payee (accounts receivable creditor), the payment made by Party A with its own funds or other funds of lawful sources to Party B for acquisition/purchase payment of accounts receivable debt held by Party B will occupy the foregoing Credit Line.

2.3 If Party A entrusts other branches of China Merchants Bank to issue back-to-back letter of credit to the beneficiary according to its internal procedures after issuing the letter of credit, such letters of credit and documentary credits and delivery guarantees arising thereunder will occupy amounts of the Credit Line.

Under the import letter of credit service, if any subsequent import bill advance is made under the same letter of credit, the letter of credit and import bill advance will occupy the same amount of the Credit Line at different stage. That is to say, when an import bill advance is made, amount recovered after payment by the letter of credit will be reused to make import bill advance, and will be deemed to occupy the same amount as the original import letter of credit.

3. Approval and Utilization of Credit Line

3.1 The type of Credit Line hereunder (revolving credit line or one-time credit line) and applicable types of Credit Services, credit amounts extended for different types of Credit Services, whether different types of Credit Services can be swapped, and specific conditions for utilizing the Credit Line are subject to approval of Party A. If Party A makes any adjustment to its original approval according to Party B’s application during the Credit Extending Period, any subsequent approvals issued by Party A will constitute supplements and modifications to the original approval, and so on.

3.2 Party B shall apply for utilization of the Credit Line one by one by submitting the required documentation to Party A, and the credit service shall be carried out on a case-by-case basis only upon approval. Party A shall have the right to decide whether to approve each application based on its internal management requirements, Party B's operation status and other relevant conditions, and may reject Party B's application at its sole discretion without assuming any legal liability to Party B. Where there is any inconsistency between this provision with any other provisions hereof, this provision shall prevail.

3.3 When a specific credit service is carried out upon approval of Party A, the specific texts signed by Party A and Party B on the specific credit service (including but not limited to single-transaction agreement/application, framework agreement, or

specific business contract) shall constitute an integral part of the Credit Agreement. The amount, interest rate, term, purpose, fee and other transaction elements of each loan or other credit services will be subject to separate service agreements, transaction vouchers (including but not limited to certificate of indebtedness) confirmed by Party A and the transaction records in Party A's system.

3.4 Party A shall have the right to regularly or irregularly adjust the benchmark interest rate or interest rate pricing method for loan/other credit services under this Agreement in line with changes in relevant national policies, domestic and overseas market conditions, or its credit policy. Such adjustment shall take effect after Party A notifies Party B (by announcement published at Party A's banking outlet or on the official website of China Merchants Bank, or notice served to Party B at any contact address/method reserved in this Agreement;) if Party B does not accept the adjustment, it shall make early repayment, otherwise it shall be deemed to be acceptance of such adjustment.

Where there is any inconsistency between this provision with any other provisions hereof, this provision shall prevail.

3.5 Duration of each loan or other credits within the scope of the Credit Line shall be determined according to Party B's business need and Party A's business management rules; the expiration date of each specific service may be later than that of the Credit Extending Period (unless otherwise required by Party A).

3.6 During the Credit Extending Period, Party A shall have the right to assess Party B's operating and financial status on an annual basis, and adjust the usable credit line of Party B based on the assessment result.

4. Party B's Rights and Obligations

4.1 Party B shall have the rights to:

4.1.1 Require Party A to provide loans or other credits within the scope of the Credit Line in accordance with the terms and conditions hereof;

4.1.2 Make use of the Credit Line in accordance with the terms and conditions hereof;

4.1.3 Require Party A to maintain confidentiality for information provided by Party B regarding Party B's production, operation, properties, accounts and other aspects, unless otherwise required by this Agreement;

4.1.4 Transfer its debts to a third party with Party A's written consent.

4.2 Party B shall be obligated to:

4.2.1 Provide authentic documents required by Party A (including but not limited to, on the frequency required by Party A, provide authentic financial books/statements and annual financial reports, important decisions and changes in production, operation and management, money withdrawal/utilization information, information on collateral, etc.), information on Party B's financing from other financial institutions and non-financial institutions (including the financing that Party B has obtained and is applying for at the time of execution of this Agreement), and information regarding all banks of deposit, account numbers and deposit & loan balances; ensure the authenticity, accuracy and integrity of all the document provided, and cooperate with Party A's investigation, review and inspection;

4.2.2 Accept Party A's inspection on its utilization of credit facility proceeds and related production, operation and financial activities;

4.2.3 Make use of the loans and/or other credits in accordance with provisions of this Agreement and separate agreements and/or the committed purposes;

4.2.4 Repay on time principals, interests and fees of loans, advances and other credits in accordance with provisions of this Agreement and separate agreements;

4.2.5 Obtain Party A's written consent before transferring debts hereunder to any third party in whole or in part;

4.2.6 Inform Party A promptly and actively coordinate with Party A in arranging for measures to secure repayment of principals, interests and fees of all loans, advances and other credits hereunder under any condition as follows:

4.2.6.1 Material financial loss, loss of assets or other financial crisis has occurred;

4.2.6.2 It provides loans or guarantee security for any third party or provide mortgage/pledge security with its own assets (rights);

4.2.6.3 Suspension of business, revocation or deregistration of business license, filing or being filed for bankruptcy or dissolution, etc.; or change in key enterprise information, such as enterprise name, registered address, business address, and beneficial owner;

4.2.6.4 Its controlling shareholder or other related company and de facto controller suffers a significant operating or financial crisis, which affects its normal operations; or its controlling shareholder/de facto controller abuses the independent legal person status or the limited liability of shareholder, evades debt, suspends operation, goes out of business, gets business license revoked, files or is filed for bankruptcy or dissolution, is punished by competent authority, commits a crime, or is involved in a significant legal dispute; or its legal representative or legal representative/principal person-in-charge, director or key senior manager of its controlling shareholder or other related company and de facto controller, is changed, or is punished/restricted by the competent State authority of for violating the law, discipline, etc., or goes missing for more than seven days, which may affect its normal operations.

