Bilibili Inc.

(Exact Name of Registrant as Specified in Its Charter)

N/A
(Translation of Registrant's Name Into English)

Cayman Islands
(Jurisdiction of Incorporation or Organization)

Building 3, Guozheng Center, No. 485 Zhengli Road, Yangpu District
Shanghai, 200433
People's Republic of China
(Address of Principal Executive Offices)

Xin Fan, Chief Financial Officer
Building 3, Guozheng Center, No. 485 Zhengli Road, Yangpu District
Shanghai, 200433
People's Republic of China
Phone: +86 21 25099255
Email: sam@bilibili.com
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

American depositary shares, each representing one Class Z ordinary share

<table>
<thead>
<tr>
<th>Title of Each Class</th>
<th>Trading Symbol(s)</th>
<th>Name of Each Exchange On Which Registered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class Z ordinary shares, par value US$0.0001 per share*</td>
<td>BILI</td>
<td>Nasdaq Global Select Market</td>
</tr>
</tbody>
</table>

SECURITIES REGISTERED OR TO BE REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

None

* Not for trading, but only in connection with the listing on the Nasdaq Global Select Market of American depositary shares.
SEcurities FOR WHICH THERE IS A REPORTING OBLIGATION PURSUANT TO SECTION 15(D) OF THE ACT:

None

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:

As of December 31, 2019, there were 328,116,155 ordinary shares outstanding, par value $0.0001 per share, being the sum of 242,751,341 Class Z ordinary shares and 85,364,814 Class Y ordinary shares (excluding 4,478,893 Class Z ordinary shares issued and reserved for future issuance upon the exercising or vesting of awards granted under our share incentive plans).

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 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 the definitions of “large accelerated filer,” “accelerated filer,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

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

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

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

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

U.S. 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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7. **ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**
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3. **ITEM 15. CONTROLS AND PROCEDURES**
4. **ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**
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<tr>
<td>SIGNATURES</td>
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</tr>
</tbody>
</table>
Unless otherwise indicated and except where the context otherwise requires, references in this annual report on Form 20-F to:

- “ADRs” are to the American depositary receipts that evidence our ADSs;
- “ADSs” are to our American depositary shares, each of which represents one Class Z ordinary share;
- “average monthly paying user” for a period is calculated by dividing the total number of monthly paying users during the specified period by the number of months in such period;
- “average monthly paying user for mobile games” for a period is calculated by dividing the total number of monthly paying users for mobile games during the specified period by the number of months in such period;
- “average monthly revenue per paying user” for a period is calculated by dividing the sum of revenues from mobile games and live broadcasting and other value-added services during the specified period by the total number of monthly paying users during such period;
- “average monthly revenue per paying user for mobile games” for a period is calculated by dividing the revenues from mobile games during the specified period by the total number of monthly paying users for mobile games during such period;
- “Bilibili,” “we,” “us,” “our company” and “our” are to Bilibili Inc., its subsidiaries and its consolidated affiliated entities;
- “bullet chatting” are to a live commenting function that enables content viewers to send comments that fly across the screen like bullets, which we refer to as bullet-chats herein. Bullet-chats are frame- and context-specific and can be seen by all viewers who watch the same content at different times, and therefore can intrigue interactive commenting among content viewers. Only registered users who have passed our membership exam can send bullet-chats on our platform;
- “China” or the “PRC” are to the People’s Republic of China, excluding, for the purposes of this annual report only, Hong Kong, Macau and Taiwan;
- “Class Y ordinary shares” refers to our Class Y ordinary shares, par value US$0.0001 per share;
- “Class Z ordinary shares” refers to our Class Z ordinary shares, par value US$0.0001 per share;
- “Generation Z” are to, for the purposes of this annual report, the demographic cohort in China of individuals born from 1990 to 2009;
- “monthly active users” or “MAUs” are to the sum of our mobile app MAUs and PC MAUs after eliminating duplicates so that each active registered user that logged on both our mobile app and our PC website would only be counted towards mobile app MAUs and not PC MAUs during a given month. We calculate mobile app MAUs based on the number of mobile devices that launched our mobile app during a given month. Starting from the first quarter of 2019, we count mobile MAUs of Bilibili Comic, a mobile app offering anime and comics contents, and Maoer, an audio platform offering audio drama, towards our MAUs. We calculate PC MAUs by dividing the total number of IP addresses used by users to visit our PC website during a given month by an estimate of the average number of IP addresses used by each user. When calculating monthly active users for games, we eliminate duplicates so that a user that played multiple games would be counted as one active user for games during a given month;
- “our platform” are to our “bilibili” mobile app, PC websites, Smart TV, Bilibili Comic, Maoer and a variety of related features, functionalities, tools and services that we provide to users and content creators;
Our reporting currency is the Renminbi because our business is mainly conducted in China and a substantial majority of our revenues is denominated in Renminbi. This annual report contains translations of Renminbi amounts into U.S. dollars at specific rates solely for the convenience of the reader. The conversion of Renminbi into U.S. dollars in this annual report is based on the exchange rate set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System. Unless otherwise noted, all translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this annual report were made at a rate of RMB6.9618 to US$1.00, the exchange rate on December 31, 2019 set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System. 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, 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 STATEMENTS

This annual report on Form 20-F contains forward-looking statements that reflect our current expectations and views of future events. 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. These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigations Reform Act of 1995.

You can identify some of these forward-looking statements by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “is/are likely to,” “potential,” “continue” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include statements relating to:

• our goals and strategies;
• our future business development, financial conditions and results of operations;
• the expected growth of the online entertainment and mobile games industries in China;
• our expectations regarding demand for and market acceptance of our products and services;
• our expectations regarding our relationships with users, content providers, game developers and publishers, advertisers and other partners;
• competition in our industry;
• relevant government policies and regulations relating to our industry;
• the outcome of any current and future litigation or legal or administrative proceedings; and
• other factors described under “Item 3. Key Information — D. Risk Factors”.

You should read this annual report and the documents that we refer to in this annual report and have filed as exhibits to this annual report completely and with the understanding that our actual future results may be materially different from what we expect. Other sections of this annual report discuss factors which could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors emerge from time to time and it is not possible 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 materially from those contained in any forward-looking statements. We qualify all of our forward-looking statements by these cautionary statements.