4.2.6.5 The amount of the related party transaction with its controlling shareholder and/or other related companies or de facto controller reaches more than 10% of the net assets of Party B (Party B's notice shall at least cover the relationship between the Parties to the transaction, the transaction item and nature, the transaction amount or the corresponding proportion, pricing policy (including transaction with no amount or only symbolic amount), etc.);

4.2.6.6 Any litigation, arbitration or criminal/administrative penalty has been brought by or against it, causing material negative effect on its operation or financial status;

4.2.6.7 Its legal representative/principal person-in-charge, director or key senior manager is changed, or is punished/restricted by the competent State authority for violating the law, discipline, etc., or goes missing for more than seven days, which may affect its normal operations;

4.2.6.8 Party B or its de facto controller is burdened with a large amount of lending with usurious interest rate; or has bad records such as re-extension, delinquency and interest payment default in other financial institutions; or Party B's related enterprise suffers a debt crisis due to disruption of capital chain; or Party B's project is halted or suspended or involves a significant investment mistake;

4.2.6.9 Other material circumstances that may affect its solvency.

4.2.7 Party B shall not be slack in managing or claiming its mature debts or dispose of its existing major properties without compensation or by other improper means.

4.2.8 Party B must obtain Party A's prior written consent before engaging in consolidation (merger), separation, restructuring, equity joint venture (cooperative joint venture), transfer of property rights or equity, reforming its shareholding system, overseas investment, increasing debt financing, etc.

4.2.9 In the case of dynamic pledge of accounts receivable, Party B shall guarantee that the credit balance at any time point during the Credit Extending Period is lower than 80% of the balance of the pledged accounts receivable, otherwise, it must provide new accounts receivable acceptable to Party A as pledge or margin (the margin account number is account number deposit generated or recorded by Party A's system at the time of deposit of the margin, the same as below), until the balance of the pledged accounts receivable ×80% + valid bond > credit balance.

4.2.10 In the case of bond pledge, if fluctuation in exchange rate results in the balance of the bond account being lower than 95% of the amount of the corresponding credit service, Party B shall have the obligation to provide additional amount of bond or other guarantee as required by Party A.

4.2.11 Party B shall guarantee that payments for goods under import shall be collected into the account designated by Party A; under export negotiation, shall transfer bills and/or documents under the letter of credit to Party A.

4.2.12 Party B shall guarantee that settlement, payment and other receipt and payment activities are primarily carried out in its bank settlement account with Party A. During the Credit Extending Period, Party B's share of settlement transactions in the

designated account shall be, at a minimum, Party B's share of Party A's financing in all banks.

5. Party A's Rights and Obligations

5.1 Party A shall have the following rights to:

5.1.1 Require Party B to fully repay on time principals and interests of all loans, advances and credit debts under this Agreement and separate agreements;

5.1.2 Require Party B to provide documents and information related to its utilization of the Credit Line;

5.1.3 Ask for information about Party B's production, operation and financial activities;

5.1.4 Supervise that Party B is utilizing loans and/or other credits for the purposes agreed upon in this Agreement and separate agreements; when it is required by its business, unilaterally suspend or restrict the corporate online banking/corporate APP/other online function of Party B's account (including but not limited closing online banking/corporate APP/other online function, presetting list of payees/single payment limit/phase payment limit, etc.) and other electronic payment channels, restrict sale of settlement vouchers, or restrict payment or transfer at the counter, telephone banking, mobile banking and other non-counter payment and exchange functions of Party B's account;

5.1.5 Authorize other branches of China Merchants Bank in the place where the beneficiary is located to issue letter of credit to the beneficiary according to its internal procedures.

5.1.6 Deduct funds from any account of Party B at any outlet of China Merchants Bank for repaying Party B's debts under this Agreement and separate agreements (if credit debts are not denominated in RMB, to purchase exchange from Party B's CNY account according to the exchange rate published by Party A at the time of deduction to repay principals, interests and fees of the credit debts);

5.1.7 Transfer its claims against Party B, and inform Party B about the transfer and collect from Party B by appropriate means at its sole discretion, including but not limited to fax, mailing, personal service, announcement on the public media, etc.;

5.1.8 Monitor and entrust other China Merchants Bank outlets to monitor Party B's accounts, and control disbursement of loan funds according to the loan purposes and payment scope agreed by the Parties;

5.1.9 Where Party A is aware that Party B falls under any of the circumstances stipulated in Article 4.2.6 herein, Party A shall have the right to require Party B to arrange for measures to secure repayment of the principal and interest on all loans under this Agreement and all associated costs as per the requirements of Party A, and Party A shall also have the right to directly take one or more remedial measures against the default specified in the clause herein with the heading "Breach Events and Treatment".

5.1.10 Other rights provided hereunder.

5.2 Party A shall be obligated to:

5.2.1 Extend loans or other credits to Party B within the scope of the Credit Line according to the conditions provided under this Agreement and separate agreements;

5.2.2 Maintain confidentiality for the status of Party B's assets, finance, production and operation, unless otherwise required by laws and regulations or by the regulatory authority, or unless it is provided to Party A's superior or subordinate institutions or external auditors, accountants or lawyers carrying the same confidentiality obligation.

6. Party B hereby makes the following guarantees:

6.1 Party B is an entity with legal-person qualification lawfully established and existing under the laws of the People's Republic of China, its procedures for registration and annual reports publication are true, lawful and valid, and it has full capacity for civil conduct to sign and perform this Agreement;

6.2 Party B has obtained full authorization from its board of directors or any other authorities to sign and perform this Agreement;

6.3 Documents, data, certificates and other information provided by Party B regarding Party B, the Guarantor, mortgagors/pledgors and mortgaged/pledged assets

are authentic, accurate, complete and valid, and do not contain material error or omission of any material fact that is inconsistent with the facts;

6.4 Party B shall strictly observe provisions of all separate transaction agreements and all letters and documents that it issues to Party A;

6.5 No litigation, arbitration or criminal/administrative penalty that may have material adverse consequences on Party B or its main property has taken place at the time of signing this Agreement and no such litigation, arbitration or criminal/administrative penalty will take place during the execution of this Agreement. In case any such condition occurs, Party B shall immediately notify Party A;

6.6 Party B shall strictly abide by national laws and regulations in its business activities, carry out various businesses in strict accordance with the business scope stipulated in its business license or approved according to the law, and perform the procedures for enterprise (legal person) registration, annual reporting and business term renewal/extension on time;

6.7 Party B shall maintain or improve the current operation and management level, ensure the maintenance and appreciation of its existing assets, do not give up any mature debt claims, and do not dispose of existing main properties without compensation or by other inappropriate ways;

6.8 Without permission of Party A, Party B shall not repay other long-term debts in advance.

6.9 At the time of signing and performing this Agreement, Party B has not had any other major events affecting the performance of its obligations hereunder.

7. Other Fees and Expenses

Where this Agreement involves matters that require notarization (except for mandatory notarization) or third-party services, related fees and expenses arising therefrom shall be borne by the entrusting party. If the entrusting is made by both parties collectively, they shall each bear 50% of the fees and expenses.

In the event that Party B fails to repay the debts owed to Party A under this Agreement as scheduled, all costs incurred by Party A in realizing its debt claim, such

as attorney's fees, legal fees, travel expenses, announcement fees, service fees, etc., shall be borne by Party B in full, and Party B hereby authorizes Party A to directly deduct such costs from Party B's bank account at Party A. Where there is any deficiency, Party B shall indemnify Party A in full upon receipt of the notice from Party A without requiring any proof from Party A.

8. Breach Events and Treatment

8.1 Party B shall be deemed to have breached this Agreement under any of the following circumstances:

8.1.1 It fails to perform or breaches any of the obligations set forth herein;

8.1.2 It makes any special warranty hereunder that is inauthentic or incomplete, or breaches the special warranty and fails to make rectification as required by Party A;

8.1.3 It makes any material breach event related to any lawful and valid contract signed by Party B with any other creditor and such breach is not satisfactorily resolved within three months following the date of breach.

The aforementioned material breach event refers to such breach of Party B that results in its creditor's entitlement to claim from Party B an indemnity of CNY One Million **or more.**

8.1.4 If Party B is an enterprise listed or applying for listing on the National Equities Exchange and Quotations ("NEEQ"), it experiences significant obstructions or withdraws the application for listing; it is given with warning letters, ordered to make corrections, restricted in the trading of its securities account, or imposed with other self-disciplinary measures by NEEQ, for more than 3 times; or it is subject to disciplinary actions, or its listing is terminated, or other similar circumstances;

8.1.5 When Party B is a supplier of a government procurement agency, the government procurement agency has risk information detrimental to loan repayment to Party A such as delayed payment for three continuous or cumulative periods, or Party B experiences disqualification for supply (inclusion in government procurement blacklist), untimely supply, unstable product quality, operating difficulties, obvious deterioration of financial position (insolvency), project shutdown, etc.

8.1.6 Party B's financial indicators fail to continuously satisfy the requirements stipulated in this Agreement/separate service agreement; or any of the preconditions (if any) for Party A to provide credit facility/financing to Party B as stipulated in this Agreement/separate service agreement is not continuously satisfied.

8.1.7 The operating activities of Party B may expose Party A to anti-money laundering or sanctions compliance risk.

8.1.8 Other circumstances Party A considers to be harmful to Party A's legitimate rights and interests.

8.2 In the event the Guarantor has any of the following conditions, and Party A considers it may harm the Guarantor's guarantee capability, thus requires the Guarantor to eliminate adverse effect of such circumstance or requires Party B to increase security or change security condition, but the Guarantor and Party B fail to cooperate with such requirement, it will be deemed a breach event has occurred:

8.2.1 A condition similar to one of the conditions described under Article 4.2.6 hereof has occurred, or a condition described under Article 4.2.8 has occurred without Party A's consent;

8.2.2 The Guarantor conceals its actual capability for undertaking the guarantee responsibility or has not obtained authorization from relevant authority when issuing the irrevocable letter of guarantee;

8.2.3 The Guarantor fails to perform on time the annual enterprise reporting procedure, renewal/extension of its business term, or other similar circumstances;

8.2.4 The Guarantor is being slack in managing and claiming for its mature debts or disposes of its existing main properties without compensation or by other improper means.

8.3 In the event the Mortgagor (or Pledgor) has any of the following conditions, and Party A considers it may results in failure of creation of mortgage/pledge or deficiency in the value of the mortgaged/pledged asset, thus requires the Mortgagor/Pledgor to eliminate adverse effect of such condition or requires Party B to

increase security or change security condition, or the Mortgagor/Pledgor and Party B fails to cooperate with such requirement, it will be deemed a breach event has occurred:

8.3.1 The mortgagor/pledgor has no ownership or disposal right to the mortgaged/pledged asset or the ownership is disputable;

8.3.2 The mortgaged/pledged asset fails to properly undergo the collateral/pledge registration procedure, or is leased, attached, seized or supervised or being subject to any common/statutory prior senior right (including but not limited to senior right of construction payment), and/or such conditions are concealed;

8.3.3 The mortgagor transfers, leases, re-mortgages or disposes of by any improper means the mortgaged asset without Party A's written consent; or even though such disposal is done with Party A's written consent, the proceeds obtained from disposal of the mortgaged asset is not used to repay Party B's debts to Party A as required by Party A;

8.3.4 The mortgagor fails to properly keep, maintain and repair the mortgaged asset, obviously derogating their value; or the act of the mortgagor directly endangers the mortgaged asset, causing their value to decrease; or the mortgagor fails to obtain/renew insurance for the mortgaged asset as required by Party A during the mortgage term;

8.3.5 The mortgaged asset is or is likely to be included in the government's scope of demolition and expropriation, but the mortgagor fails to inform Party A promptly and perform relevant obligations under the mortgage contract;

8.3.6 In case the mortgagor uses its housing property which it has mortgaged with China Merchants Bank to provide residual mortgage security for the transaction hereunder, the mortgagor pays off his/her personal mortgage loan without Party A's consent before Party B's has paid off its credit debt hereunder.

8.3.7 Where the pledgor provides wealth management product as pledge, the source of funds for subscription of the wealth management product is illegal/non-compliant;

8.3.8 Matters concerning the collateral (pledge) occur or are likely to occur, which affect the value of the collateral (pledge) or the collateral (pledge) rights of Party A.

8.4 Where accounts receivable are pledged to secure the debt hereunder, if the accounts receivable debtor's business has deteriorated significantly, or the accounts receivable debtor transfers its properties or illegally withdraws capital for the purpose of debt evasion, or colludes with the accounts receivable pledgor to change the payments collection channel to divert payment of accounts receivable from entering the designated collection account, or loses its goodwill, or loses or is likely to lose its capability to perform the pledge agreement, or has any other major event that impairs its solvency, Party A shall have the right to require Party B to provide corresponding security or provide new valid accounts receivable for pledge, failing which, it will be deemed a breach event has arisen.