You should not rely upon forward-looking statements as predictions of future events. 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. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.
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

Our Selected Consolidated Financial Data

The following table presents the selected consolidated financial information of our company. Our selected consolidated statements of operations and comprehensive loss data and selected consolidated statements of cash flow data presented below for the years ended December 31, 2017, 2018 and 2019 and our selected consolidated balance sheet data as of December 31, 2018 and 2019 have been derived from our audited consolidated financial statements included elsewhere in this annual report. Our selected consolidated statements of operations and comprehensive loss data and selected consolidated statements of cash flow data presented below for the years ended December 31, 2015 and 2016 and our selected consolidated balance sheet data as of December 31, 2015, 2016 and 2017 have been derived from our consolidated financial statements which are not included in this annual report. Our consolidated financial statements are prepared in accordance with U.S. GAAP.

Starting from January 1, 2018, we adopted Accounting Standards Codification 606, Revenue from Contracts with Customers, or ASC 606, using the modified retrospective method. The consolidated statements of operations and comprehensive loss data for the years ended December 31, 2018 and 2019 presented below have been prepared in accordance with ASC 606, while the comparative information for the years ended December 31, 2015, 2016 and 2017 presented below have not been restated and continue to be reported under the accounting standards in effect for those periods. Starting from January 1, 2019, we adopted ASC 842, Leases, using the modified retrospective method. The consolidated balance sheet data as of December 31, 2019 presented below has been prepared in accordance with ASC 842, while the comparative information for those periods prior to January 1, 2019, presented below have not been restated and continue to be reported under the accounting standards in effect for those periods. Our historical results are not necessarily indicative of results expected for future periods.

You should read the selected consolidated financial information in conjunction with our consolidated financial statements and related notes and “Item 5. Operating and Financial Review and Prospects” included elsewhere in this annual report. Our historical results are not necessarily indicative of our results expected for future periods.

<table>
<thead>
<tr>
<th>For the Year Ended December 31,</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>(in thousands, except for share and per share data)</td>
<td>RMB</td>
<td>RMB</td>
<td>RMB</td>
<td>RMB</td>
<td>RMB</td>
</tr>
<tr>
<td><strong>Selected Consolidated Statements of Operations and Comprehensive Loss Data:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Share-based compensation expenses were allocated as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax</td>
<td>(2,425)</td>
<td>(3,141)</td>
<td>(8,881)</td>
<td>(25,988)</td>
<td>(35,867)</td>
<td>(51,152)</td>
</tr>
<tr>
<td>Net loss</td>
<td>(373,488)</td>
<td>(911,496)</td>
<td>(183,750)</td>
<td>(565,021)</td>
<td>(1,303,570)</td>
<td>(187,245)</td>
</tr>
<tr>
<td>Accretion to Pre-IPO preferred shares redemption value</td>
<td>(57,942)</td>
<td>(161,933)</td>
<td>(258,554)</td>
<td>(64,605)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Deemed dividend in connection with repurchase of Pre-IPO preferred shares</td>
<td>(139,522)</td>
<td>(113,151)</td>
<td>(129,244)</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Net loss attributable to noncontrolling interests</td>
<td>1,912</td>
<td>1,430</td>
<td>—</td>
<td>13,301</td>
<td>14,597</td>
<td>2,097</td>
</tr>
<tr>
<td>Net loss attributable to the Bilibili Inc.’s shareholders</td>
<td>(569,040)</td>
<td>(1,185,150)</td>
<td>(571,548)</td>
<td>(616,325)</td>
<td>(1,288,973)</td>
<td>(185,148)</td>
</tr>
<tr>
<td>Net loss</td>
<td>(373,488)</td>
<td>(911,496)</td>
<td>(183,750)</td>
<td>(565,021)</td>
<td>(1,303,570)</td>
<td>(187,245)</td>
</tr>
<tr>
<td>Other comprehensive income/(loss)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td>47,729</td>
<td>58,048</td>
<td>(75,695)</td>
<td>296,030</td>
<td>140,152</td>
<td>20,132</td>
</tr>
<tr>
<td>Total other comprehensive income/(loss)</td>
<td>47,729</td>
<td>58,048</td>
<td>(75,695)</td>
<td>296,030</td>
<td>140,152</td>
<td>20,132</td>
</tr>
<tr>
<td>Total comprehensive loss</td>
<td>(325,759)</td>
<td>(853,448)</td>
<td>(259,445)</td>
<td>(268,991)</td>
<td>(1,163,418)</td>
<td>(167,113)</td>
</tr>
<tr>
<td>Accretion to Pre-IPO preferred shares redemption value</td>
<td>(57,942)</td>
<td>(161,933)</td>
<td>(258,554)</td>
<td>(64,605)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Deemed dividend in connection with repurchase of Pre-IPO preferred shares</td>
<td>(139,522)</td>
<td>(113,151)</td>
<td>(129,244)</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Net loss attributable to noncontrolling interests</td>
<td>1,912</td>
<td>1,430</td>
<td>—</td>
<td>13,301</td>
<td>14,597</td>
<td>2,097</td>
</tr>
<tr>
<td><strong>Comprehensive loss attributable to the Bilibili Inc.’s shareholders</strong></td>
<td>(521,311)</td>
<td>(1,127,102)</td>
<td>(647,243)</td>
<td>(320,295)</td>
<td>(1,148,821)</td>
<td>(165,016)</td>
</tr>
<tr>
<td>Net loss per share, basic</td>
<td>(9.72)</td>
<td>(20.42)</td>
<td>(8.17)</td>
<td>(2.64)</td>
<td>(3.99)</td>
<td>(0.57)</td>
</tr>
<tr>
<td>Net loss per share, diluted</td>
<td>(9.72)</td>
<td>(20.42)</td>
<td>(8.17)</td>
<td>(2.64)</td>
<td>(3.99)</td>
<td>(0.57)</td>
</tr>
<tr>
<td>Net loss per ADS, basic</td>
<td></td>
<td></td>
<td></td>
<td>(2.64)</td>
<td>(3.99)</td>
<td>(0.57)</td>
</tr>
<tr>
<td>Net loss per ADS, diluted</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(2.64)</td>
<td>(3.99)</td>
<td>(0.57)</td>
</tr>
<tr>
<td>Weighted average number of ordinary shares, basic</td>
<td>58,548,310</td>
<td>58,038,570</td>
<td>69,938,570</td>
<td>233,047,703</td>
<td>323,161,680</td>
<td>323,161,680</td>
</tr>
<tr>
<td>Weighted average number of ordinary shares, diluted</td>
<td>58,548,310</td>
<td>58,038,570</td>
<td>69,938,570</td>
<td>233,047,703</td>
<td>323,161,680</td>
<td>323,161,680</td>
</tr>
<tr>
<td>Weighted average number of ADS, basic</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>233,047,703</td>
<td>323,161,680</td>
</tr>
<tr>
<td>Weighted average number of ADS, diluted</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>233,047,703</td>
<td>323,161,680</td>
</tr>
</tbody>
</table>