8.5 Once any of the above breach events has arisen, Party A shall have the right to take the following measures separately or simultaneously:

8.5.1 Reduce the Credit Line hereunder, or stop utilization of the remaining amount of the Credit Line;

8.5.2 Recover in advance principals, interests and related fees of all loans extended within the scope of the Credit Line;

8.5.3 As for bills accepted or letters of credit, letters of guarantee, delivery guarantees and other credit papers issued (including entrusted reissue) by Party A within the Credit Extending Period, regardless if any advance has been made, Party A shall have the right to require Party B to increase the amount of bond, or transfer deposits from its other accounts at Party A into the bond account or deposit the corresponding amounts with a third party, to secure for repayment of future advances made by Party A hereunder;

8.5.4 As for outstanding accounts receivable claim of Party B acquired in factoring service, Party A shall have the right to require Party B to immediately perform the repurchase obligation and adopt other recovery measures in accordance with relevant

separate service agreement; as for accounts receivable claim against Party B acquired in factoring service, Party A shall have the right to claim against Party B immediately.

8.5.5 As appropriate, Party A may also directly require Party B to provide other assets acceptable to Party A as new security, failing which, Party B shall be liable to pay liquidated damage equivalent to 30% of the Credit Line hereunder.

8.5.6 Directly freeze/deduct deposit in/from any settlement account and/or other account opened by Party B with China Merchants Bank, suspend opening of new settlement account for Party B, and suspend opening of new credit card for legal representative;

8.5.7 Submit Party B's default and dishonesty information to credit standing agencies and banking associations, and have the right to share such information among banking institutions and even make it known to the public by appropriate means;

8.5.8 Dispose of the collateral (pledge) and/or claim compensation from the guarantor as per the provisions of the guarantee agreement;

8.5.9 Claim compensation pursuant to the provisions of this Agreement.

8.6 Funds recovered by Party A will be used to repay credit debts in a last-to-first order according to their respective maturity date. And each credit will be repaid in the following order: fees, liquidated damages, compound interests, penalty interests, interests, and lastly principals of the credit, until all principals, interests and related fees have been fully repaid.

Party A shall have the right to unilaterally adjust the above repayment order, unless otherwise required by laws and regulations.

9. Guarantee Clause

9.1 For any debts owed by Party B to Party A under this Agreement, Party B or a third party recognized by Party A shall provide collateral (pledge) guarantee or joint guarantee, and Party B or the third party as guarantor shall issue or sign a separate guarantee agreement as required by Party A.

9.2 Party A shall have the right to refuse to provide credit facility to Party B if the guarantor fails to sign the guarantee agreement and complete the guarantee provision

procedures in accordance with the provisions of this Article (including the case that the accounts receivable debtor raises an objection to the accounts receivable before pledge).

9.3 When the mortgagor provides real estate mortgage as security for Party B's debts to Party A hereunder, if Party B is aware that the mortgaged assets are already or likely to be included in the government's demolition and expropriation plan, it shall inform Party A promptly and urge the mortgagor to renew security for Party B's debts with the compensation offered by the demolition party and go through corresponding security procedures as per provisions of the mortgage contract, or provide other security measures acceptable to Party as per Party A's requirements.

All fees and expenses incurred for reestablishing security or adopting other security measures in the event the aforementioned condition happens to the mortgaged assets shall be borne by the mortgagor, and Party B shall assume joint and several liability for the repayment of such fees and expenses, which Party A is entitled to deduct directly from Party B's account.

10. Other matters

10.1 During the term of validity of this Agreement, any tolerance or grace period given by Party A for any breach or delay of Party B or any delay of Party A in exercising any interest or right hereunder will not prejudice, affect or restrict any rights and interests Party A is entitled to as the creditor under the law and this Agreement, and shall not be deemed as Party A's permission or approval for any breach or waiver of its right to adopt action against any existing or future breach.

10.2 In case this Agreement or any part thereof becomes void or invalid in law due to any reason whatsoever, Party B shall still be liable for all debts owed to Party A hereunder. In such case, Party A shall have the right to terminate performance of this Agreement and immediately claim repayment of all debts owed by Party B hereunder.

If any change in applicable laws or regulations results in increase in Party A's cost for performing its obligations hereunder, Party B shall compensate for Party A's cost increase as required by Party A.

10.3 Party B confirm the address and method of service of documents as follows:

10.3.1 Party B confirms and agrees that Party B's China Merchants Bank corporate online banking/corporate APP and Party B's contact address and electronic communication number are used as the addresses for serving business documents and legal documents hereunder to Party B.

For the purpose of this Article, business documents refer to all kinds of business documents such as written confirmation, notice of default, early overdue notice and overdue reminder formed in the course of business transactions under this Agreement; legal documents include notarization documents and judicial documents (including without limitation complaint/arbitration application, evidence, summon, notice of response, notice of proof, notice of court session, notice of hearing, judgment/ruling, order, conciliation statement, notice of performance within a specified time and other legal documents for hearing and execution stages).

10.3.2 Party B confirms and agrees that, in case of personal service (including but not limited to service by lawyer/notary public or express delivery), it will be deemed served upon being signed receipt by the addressee (in case of rejection by the addressee, the notification will be deemed served upon the rejection date/return date or seven days following posting, whichever is earlier); in case of postal mail, it will be deemed served seven days following posting; in case of fax, email, Party A's corporate online banking/corporate APP (i.e., service via China Merchants Banking corporate online banking/corporate APP to Party B), mobile phone SMS, WeChat or other acceptable electronic means, it will be deemed served upon the date of successfully sent as shown by Party A's corresponding system/electronic device.

Notification of debt transfer or debt collection to Party B announced by Party A on any public media will be deemed served upon the date of announcement.

10.3.3 If Party B changes its postal address, email, fax, mobile phone or WeChat, it shall inform Party A of such change within five business days of such change, otherwise Party A shall have the right to serve notification to the original address or contact details of Party B. Failure to serve notification due to change in address or information of Party B will be deemed served upon the date of return or seven days

following posting, whichever is earlier. Party B shall bear the loss of such notification failure on its own without prejudice to the legal effectiveness of the service.

10.3.4 Party B further agrees that the court may serve judicial documents to Party B by such electronic means as China Judicial Process Information Online, National Court Unified Service Platform, and Shenzhen Mobile Micro Court (if the accepting court is Shenzhen District Court, the same below). If the court serves judicial documents by electronic means as agreed upon above, the date of service indicated on China Judicial Process Information Online, National Court Unified Service Platform, or Shenzhen Mobile Micro Court shall be regarded as the date of service; if the court serves judicial documents by electronic means, no paper version shall be served to Party B's contact address.