**Note:**

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

---

**Selected Consolidated Balance Sheet Data:**

**Current assets:**
- Cash and cash equivalents: 689,663 (RMB 387,198) 762,882 3,540,031 4,962,660 712,842
- Time deposits: 1,960 749,385 1,844,558 264,954
- Accounts receivable, net: 16,639 110,666 392,942 324,392 744,845 106,990
- Prepayments and other current assets: 86,143 185,378 477,265 990,851 1,315,901 189,017
- Short-term investments: 50,000 712,564 488,391 945,338 1,260,810 181,104

**Non-current assets:**
- Intangible assets, net: 109,515 282,472 426,292 1,419,435 1,657,338 238,061
- Goodwill: 50,967 50,967 941,488 1,012,026 145,368
- Long-term investments, net: 160,644 377,031 655,952 979,987 1,251,129 179,713
- Total assets: 1,136,943 2,166,710 3,473,525 10,490,036 15,516,567 2,228,815
- Total current liabilities: 308,202 628,100 1,397,994 3,298,834 4,272,597 613,720
- Long-term debt: — — — 3,414,608 490,481
- Total mezzanine equity: 1,394,477 2,861,613 4,015,043 — — —
- Total shareholders’ (deficit)/equity: (545,736) (1,323,003) (1,939,512) 7,191,202 7,638,469 1,096,910

---

**Note:**

(1) Share-based compensation expenses were allocated as follows:
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Selected Consolidated Statements of Cash Flow Data:
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<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018(^\d)</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash (used in)/provided by operating activities</td>
<td>(191,935)</td>
<td>(198,967)</td>
<td>464,550</td>
<td>737,286</td>
<td>194,551</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(355,449)</td>
<td>(1,187,500)</td>
<td>(716,254)</td>
<td>(3,196,394)</td>
<td>(3,958,277)</td>
</tr>
<tr>
<td>Net cash provided by financing activities</td>
<td>1,099,184</td>
<td>1,024,087</td>
<td>675,533</td>
<td>4,974,810</td>
<td>5,078,842</td>
</tr>
<tr>
<td>Effect of exchange rate changes on cash and cash equivalents and restricted cash held in foreign currencies</td>
<td>42,953</td>
<td>49,606</td>
<td>(48,145)</td>
<td>261,447</td>
<td>107,513</td>
</tr>
<tr>
<td>Net increase/(decrease) in cash and cash equivalents and restricted cash</td>
<td>594,753</td>
<td>(312,574)</td>
<td>375,684</td>
<td>2,777,149</td>
<td>1,422,629</td>
</tr>
<tr>
<td>Cash and cash equivalents and restricted cash at beginning of the year</td>
<td>105,019</td>
<td>699,772</td>
<td>387,198</td>
<td>762,882</td>
<td>3,540,031</td>
</tr>
<tr>
<td>Cash and cash equivalents and restricted cash at end of the year</td>
<td>699,772</td>
<td>387,198</td>
<td>762,882</td>
<td>3,540,031</td>
<td>4,962,660</td>
</tr>
</tbody>
</table>

Note:

(1) We adopted Accounting Standards Update No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash on January 1, 2018 using the retrospective transition method. Restricted cash balance as of December 31, 2015 was included in “cash and cash equivalents and restricted cash” when reconciling beginning-of-period and end-of-period total amounts presented in the selected consolidated statements of cash flow data for the years ended December 31, 2015 and 2016.

B. Capitalization and Indebtedness
   Not applicable.

C. Reasons for the Offer and Use of Proceeds
   Not applicable.

D. Risk Factors

Risks Related to Our Business

We operate in a fast evolving industry, and we are in the early stage of our business. We cannot guarantee that our monetization strategies will be successfully implemented or generate sustainable revenues and profit.

We are in the early stage of our business, and our monetization model is evolving. We generate revenues primarily by providing our users with valuable content, such as mobile games, live broadcasting and value-added services. We also generate revenues from advertising, e-commerce and other services. We cannot assure you that we can successfully implement the existing monetization strategies to generate sustainable revenues, or that we will be able to develop new monetization strategies to grow our revenues. If our strategic initiatives do not enhance our ability to monetize or enable us to develop new monetization approaches, we may not be able to maintain or increase our revenues or recover any associated costs. In addition, we may introduce new products and services to expand our revenue streams, including products and services with which we have little or no prior development or operating experience. If these new or enhanced products or services fail to engage users, content creators or business partners, we may fail to diversify our revenue streams or generate sufficient revenues to justify our investments and costs, and our business and operating results may suffer as a result.
We have incurred significant losses and we may continue to experience losses in the future.

We have incurred significant losses in the past. In 2017, 2018 and 2019, respectively, we had loss from operations of RMB224.3 million and RMB729.0 million and RMB1,495.2 million (US$214.8 million), and net loss of RMB183.8 million, RMB565.0 million and RMB1,303.6 million (US$187.2 million). We cannot assure you that we will be able to generate profits in the future. Our ability to achieve profitability depends in large part on our ability to manage our costs and expenses. We intend to manage and control our costs and expenses as a proportion of our total revenues, but there can be no assurance that we will achieve this goal. We may experience losses in the future due to our continued investments in technology, talent, content and other initiatives. In addition, our ability to achieve and sustain profitability is affected by various factors, some of which are beyond our control, such as changes in macroeconomic and regulatory environment or competitive dynamics in the industry. Accordingly, you should not rely on our financial results of any prior period as an indication of our future performance.

If we fail to anticipate user preferences and provide products and services to attract and retain users, or if we fail to keep up with rapid changes in technologies and their impact on user behavior, we may not be able to attract sufficient user traffic to remain competitive, and our business and prospects may be materially and adversely affected.

Our ability to retain, grow and engage our user base depends heavily on our ability to provide a superior user experience. We must offer quality content covering a wide range of interests and formats, introduce successful new products and services, develop user-friendly platform features, and push effective content feeds recommendations. In particular, we must encourage content creators to upload more appealing PUGC and source more popular licensed content. We must also keep providing our users with features and functions that could enable superior content viewing and social interaction experience. If we are unable to provide a superior user experience, our user base and user engagement may decline, which may materially and adversely affect our business and growth prospects.