10.3.5 The address and method of service stipulated in this Article shall apply to all stages of contract performance, dispute settlement, arbitration, court hearing (first instance, second instance, retrial), and execution.

10.4 The Parties agree that, to make an application for the trade financing service, Party B will only need to affix the reserved seal to application form; both parties hereby acknowledge the validity of such seal.

10.5 When Party B submits an application for credit service through Party A's electronic platform (including but not limited to corporate online banking/corporate APP), the electronic signature generated in the form of digital certificate shall be regarded as a valid signature of Party B that represents the true intention of Party B. Party A shall have the right to issue the relevant business voucher according to the application information submitted online, and Party B shall recognize and be bound by its authenticity, accuracy and legality.

10.6 Written supplementary agreements made and entered by and between the Parties through negotiation regarding matters not covered hereunder and modifications hereto and all separate agreements entered into hereunder by the Parties shall form appendixes to and constitute integral parts of this Agreement.

10.7 For convenience of business handling, all operations of Party A related to transactions hereunder (including but not limited to applications acceptance, documents

review, loans releasing, transaction confirmation, deduction, inquiry, receipt printing, collection, payment deduction and collection and notification) may be processed by any outlet within Party A's jurisdiction which may generate, issue and produce relevant letters and instruments; operations and instruments handled by other outlets within Party A's jurisdiction will be regarded as being done by Party A and be binding on Party B.

10.8 All appendixes hereto shall constitute integral parts of this Agreement and will automatically apply to corresponding specific transaction conducted between the Parties.

10.9 Party B shall, as per the requirements of Party A, (Check the box □ with "√"):

□insure its core assets and designate Party A as the first beneficiary;

□ not sell or pledge the assets designated by Party A prior to settlement of credit debts;

□ impose the following restrictions on the dividends of its shareholders prior to settlement of credit debts as per the requirements of Party A:

/

10.10 Party B shall make sure that its financial indicators during the Credit Extending Period are not lower than the following requirements:

/

10.11 Party B also acknowledges the contents of the Group Credit Service Cooperation Agreement (No. /) (including adjustments and supplements made by the signatory from time to time) signed between China Merchants Bank / Branch and Party B's parent company/Head Office/holding company (insert company name), and agrees to be bound by the agreement and to, as an affiliate of the group under the agreement, undertake all the obligations set forth for the affiliate of the group. In the event of violation, Party A shall be deemed to have committed a default, and Party A shall have the right to take various remedial measures against default as stipulated in this Agreement.

10.12 Other matters agreed upon:

☒10.12.1 Special agreement on group customer credit (Check the box □ with "√" when applicable, and "×" when inapplicable)

(1) Party B shall not use false contracts with its related parties or creditor's rights such as bills and accounts receivable without trade background to apply for bill discounting, factoring, pledge, letter of credit, forfeiting and other services from Party A. If Party B uses related party transactions to damage or evade the creditor's rights of Party A or other branches of China Merchants Bank, it shall be regarded as a default under this Agreement, and Party A shall have the right to take corresponding measures against the default in accordance with this Agreement.

(2) A default by any of Party B to China Merchants Bank shall be deemed to be a default under the group credit facility, and Party A shall have the right to decide whether or not to take measures against Party B as agreed upon for handling default in this Agreement according to the degree of impact of default, regardless of whether or not Party B has committed a default under this Agreement.

(3) A related party transaction is the transfer of resources or obligations between two related parties, regardless of whether the price is collected or not. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party. Parties are also considered to be related if they are subject to control by two or more parties. The Parties agree that the specific definition of related party shall be as set forth by Party A.

(4) A group refers to a corporate group with a direct or indirect holding (control) or subject to holding (control) relationship, or other corporate group with substantial and significant risk association (if it is subject to joint control by a third party, there is other related party relationship, in which case assets and profits may not be transferred under the fair price principle). Control relationship means the relationship in which Party B has actual control or exercises significant influence over the other party's business decision-making, capital operation and senior manager appointment. The Parties agree that the identification of a member of the group shall be as determined by Party A.

10.12.2

/

11. Applicable Law and Dispute Resolution

11.1 Conclusion, interpretation and dispute resolution of this Agreement shall be governed by the laws of the People's Republic of China (excluding the laws of Hong Kong SAR, Macao SAR and the Taiwan region); and the Parties' rights and interests shall be protected by the laws of the People's Republic of China.

11.2 All disputes between the Parties arising out of or in connection with this Agreement and the performance hereof shall be resolved by the Parties through negotiation, failing which, either party may (choose one out of the following three options, check the box □ with "√" when applicable):

☑ 11.2.1 Bring an action with a competent people's court at Party A's place;

□ 11.2.2 File a lawsuit in the people's court with jurisdiction of the Agreement Execution Place, which is /;

□11.2.3 Apply for arbitration with _/_ (insert name of the arbitration body); the place of arbitration shall be_/_.

11.3 After this Agreement and all separate agreements concluded thereunder have been notarized with mandatory enforcement force, to claim for repayment of debts owed by Party B under this Agreement and all separate agreements, Party A may directly submit an application to a competent people's court for enforcement.

12. Effectiveness

This Agreement will enter into force upon being signed and affixed with signature seal by legal representatives/principal responsible persons of both parties or their authorized agents and affixed with common seals/seal of contracts of both parties, and will expire automatically upon the expiration date of the Credit Extending Period or the date when all debts and other related fees owed by Party B to Party A hereunder have been fully repaid (whichever comes later).

13. Supplementary Provisions

This Agreement is executed in triplicate with Party A, Party B and the Guarantor each keeping one copy and all copies have the same legal effect.

Appendix:

1. **Special Provisions Regarding Cross-border Coordinated Trade Financing**
2. **Special Provisions Regarding Buyer/Import Factoring**
3. **Special Provisions Regarding Order Loan**
4. **Special Provisions Regarding Commercial Acceptance Bills Guarantee**
5. **Special Provisions Regarding Derivative Transactions**
6. **Special Provisions Regarding Gold Lease**

Appendix 1

Special Provisions Regarding Cross-border Coordinated Trade Financing

1. Cross-border coordinated trade financing is the cross-border trade financing Party B applies for from Party A based on the authentic cross-border trade background between itself and its overseas counterpart, which will be provided collectively by Party A and an overseas entity of China Merchants Bank (hereinafter "the Coordinated Platform").