We maintain a large content library primarily consisting of PUG videos, licensed content and original content, and are developing new features to attract and retain our users. In order to expand our content library, we must continue to work with our content creators and incentivize them to produce content that reflects cultural trends and maintain good business relationships with licensors of premium copyrighted content to renew our licenses and source new professionally produced content. Our content creators and licensors may choose to work with other large online video platforms to distribute their content if such platforms can offer better products, services or terms than we do. We cannot assure you that we will be able to attract our content creators to upload their content to our platform or renew or enter into license agreements on commercially reasonable terms with our licensors or at all.

In addition, the industry in which we operate is characterized by rapidly changing technologies and changing user expectations. To remain competitive, we must adapt our products and services to evolving industry standards and improve the performance and reliability of our products and services be able to adapt to these changes and innovate in response to evolving user expectations. Developing and integrating new content, products, services and technologies into our existing platform could be expensive and time-consuming, and these efforts may not yield the benefits we expect. If we fail to develop new products, services or innovative technologies on a timely basis, or our new products, services or technologies are not accepted by our users, our business, financial performance and prospects could be materially and adversely affected. We cannot assure you that we can anticipate user preferences and industry changes and respond to such changes in a timely and effective manner. In addition, changes in user behavior resulting from technological developments may also adversely affect us. For example, the number of people accessing the Internet through mobile devices, including mobile phones, tablets and other hand-held devices, has increased in recent years, and we expect this trend to continue while 4G, 5G and more advanced mobile communications technologies are broadly implemented. If we fail to develop products and technologies that are compatible with all mobile devices, or if the products and services we develop are not widely accepted and used by users of various mobile devices, we may not be able to penetrate the mobile markets. In addition, the widespread adoption of new Internet, networking or telecommunications technologies or other technological changes could require substantial expenditures to modify or integrate our products, services or infrastructure. If we fail to keep up with rapid technological changes to remain competitive, our future success may be adversely affected.
Our business depends on our ability to provide users with interesting and useful content, which in turn depends on the content contributed by the content creators on our platform.

The quality of the content offered on our platform and our users’ level of engagement are critical to our success. In order to attract and retain users and compete effectively, we must offer interesting and useful content and enhance our users’ viewing experience. It is vital to our operations that we remain sensitive to and responsive to evolving user preferences and offer content that appeals to our users and members. In 2019, PUG video views accounted for 90.1% of our total video views, as compared to 89.0% in 2018. Thus far, we have been generally able to encourage our content creators to create and upload PUGC that is appealing to our users. We have also been providing our content creators with support and guidance in various forms, including technical support for content distribution, editing and uploading. However, we cannot assure you that our content creators can contribute to create popular PUGC for our platform. If our content creators cease to contribute content, or their uploaded content fails to attract or retain our users, we may experience a decline in user traffic and user engagement. If the number of users or the level of user engagement declines, we may suffer a reduction in revenue.

We may not be able to effectively manage our growth and the increased complexity of our business, which could negatively impact our brand and financial performance.

We have experienced rapid growth since our inception in 2011. As we grow our user base and increase the level of user engagement, we may incur increasing costs, such as licensing fees and royalties for licensed content and hosts’ compensation to further expand our content library to meet the growing and diversified demands of our users. If such expansion is not properly managed, it may adversely affect our financial and operating resources without achieving the desired effects. The market prices for licensing fees and royalties for licensed content, such as license for live broadcasting popular e-sport events, have increased significantly in China during the past few years. Online video streaming platforms are competing aggressively to license popular content titles and events, driving licensing fees up in general. As the market further grows, copyright owners, distributors and industry participants may demand higher licensing fees for such content. Furthermore, as our content library expands, we expect the costs of licensing fees and royalties for licensed content to continue to increase. If we are unable to generate sufficient revenues to outpace the increase in costs, we may incur more losses and our business, financial condition and results of operations may be adversely affected.

As we only have a limited history of operating our business at its current scale, it is difficult to evaluate our current business and future prospects, including our ability to grow in the future. In addition, our costs and expenses may increase rapidly as we expand our business and continue to invest in our infrastructure to enhance the performance and reliability of our platform. For example, we may increase our investment in servers and bandwidth to maintain our quality user experience while sustaining the growth of user base. Continued growth could also strain our ability to maintain reliable service levels for our users, content creators and business partners, develop and improve our operational, financial, legal and management controls, and enhance our reporting systems and procedures. Our costs and expenses may grow faster than our revenues and may be greater than what we anticipate. If we are unable to generate adequate revenues and to manage our costs and expenses, we may continue to incur losses in the future and may not be able to achieve or subsequently maintain profitability. Managing our growth will require significant expenditures and the allocation of valuable management resources. If we fail to achieve the necessary level of efficiency in our organization as it grows, our business, operating results and financial condition could be harmed.

If the content contained within videos, games, audios and other content formats on our platform is deemed to violate any PRC laws or regulations, our business, financial condition and results of operations may be materially and adversely affected.