2. Specific types of cross-border coordinated trade financing include without limitation: back-to-back letter of credit, entrusted issuing of letter of credit, entrusted overseas financing, certified note payment, overseas credit granting under letter of guarantee and cross-border trade financing express service. The meaning and business rules of each type of service will be agreed under separate service agreement.

3. Under back-to-back letter of credit, the master letter of credit issued by Party A upon Party B's application will directly occupy the Credit Line hereunder, and documentary credit or advance made by Party A (whether during or after the Credit Extending Period) under such master letter of credit for performing its obligations as the issuing bank and corresponding interests and fees thereof will constitute Party B's financing indebtedness to Party A and will be included in the scope of credit guarantee.

Under entrusted issuing of letter of credit/entrusted overseas financing, the letter of credit applied for/trade financing provided by overseas entity which Party A, upon Party B's application, entrusts the Coordinated Platform to accept, will occupy the Credit Line hereunder. Where Party A makes import letter of credit collection payment or advance for outward payment under import collection to Party B's benefit (whether during or after the Credit Extending Period), such payment or advance and related interests and fees thereof will directly constitute Party B's financing indebtedness to Party A and included in the scope of credit guarantee.

Under commercial paper guarantee, upon Party B's application, Party A will directly occupy the Credit Line hereunder to provide guarantee for the commercial bills accepted by Party B. If Party B fails to make full payment for the bills on time, Party A shall have the right to made advances for the guaranteed bills, and such advances (whether made during or after the Credit Extending Period) and related interests and fees thereof will be included in the scope of credit guarantee.

Under overseas crediting for letters of guarantee service, letters of guarantee/standby letters of credit issued by Party A upon Party B's application will directly occupy the Credit Line hereunder. After the overseas company has transferred collection rights (non-claim rights) under the letters of guarantee to the Coordinated Platform, advances made by Party A (whether during or after the Credit Extending Period) upon claim from the Coordinated Platform made based on the letters of guarantee/standby letters of credit and related interests and fees thereof will directly constitute Party B's financing indebtedness to Party A and will be included in the scope of the credit guarantee.

Under cross-border trade financing express service, after Party A has approved Party B's trade financing application, the trade financing directly provided to Party B by the Coordinated Platform will occupy the Credit Line hereunder. In case that Party B fails to pay off trade financing of the Coordinated Platform on time, Party A shall have the right to make the repayment in the form of documentary credit or advance, such b documentary credit or advance (whether made during or after the Credit Extending Period) and related interests and fees thereof will constitute Party B's financing indebtedness to Party A and will be included in the scope of credit guarantee.

Appendix 2:

Special Provisions Regarding Buyer/Import Factoring

1. Definitions

1.1 Buyer/import factoring service refers to comprehensive factoring services covering payment approval and accounts receivable collection & management provided by Party A as the buyer/import factor for the seller/export factor after the latter has acquired accounts receivable against Party B as the accounts receivable debtor under the relevant commercial contract.

Under the buyer/import factoring service, in case Party B constitutes buyer credit risk, Party A shall assume payment approval liability for the buyer/export factor; in case any dispute arises during performance of the commercial contract, Party A shall have the right to transfer the acquired accounts receivable back to the seller/export factor.

1.2 The seller/export factor is the party who has concluded the factoring service agreement with the supplier/service provider (accounts receivable creditor) under the commercial contract and acquired accounts receivable held by the accounts receivable creditor. Party A can serve as both the buyer/import factor and the seller/export factor concurrently.

1.3 A dispute arises when Buyer raises objection, counter claim, offset or similar action against the accounts receivable acquired by Party A due to any dispute between the accounts receivable creditor and Party B concerning goods, services, invoices or other causes related to the commercial contract, or when any third party makes claim, applies for attachment, freezing or seizure or takes other similar actions against the accounts receivable under this Agreement; it will be deemed a dispute has arisen so long as the accounts receivable acquired by Party A cannot be fulfilled whether in whole or in part due to any reason other than credit risk of the buyer.

1.4 Commercial contracts refer to transaction contracts concluded between Party B and the accounts receivable creditor for the trading of goods and/or services.

1.5 Under payment approval/payment guarantee, after Party B has constituted buyer credit risk, Party A as buyer/importer shall pay corresponding amount of accounts receivable to the seller/export factor within a certain time limit following maturity of the accounts receivable.

2. Upon Party B's application, Party A agrees to provide buyer/import factoring service for Party B within the scope of the Credit Line, and the accounts receivable transferred from the seller/export factor shall subtract from/occupy the Credit Line under the Credit Agreement based on its amount.

The amount paid by Party A as the buyer/import factor to fulfill its approved payment/guaranteed payment obligation and all associated fees will be deemed as credit facility issued to Party B under the Credit Agreement (at interest rate of / within 30 days from the date of issuance and at / afterwards), which will be included in the scope of credit guarantee provided by Party B. Party A shall have the right to take any measures agreed under the Credit Agreement to recover the approved payment/guaranteed payment from Party B. So long as the seller/export factor (whether it is Party A or not) has acquired accounts receivable within the Credit Extending Period, even though the approved payment obligation is fulfilled by Party A following expiration of the said period, Party A shall still have the right to claim from Party B in accordance with the Credit Agreement and relevant commercial contract.

3. Buyer/import factoring fee

Buyer/import factoring fee refers to a business management fee collected by Party A for the provision of buyer/import factoring service to Party B, which will be charged from Party B upon transfer settlement at a certain percentage of the amount of the accounts receivable; the specific rate standard will be reasonably determined by Party A in accordance with its business rules.

4. Party B hereby gives up the right to raise objection to any dispute arising out of the performance of the commercial contract. Therefore, regardless if there is any other agreement, once Party B fails to make payment according to provisions of the commercial contract, it will be deemed that Party B has constituted buyer credit risk, and Party A will proceed to approve the payment, to which Party B has no objection.

Appendix 3

Special Provisions Regarding Order Loan

1. Order loan refers to a loan that Party A extends to Party B based on the commercial contract (or project contract) concluded between Party B and a downstream client, to be used by Party B for performing routine production and operation activities under the commercial contract (or project contract) and will be repaid by sales income (or project income) under the relevant contract as the first source of repayment.

2. Party B shall open a sales income account with Party A for commercial contracts (or project contracts). Sales income under all commercial contracts (project contracts) which have applied for order loan must be remitted directly to this special account, and may not be used or changed without Party A's approval. Party B must notify the payor that this special account is the only account to receive sales income. Party A shall have the right to deduct money from the special account to pay for principals, interests, penalty interests and other related fees of the order loan financing.

3. Under any of the following situations, Party A may immediately suspend the Party B's utilization of Credit Line under the Credit Agreement and adopt corresponding breach remedies in accordance with the Credit Agreement:

3.1 Party B's downstream client has been delinquent in payment for three times consecutively, and Party A reasonably believes that its financial condition has deteriorated to a degree not conducive to protecting Party A's debt claim;

3.2 Party B’s supplier qualification has been canceled by its downstream client, or Party B fails to deliver goods to its downstream client on time, or quality of the goods supplied by Party B to its downstream client is unstable, or Party B fails to proceed with its works on schedule without approval of its downstream client, or Party B's professional qualification is lowered to a degree not conforming to its downstream client's requirements, or Party A reasonably believes that Party B has encountered operational difficulty or its financial condition has deteriorated, or total amount of payments from Party B's downstream client has been lower than the total monthly

payable amount due from Party B under relevant financing contract for three months consecutively, or the downstream client fails to make installment payment in accordance with relevant project contract for two times consecutively.

Appendix 4

Special Provisions Regarding Commercial Acceptance Bills Guarantee

1. Commercial acceptance bills guarantee refers to the service by which Party A provides discount for the commercial acceptance bills accepted, endorsed or guaranteed by Party B or allows the bill holder to apply for discount from any branch of China Merchants Bank (hereinafter "Other Discount Acceptance Bank"). The bill holder (hereinafter "Discount Applicant") may apply for discount from Party A or Other Discount Acceptance Banks by presenting the commercial acceptance bill. Such discount service will occupy a corresponding amount of the Credit Line hereunder.

As the provision of acceptance discount service for commercial acceptance bills by Party A to Party B is the precondition for Other Discount Acceptance Banks to accept discount applications from the bill holder, Other Discount Acceptance Banks, after processing the discount, shall have the right to transfer the discounted bills to Party A; Party A shall be obliged to accept such transfer, and Party B has no objection to this provision.

2. Commercial acceptance bills referred to hereunder include both paper commercial acceptance bills and electronic commercial acceptance bills (hereinafter "Electronic Commercial Bills"); the interest payment methods include interest payment by the buyer, interest payment by the seller, interest payment by other party, and interest payment by agreement.

3. During the Credit Extending Period, Party B must open a commercial acceptance bill bond account with Party A (the account number will be the one generated or recorded by Party A's system when the bond is deposited), and before the acceptance of each bill, deposit a certain amount of money into the bond account as per the percentage required by Party A to serve as the payment margin for the commercial accepted bills which are discounted or acquired from other Discount Acceptance Bank by Party A.

If Party B is the acceptor of the commercial acceptance bill, it shall deposit full amount of payable bill into the bond account it opens with Party A before maturity of each commercial acceptance bill, to pay for the bill when it falls due.

4. During the Credit Extending Period, the discount applicant may present the commercial acceptance bills accepted, endorsed or guaranteed by Party B directly to Party A for discount, or to another Discount Acceptance Bank for discount. Party A or the Other Discount Acceptance Bank shall have the right to examine the qualification of the discount applicant and requires Party B to verify and confirm, and decide at its sole discretion whether to provide discount or not.

After Other Discount Acceptance Bank has provided discount, it shall have the right to transfer the discounted commercial acceptance bills to Party A in accordance with applicable rules of China Merchants Bank. When Party A, after processing the discount or acquiring commercial acceptance bills from Other Discount Acceptance Bank, presents the bill to Party B for payment, Party B shall unconditionally make full payment for the payable bill on time.

5. The issuance, acceptance, guarantee, endorsement and discounting of each electronic commercial bill shall be subject to the transaction information saved in the Commercial Paper Exchange System of China or Electronic Commercial Draft System or the customer statement or other transaction records produced or printed based on such transaction information. The information retained in the Commercial Paper Exchange System of China or the Electronic Commercial Draft System or other transaction records produced or printed based on such transaction information is an integral part of this Appendix and have the same legal effect as this Appendix, and Party B acknowledges its accuracy, authenticity and legality.

6. Any disputes arising out of or in connection with the underlying contract on the commercial acceptance bills for which Party A guarantees to discount within shall be resolved by Party B and the party concerned through negotiation, and Party B shall still have the obligation to deposit sufficient amount of security and bill amount on time in accordance with Article 3.

7. After Party A provides discount for the commercial bill accepted, endorsed or guaranteed by Party B or acquiring such commercial bill from Other Discount

Acceptance Bank, if Party B or the bill payer fails to deposit sufficient amount for the commercial acceptance bill before it falls due, Party A shall have the right to directly take claim measures against Party B, including but not limited to deducting corresponding payment from any deposit account of Party B with China Merchants Bank. If Party A makes advance due to Party B's short payment and the balance in Party B's account balance insufficient to make deduction, Party A shall have the right to collect a penalty interest from Party B at 5/10,000 of the advanced amount per day in accordance with applicable provisions of the *Payment Settlement Measures*.

Appendix 5

Special Provisions Regarding Derivative Transactions

1. Derivative transactions processed by Party A upon Party B's application may occupy the Credit Line by a certain percentage of the nominal principal of transaction/transaction amount, or in the case of floating loss on a derivative transaction, Party A may, in accordance with specific agreement between the Parties, occupy additional credit line of Party B (upon the occurrence of each transaction, Party A will determine the credit line amount to be taken up based on the type, duration and risk of such transaction and the risk coefficient of the transaction corresponding to the deducted credit line); the actual credit line amount taken up will be subject to the contents recorded on the credit line occupation notice and/or transaction confirmation letter/verification letter and other related transaction documents issued by Party A.

2. All derivative transactions that still have balances or incur losses during the Credit Extending Period, whether the transactions arise during or after the Credit Extending Period, will occupy the Credit Line in accordance with the preceding provision.

Appendix 6

Special Provisions Regarding Gold Lease

1. "Gold Lease" service refers to the service by which Party A leases physical gold to Party B and Party B shall return to Party A equivalent quantity of gold of same nature and attribute upon expiration of the lease term and shall pay rents in Chinese yuan to Party A on schedule.

2. Party A may provide gold lease service for Party B upon Party B's application within the Credit Extending Period and the scope of the Credit Line; physical gold leased by Party A will occupy amount of the Credit Line by a corresponding value agreed under the gold leasing agreement signed by the Parties and will constitute Party B's debts to Party A.