The PRC government and regulatory authorities have adopted regulations governing content contained within videos, games, audios and other information over the internet. Under these regulations, internet content providers are prohibited from posting or displaying over the internet content that, among other things, violates PRC laws and regulations, impairs the national dignity of China or the public interest, or is obscene, superstitious, fraudulent, violent or defamatory. Internet content providers are also prohibited from displaying content that may be deemed by relevant government authorities as “socially destabilizing” or leaking “state secrets” of China. The PRC government and regulatory authorities strengthen the regulations on internet content from time to time, such as the Opinion on Strictly Regulating Online Game Market Management jointly adopted by a few authorities on December 18, 2017, which regulates illegal and improper content in online games. Failure to comply with these requirements may result in the revocation of licenses to provide internet content or other licenses, the closure of the concerned websites and reputational harm. The website operator may also be held liable for such censored information displayed on or linked to their website. In January 2019, China Netcasting Services Association, or the CNSA, issued the Regulations on Administration of Network Short Video Platforms, pursuant to which all content of a short video, including but not limited to its title, description, bullet-chats and comments, may be required to be reviewed in advance before the content is broadcasted. Furthermore, the number of content reviewers a platform is required to keep should in principle be more than one-thousandth of the number of short videos newly broadcasted on the platform per day. In January 2019, CNSA issued the Censoring Criteria for Network Short Video Contents, which sets forth in details of contents prohibited to be broadcasted, such as violence, pornography, gambling, terrorism, superstitious and illegal or immoral contents. The enactment of these regulations may significantly increase our compliance costs in recruiting additional content reviewers and training them to identify the forbidden contents timely and accurately. In November 2019, the Cyberspace Administration of China, or the CAC, the Ministry of Culture and Tourism and the NRFA, jointly issued the Administrative Provisions on Online Audio-Visual Information Services, effective from January 1, 2020, which provides that online audio-visual information service providers are the principals responsible for information content security management, and should, among other things, establish and improve their internal policies in relation to user registration, scrutiny of information publication, and information safety management. Any failure to comply with these regulations may subject us to liability. For more information, see “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Related to Online Transmission of Audio-Visual Programs.”
In addition to licensed content provided by copyright owners, we allow our users to upload content to our platform. Our users can upload all types of content including user-created and professionally produced content and certain graphical files for the purpose of updating user biographies and content covers. Currently only registered users are allowed to upload content to our platform. We maintain two levels of content management and review procedures to monitor the content uploaded to our platform to ensure that no content that may be deemed to be prohibited by government rules and regulations is posted and to promptly remove any infringing content. Our content screening team is dedicated to screening and monitoring the content uploaded on our platform on a 24-hour, 7-day basis. For more details relating to our content monitoring procedures, see “Item 4. Information on the Company—B. Business Overview—Content Management and Review.” However, there can be no assurance that we can identify all the videos or other content that may violate relevant laws and regulations due to the large amount of content uploaded by our users every day.

Failure to identify and prevent illegal or inappropriate content from being uploaded on our platform may subject us to liability. To the extent that PRC regulatory authorities find any content on our platform objectionable, they may require us to limit or eliminate the dissemination of such content on our platform in the form of take-down orders, or cause our app to be temporarily removed from app stores, or otherwise. For example, Central Cyberspace Administration of the People’s Republic of China conducted a nationwide inspection of major internet platforms providing short-video content, and we were notified by certain smartphone app stores in China that our mobile app had been temporarily removed from July 26, 2018 till August 25, 2018. We implemented the required measures promptly and reinstated the mobile app downloads from those app stores on August 26, 2018. We thereafter conducted a self-inspection by taking a comprehensive review of the content on our platform and have doubled the headcounts of content monitoring personnel. Our app may be removed from app stores again in the future, and such removal could materially and adversely affect our business operations.

In addition, PRC laws and regulations are subject to interpretation by the relevant authorities, and it may not be possible to determine in all cases the types of content that could result in our liability as a platform operator. In the past, we were subject to penalties by PRC regulatory authorities due to our failure to comply with these requirements. For example, we were subject to a fine of RMB20,000 in May 2018 from a local counterpart of the MOC primarily for having inappropriate content operated on our platform. We were subject to a fine of RMB10,000 in April 2019 from a local counterpart of the MOC primarily for having inappropriate content in games live broadcasted on our platform. We also may face liability for copyright or trademark infringement, fraud and other claims based on the nature and content of the materials that are delivered, shared or otherwise accessed through or displayed on our platform.

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

The internet and mobile industries in China are highly regulated. Our consolidated affiliated entities are required to obtain and maintain applicable licenses and approvals from different regulatory authorities in order to provide their current services. Under the current PRC regulatory scheme, a number of regulatory agencies, including but not limited to the State Administration of Press, Publication, Radio, Film and Television of China, or the SAPPRFT, the National Radio and Television Administration of the PRC, or the NRTA, and the Propaganda Department of the Central Committee of the Communist Party of China, or the NAPP (the successor of the GAPP, the SARFT and the SAPPRFT), the MOC, the MIIT, the State Council Information Office, and the State Internet Information Office, jointly regulate all major aspects of the internet industry, including the mobile internet and mobile games businesses. Operators must obtain various government approvals and licenses for relevant mobile business.
We have obtained ICP licenses for the provision of internet information services, license for online transmission of audio-visual programs for the provision of internet audio-visual program services and Online Culture Operating Licenses for operation of commercial internet culture activities, and have submitted an application to update our license for online transmission of audio-visual programs to cover the transmission to mobile devices in December 2017. The application is currently under review process of the SAPPRFT. These licenses are essential to the operation of our business and are generally subject to regular government review or renewal. However, we cannot assure you that we can successfully renew these licenses in a timely manner or that these licenses are sufficient to conduct all of our present or future business. As we develop and expand our business scope, we may need to obtain additional qualifications, permits, approvals or licenses. We may be required to obtain additional licenses or approvals if the PRC government adopts more stringent policies or regulations for our business.

Under regulations issued by the SAPPRFT, the publication of each online game requires approval from the SAPPRFT. As of the date of this annual report, we have obtained approvals from the SAPPRFT for all of the domestic online games and seven imported online games exclusively operated by us. After the re-organization of SAPPRFT, we will apply with the NAPP for the approvals for publishing our games in the future. For the online games we jointly operate with third parties, we also require them to obtain requisite approvals from the NAPP. The NAPP at the national level had suspended the approval of game registration and issuance of publication numbers for online games starting from March 2018. Although the NAPP later resumed game registration and issued game publication numbers for the first batch of games with an effective date of December 19, 2018, the approval of imported games registration and issuance of publication is still difficult to be obtained. Any delay in game registration with NAPP or obtaining game publication numbers could lead to the termination of our cooperation agreements with third parties or negatively affect the operation results of our games. Pursuant to the Notice to Adjust the Scope of Online Culture Operation License Approval and to Further Regulate the Approval Work released in May 2019, Ministry of Culture and Tourism (the “MCT”, the successor of the MOC) no longer assumes the responsibility to regulate online game industry, and the provincial counterparts of MCT would no longer grant Online Culture Operation License covering the business scope of using the information network to operate online games. However, the licenses granted by the MCT before this notice will remain valid until the expiration dates of these licenses. On July 23, 2019, the MCT announced the abolishment of the Interim Measures on Administration of Online Games, which regulated the issuance of Online Culture Operation Licenses relating to online games. For more information, see “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Related to Online Games.” As of the date of this annual report, the governmental authorities have not issued laws or regulations to replace the Interim Measures on Administration of Online Games, or to clarify the new regulatory body of online games. If we are unable to comply with the new renewal procedures relating to our Online Culture Operating License, our ability to introduce, launch and operate new games may be adversely affected, and our financial condition and operating results could be adversely affected. In addition, we cannot assure you that we or relevant third parties can obtain the NAPP’s approvals or complete the filing with the MCT for all games on our platform in a timely manner or at all, which could adversely and materially impact our ability to introduce new games, the timetable to launch new games and our business growth.