Special notes:

All terms and conditions of this Agreement (including all appendixes hereof) have been fully negotiated by the Parties. Party A has reminded all Party B to pay special attention to the terms and conditions regarding exemption or limitation of Party A's liabilities, some rights unilaterally owned by Party A, and increase or limit of Party B' liabilities or rights, and to comprehend such terms and conditions fully and accurately. Party A has made corresponding explanations for the aforementioned terms and conditions upon the request of Party B. All signatory parties' understandings of the terms and conditions of this Agreement are fully consistent.

(The remainder of this page is intentionally left blank**)**

(The following is for signature of the Credit Agreement (No.: 755XY2020027317))

Party A: China Merchants Bank Shenzhen Branch (Seal)

/s/ Seal of China Merchants Bank Shenzhen Branch

Principal Responsible Person or Authorized Agent (Signature/Name Seal): /s/Yue Ying

Address: Building of China Merchants Bank Shenzhen Branch, No. 2016, Shennan Avenue, Futian District, Shenzhen Municipality

Party B: Shenzhen Thunder Network Technology Co., Ltd. (Seal)

/s/ Seal of Shenzhen Thunder Network Technology Co., Ltd.

Legal Representative/Principal Responsible Person or Authorized Agent

(Signature/Name Seal): /s/Wu Kening

Address: 21-23/F, Block B, Building 12, Shenzhen Bay Science and Technology Ecological Park, 18 Community Science and Technology South Road, Yuehai Street, High-tech Zone, Nanshan District, Shenzhen Municipality, Guangdong Province

Company email: ******

Company fax: /

Contact mobile number: ******

Company WeChat ID: /

Execution date: October 21, 2020

Exhibit 8.1

List of Principal Subsidiaries

Name	Place of Incorporation
Subsidiaries	
Giganology (Shenzhen) Co., Ltd.	PRC
Xunlei Network Technologies Limited	British Virgin Islands
Xunlei Network Technologies Limited	Hong Kong
Xunlei Computer (Shenzhen) Co., Ltd.	PRC
HK Onething Technologies Limited	Hong Kong
Onething Co., Ltd.	Thailand
Variable Interest Entity	
Shenzhen Xunlei Networking Technologies, Co., Ltd.	PRC
Subsidiaries of Variable Interest Entity	
Shenzhen Onething Technologies Co., Ltd.	PRC
Xunlei Games Development (Shenzhen) Co., Ltd.	PRC
Shenzhen Xunlei Wangwenhua Co., Ltd.	PRC
Shenzhen Zhuolian Software Co., Ltd.	PRC
Beijing Onething Technologies Co., Ltd.	PRC
Shenzhen Crystal Interactive Technologies Co., Ltd.	PRC
Jiangxi Node Technology Services Co Ltd.	PRC
Henan Tourism Information Co., Ltd.	PRC
Beijing Xunjing Technology Co., Ltd.	PRC

Exhibit 12.1

Certification by the Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jinbo Li, certify that:

1. I have reviewed this annual report on Form 20-F of Xunlei Limited;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 26, 2021

By: /s/Jinbo Li
Name: Jinbo Li
Title: Chief Executive Officer

Exhibit 12.2

Certification by the Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Naijiang (Eric) Zhou, certify that:

1. I have reviewed this annual report on Form 20-F of Xunlei Limited;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 26, 2021

By: /s/Naijiang (Eric) Zhou
Name: Naijiang (Eric) Zhou
Title: Chief Financial Officer

Exhibit 13.1

Certification by the Principal Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the annual report of Xunlei Limited (the "Company") on Form 20-F for the year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jinbo Li, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 26, 2021

By: /s/Jinbo Li
Name: Jinbo Li
Title: Chief Executive Officer

Exhibit 13.2

Certification by the Principal Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the annual report of Xunlei Limited (the "Company") on Form 20-F for the year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Naijiang (Eric) Zhou, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 26, 2021

By: /s/Naijiang (Eric) Zhou
Name: Naijiang (Eric) Zhou
Title: Chief Financial Officer

Exhibit 15.1

Our ref: VSL/660874-000001/19266199v1
Tel no.: +852 3690 7513
Email: vivian.lee@maples.com

Xunlei Limited
7/F Block 11, Shenzhen Software Park
Ke Ji Zhong 2nd Road, Nanshan District
Shenzhen, 518057
The People's Republic of China

26 April 2021

Dear Sirs

Xunlei Limited

We have acted as legal advisers as to the laws of the Cayman Islands to Xunlei Limited, an exempted company incorporated with limited liability in the Cayman Islands (the "**Company**"), in connection with the filing by the Company with the United States Securities and Exchange Commission (the "**SEC**") of an annual report on Form 20-F for the year ended 31 December 2020 ("**Form 20-F**").

We hereby consent to the reference of our name under the heading "Item 10. Additional Information – E. Taxation – Cayman Islands Taxation" in the Form 20-F.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Yours faithfully

/s/ Maples and Calder (Hong Kong) LLP

Maples and Calder (Hong Kong) LLP

Exhibit 15.2

金杜律师事务所
KING&WOOD MALLESONS

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CONSENT LETTER

To Xunlei Limited

21-23/F, Block B, Building No. 12
No.18 Shenzhen Bay ECO-Technology Park
Keji South Road, Yuehai Street,
Nanshan District, Shenzhen, 518057
The People's Republic of China

April 26, 2021

Dear Sir/Madam:

We hereby consent to the reference of our name under the headings "Item 3. Key Information— D. Risk Factors—Risks Related to Our Corporate Structure" and "Item 4. Information on the Company— C. Organizational Structure" in Xunlei Limited's Annual Report on Form 20-F for the year ended December 31, 2020 (the "Annual Report"), which will be filed with the Securities and Exchange Commission (the "SEC") in the month of April 2021, and further consent to the incorporation by reference of the summaries of our opinions under these headings into Xunlei Limited's registration statement on Form S-8 (File No. 333—200633) that was filed on November 28, 2014. We also consent to the filing of this consent letter with the SEC as an exhibit to the Annual Report on Form 20-F for the year ended December 31, 2020.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Yours faithfully

/s/Ye Kai

/s/Seal of King & Wood Mallesons

Ye Kai | Partner
King & Wood Mallesons

Exhibit 15.3

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-200633) of Xunlei Limited of our report dated April 26, 2021 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 20-F.

/s/ PricewaterhouseCoopers Zhong Tian LLP

PricewaterhouseCoopers Zhong Tian LLP
Shenzhen, the People's Republic of China
April 26, 2021