Moreover, the provision of online games is deemed to be an internet publication activity. An online game operator may be required to obtain an Internet Publication Service License in order to directly make those games publicly available in China. Although it is not specifically authorized by the NAPP, an online game operator is generally able to publish its games through third-party licensed electronic publishing entities and register the games with the NAPP as electronic publications. In addition, the provision of comics online may be deemed to be an internet publication activity, which may require the content provider to obtain an Internet Publication Service License. Shanghai Hode is planning to apply for the Internet Publishing Service License for our operation. However, there is no assurance that we will be granted such license. If we fail to complete, obtain or maintain any of the required licenses or approvals or make the necessary filings, we may be subject to various penalties, such as confiscation of the net revenues that were generated through online games and comics, the imposition of fines, the revocation of our business and operating licenses and the discontinuation or restriction of our operations of online games and comics.
In addition, considerable uncertainties exist in relation to the interpretation and implementation of existing and future laws and regulations governing our business activities. For example, in 2009, the SAPPRFT, together with other authorities issued a notice known as Circular 13, which expressly prohibits foreign investors from participating in online game operating businesses in China via wholly foreign-owned entities, China-foreign equity joint ventures or cooperative joint ventures or from controlling over or participating in the operation of domestic online game businesses through indirect means, such as other joint venture companies or contractual or technical arrangements. While Circular 13 is generally applicable to us and our online game business, the SAPPRFT has not issued any interpretation of Circular 13, and we are not aware that any online game companies which use similar variable interest entity contractual arrangements with ours have been challenged by the SAPPRFT. In addition, under the Administrative Regulations on the Introduction and Broadcasting of Foreign Television Programs, the introduction or broadcasting of foreign animation in China is subject to approval of the SAPPRFT or its authorized entities. However, approval or filing procedures are not explicitly required in practice by the SAPPRFT for the broadcasting and distribution of foreign animation on the internet only. We have not obtained any approval from, or completed any filing with, the SAPPRFT or competent local counterparts for broadcasting and distribution of foreign animation on our platform. We could be found in violation of any future laws and regulations or of the laws and regulations currently in effect due to changes in the relevant authorities’ interpretation of these laws and regulations. If we fail to complete, obtain or maintain any of the required licenses or approvals or make the necessary filings, we may be subject to various penalties, such as confiscation of the net revenues that were generated through the unlicensed internet or mobile activities, the imposition of fines and the discontinuation or restriction of our operations. Any such penalties or changes in policies, regulations or enforcement by government authorities, may disrupt our operations and materially and adversely affect our business, financial condition and results of operations.

Furthermore, in August 2018, the National Office of Anti-Pornography and Illegal Publication, the MIIT, the Ministry of Public Security, the Ministry of Culture and Tourism, the National Radio and Television Administration and the Cyberspace Administration of China jointly issued the Notice on Strengthen the Management of Live Streaming Service, which required a real-name registration system for users to be put in place by live streaming service providers. On October 25, 2019, the NAPP issued the Notice on Preventing Minor’s Addiction to Online Games, which requires all online gamers to register accounts with their valid identity information and all game companies to stop providing game services to users who fail to do so. We have implemented several measures to comply with the current real-name registration system. However, the PRC government may further tighten the real-name registration requirements or require us to implement a more thorough compulsory real-name registration system for all users on our platform in the future, so that we will need to upgrade our system or purchase relevant services from third party service providers and incur additional costs in relation thereto. If we were required to implement a more rigid real-name registration system for users on our platform, potential users may be deterred from registering with our platform, which may in turn negatively affect the growth of our user base and prospect.

We derive a substantial majority of our revenues from mobile games. If we fail to launch new games or release upgrades to existing games to grow our game player base, our business and operating results will be materially and adversely affected.

We derived 83.4%, 71.1% and 53.1% of our revenues from mobile games in 2017, 2018 and 2019, respectively, and we derive a significant portion of mobile game revenues from a limited number of games. In 2019, two mobile games accounted for more than 10% of our total mobile game revenues, one for 58.2% and the other for 10.4%. We offer mobile games from third-party game developers and publishers on our platform either on an exclusive or non-exclusive basis. Therefore, we must maintain good relationships with our third-party game developers and copyright owners to obtain access to new popular games on reasonable commercial terms. We may not be able to maintain or renew these agreements on acceptable terms or at all. In such event, we may be unable to continue offering these popular mobile games, and our operating results will be adversely affected. In addition, if our users decide to access these games through our competitors, or if they prefer other mobile games operated by our competitors, our operating results could be materially and adversely affected. In addition, if we fail to launch new games or release upgrades to existing games in a timely manner, or if our games do not achieve expected popularity, we may lose players of our games, which could materially and adversely impact our business. Even in the event that we succeed in launching new games, the new games may divert players away from the existing games on our platform, which may increase player churn and reduce revenues from our existing games.
In addition, the revenue model we adopt for online games may not remain effective, which may cause us to lose players and materially and adversely affect our business, financial condition and results of operations. We derive substantially all of the mobile games revenues from the sale of in-game virtual items. However, we may not be able to continue to successfully implement this model.

The PRC government has taken steps to limit online game playing time for all minors and to otherwise control the content and operation of online games. Such restrictions on online games may materially and adversely impact our business and results of operations.

As part of its anti-addiction online game policy, the PRC regulators have been implementing regulations designed to reduce the amount of time that youth under the age of 18 spend playing online games. For a detailed description of these regulations, see “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Related to Anti-fatigue System, Real-name Registration System and Parental Guardianship Project.” A revenue model that does not charge for playing time may be viewed by the PRC regulators as inconsistent with this goal. On the other hand, if we were to start charging for playing time, we may lose our players, and our financial condition and results of operations may be materially and adversely affected.

On October 25, 2019, the NAPP issued the Notice on Preventing Minor’s Addiction to Online Games, which requires all online gamers to register accounts with their valid identity information and all game companies to stop providing game services to users who fail to do so. Furthermore, minors are prohibited from playing games exceeding a certain period of time per day or putting money into their accounts exceeding a certain amount. Online game operators are required to explore the manner to notify users of different ages about the online games based on various criteria, such as the games’ content and the amount of money anticipated to be used in the games, on download, registration and log-in pages in a prominent way. Although we have implemented several measures and developed a detailed plan for system upgrade and are in the process of conducting various system upgrading works according to the requirements under this notice, we may be nevertheless considered non-compliant if the regulators take a different view, or if our system is not fully upgraded by the end of the grace period, the length of which also remains uncertain at the discretion of the relevant government authorities. Should the relevant local government authorities find us not satisfying the requirements, they may order us to rectify. In a severe case, our business license could be revoked, which may materially and adversely affect our business operations and financial condition.

The implementation of the New Anti-addiction Notice may lead to a decrease in the number of minors in our user base and the play time of minor users, thereby leading to a decrease in the minor users’ revenue contribution to our online game business, and may materially and adversely affect our results of operations and prospects.

Illegal game servers and acts of cheating by users of mobile games could harm our business and reputation and materially and adversely affect our results of operations.

Several of our competitors have reported that certain third parties have misappropriated the source codes of their games and set up illegal game servers and let their customers play such games on illegal servers without paying for the game playing time. While we already have in place numerous internal control measures to protect the source codes of our games from being stolen and to address illegal server usage and, to date, our games have not to our knowledge experienced such usage, our preventive measures may not be effective. The misappropriation of our game server installation software and installation of illegal game servers could harm our business and reputation and materially and adversely affect our results of operations.

In addition, acts of cheating by users of mobile games could lessen the popularity of our mobile games and adversely affect our reputation and our results of operations. There have been a number of incidents in previous years where users, through a variety of methods, were able to modify the rules of our mobile games during gameplay in a manner that allowed them to cheat and disadvantage our other mobile game users, which often has the effect of causing players to stop using the game and shortening the game’s lifecycle. Although we have taken a number of steps to deter our users from engaging in cheating when playing our mobile games, we cannot assure you that we or the third parties from whom we license some of our mobile games will be successful or timely in taking corrective steps necessary to prevent users from modifying the rules of our mobile games.
If we suspect a player of installing cheating programs on our mobile games, or of engaging in other types of unauthorized activities, we may freeze that player’s game account or even ban the player from logging on to our games and other media. Such activities to regulate the behavior of our users are essential to maintain a fair playing environment for our users. However, if any of our regulatory activities are found to be wrongly implemented, our users may institute legal proceedings against us for damages or claims. Our operation, business and financial performance may be materially and adversely affected as a result.

We face significant competition, primarily from companies that operate online entertainment platforms in China, and we compete with these companies for users, content providers and advertisers.

We face significant competition primarily from companies that operate online entertainment platforms in China designed to engage users, especially Generation Z, and capture their time spent on mobile devices and online. In particular, our competitors mainly include large online video streaming platforms, online game developers and operators, other platforms offering video products, live broadcasting platforms, comics content providers, social media platforms and other online entertainment platforms. Some of our competitors have longer operating histories and significantly greater financial resources than we do, and in turn may be able to attract and retain more users, content partners and advertisers. Our competitors may compete with us in a variety of ways, including by obtaining exclusive online distribution rights for popular content, conducting brand promotions and other marketing activities, and making acquisitions. If any of our competitors provides comparable or better user experience, our user traffic could decline significantly. We have exclusive distribution rights only for certain PUGC on our platform. Our content creators are generally free to post their content on our competitors’ platforms, which may divert user traffic from our platform, and adversely affect our user traffic and thus our operations.

We believe that our ability to compete effectively depends upon many factors, some of which are beyond our control, including:

- the popularity, usefulness, ease of use, performance and reliability of our platform, products and services compared to those of our competitors;
- the amount, quality and timeliness of content on our platform, especially the amount and quality of the PUGC generated by our content creators;
- the environment and culture of our user communities;
- our ability, and the ability of our competitors, to develop new products and services and enhancements to existing products and services to keep up with user preferences and demands;
- the inventory size, quality and size of player base of the games we operate;
- our ability to establish and maintain relationships with content providers and partners;
- our ability to monetize our services;
- changes mandated by legislation, regulations or government policies, some of which may have a disproportionate effect on us;
- acquisitions or consolidation within our industry, which may result in more formidable competitors; and
- our reputation and brand strength relative to our competitors.

Increases in the costs of content on our platform may have an adverse effect on our business, financial condition and results of operations.

We need to acquire or produce popular content to provide our users with an engaging and satisfying viewing experience. The acquisition of such content depends on our ability to retain our content creators and hosts of our live broadcasting program. As our business develops, we may incur increasing revenue-sharing costs to compensate our content creators and hosts of our live broadcasting program. Increases in market prices for licensed content and live streaming rights may also have an adverse effect on our business, financial condition and results of operations. For example, in December 2019, we entered into a letter of intent to purchase the three-year license for live broadcasting the League of Legends World Championship in China starting from 2020 at an aggregate purchase price of RMB800 million (US$114.9 million). If we are not able to procure licensed content at commercially acceptable costs, our business and results of operations will be adversely impacted. In addition, if we are unable to generate sufficient revenues to outpace the increase in market prices for licensed content, our business, financial condition and results of operations may be adversely affected. In 2018, we started to devote more resources in producing our original content. We rely on our in-house team to generate creative ideas for original content and to supervise the original content origination and production process, and we intend to continue to invest resources in content production. If we are not able to compete effectively for talents or attract and retain top talents at reasonable costs, our original content production capabilities would be negatively impacted.
We may be subject to intellectual property infringement claims or other allegations, which could result in material damage to our reputation and brand image, payment of substantial damages, penalties and fines, removal of relevant content from our platform or seeking license arrangements which may not be available on commercially reasonable terms.

Content posted on our platform may expose us to allegations by third parties of infringement of intellectual property rights, unfair competition, invasion of privacy, defamation and other violations of third-party rights. We have been involved in litigation based on allegations of infringement of third-party copyright due to the content available on our platform. We are currently involved in approximately 90 lawsuits based on allegations of infringement of third-party copyright due to the content posted on our platform, none of which is material to our company on an individual basis.

Many jurisdictions, including China and the U.S., continue to consider the need for greater regulation or reform to the existing regulatory framework. In the U.S., all 50 states have now passed laws to regulate the actions that a business must take in the event of a data breach, such as prompt disclosure and notification to affected users and regulatory authorities. In addition to the data breach notification laws, some states have also enacted statutes and rules requiring businesses to reasonably protect certain types of personal information they hold or to otherwise comply with certain specified data security requirements for personal information. The U.S. federal and state governments will likely continue to consider the need for greater regulation aimed at restricting certain uses of personal data for targeted advertising. Additionally, California recently enacted the California Consumer Privacy Act, or CCPA, it creates new individual privacy rights for consumers (as that word is broadly defined in the law) and places increased privacy and security obligations on entities handling personal data of consumers or households. The CCPA, which went into effect on January 1, 2020, requires covered companies to provide new disclosures to California consumers, and provides such consumers new ways to opt-out of certain sales of personal information. The CCPA provides for civil penalties for violations, as well as a private right of action for data breaches that is expected to increase data breach litigation. The CCPA may increase our compliance costs and potential liability. Some observers have noted that the CCPA could mark the beginning of a trend toward more stringent privacy legislation in the U.S., which could increase our potential liability and adversely affect our business.

In the European Union, or EU, the General Data Protection Regulation, or GDPR, which came into effect on May 25, 2018, could increase our burden of regulatory compliance. The GDPR implements more stringent operational requirements for processors and controllers of personal data, including, for example, requiring expanded disclosures about how personal information is to be used, limitations on retention of information, mandatory data breach notification requirements, and higher standards for data controllers to demonstrate that they have obtained either valid consent or have another legal basis in place to justify their data processing activities. The GDPR further provides that EU member states may make their own additional laws and regulations in relation to certain data processing activities, which could further limit our ability to use and share personal data and could require localized changes to our operating model. Under the GDPR, fines of up to €20 million or up to 4% of the total worldwide annual turnover of the preceding financial year, whichever is higher, may be assessed for noncompliance, which significantly increases our potential financial exposure for non-compliance. However, with limited precedence on the interpretation and application of GDPR and limited guidance from EU regulators, the application of GDPR to the provision of internet services remains unsettled. Finally, in China, the PRC Cybersecurity Law, which became effective in June 2017, leaves substantial uncertainty as to the circumstances and standard under which the law would apply and violations would be found.

Our failure to identify unauthorized videos posted on our platform may subject us to claims of infringement of third-party intellectual property rights or other rights. Although we maintain content management and review procedures to monitor the content uploaded to our platform, due to the large number of videos uploaded, we may not be able to identify all content that may infringe on third-party rights. Such failure may subject us to potential claims and lawsuits, defending of which may impose a significant burden on our management and employees, and there can be no assurance that we will obtain final outcomes that are favorable to us. In addition, we may be subject to administrative actions brought by the National Copyright Administration of China or its local branches or related law enforcement departments for alleged copyright infringement.
The validity, enforceability and scope of protection of intellectual property rights in internet-related industries, particularly in China, are uncertain and still evolving. As we face increasing competition and as litigation becomes a more common way to resolve disputes in China, we face a higher risk of being the subject of intellectual property infringement claims. Under relevant PRC laws and regulations, online service providers which provide storage space for users to upload works or links to other services or content could be held liable for copyright infringement under various circumstances, including situations where an online service provider knows or should reasonably have known that the relevant content uploaded or linked to on its platform infringes the copyrights of others and the provider realizes economic benefits from such infringement activities. In certain cases in China, the courts have found an online service provider to be liable for the copyrighted content posted by users which was accessible from and stored on such provider’s servers.

Although we have not been subject to claims or lawsuits outside China, we may become subject to copyright laws in other jurisdictions, such as the United States, by virtue of our listing in the United States, the ability of users to access our videos from the United States and other jurisdictions, the ownership of our ADSs by investors, and the extraterritorial application of foreign law by foreign courts or otherwise. In addition, as a publicly listed company, we may be exposed to increased risk of litigation. 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 platform, or (iii) enter into royalty or license agreements which may not be available on commercially reasonable terms or at all.

In addition, although we have required our users to post only legally compliant and inoffensive materials and have set up screening procedures, our screening procedures may fail to screen out all potentially offensive or non-compliant user-generated content and, even if properly screened, a third party may still find user-generated content posted on our platform offensive and take action against us in connection with the posting of such content. We may also face litigation or administrative actions for defamation, negligence or other purported injuries resulting from the content we provide or the nature of our services. Such litigation and administrative actions, with or without merit, may be expensive and time-consuming, result in significant diversion of resources and management attention from our operations, and adversely affect our brand image and reputation.

Furthermore, our app may be taken down temporarily from Apple app store or other apps markets for copyright reasons, and we may be subject to copyright infringement claims brought by our competitors, which, malicious or not, may be time-consuming to defend and disrupting to our operations.

**We may not be able to prevent others from unauthorized use of our intellectual property, unfair competition, defamation or other violations of our rights, which could harm our business and competitive position.**

We have invested significant resources to develop our own intellectual property and acquire licenses to use and distribute the intellectual property of others on our platform. Failure to maintain or protect these rights could harm our business. In addition, any unauthorized use of our intellectual property by third parties may adversely affect our current and future revenues and our reputation. Further, others may engage in conduct that constitutes unfair competition, defamation or other violations of our rights, which could harm our business, reputation and competitive position.

Implementation and enforcement of PRC intellectual property-related laws have historically been deficient and ineffective. Accordingly, protection of intellectual property rights in China may not be as effective as in the United States or other developed countries. Furthermore, policing unauthorized use of proprietary technology is difficult and expensive. We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. Despite our efforts to protect our proprietary rights, third parties may attempt to copy or otherwise obtain and use our intellectual property or seek court declarations that they do not infringe upon our intellectual property rights. Other unlawful conduct against us is also difficult to prevent and police. We cannot assure you that the steps we have taken will prevent misappropriation of our rights. From time to time, we may have to resort to litigation to enforce our rights, which could result in substantial costs and diversion of our resources.
Many of our products and services contain open source software, which may pose particular risks to our proprietary software, products and services in a manner that negatively affects our business.

We use open source software in our products and services and will use open source software in the future. There is a risk that open source software licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to provide or distribute our products or services. Additionally, we may face claims from third parties claiming ownership of, or demanding release of, the open source software or derivative works that we developed using such software. These claims could result in litigation and could require us to make our software source code freely available, purchase a costly license or cease offering the implicated products or services unless and until we can re-engineer them to avoid infringement. This re-engineering process could require significant additional research and development resources, and we may not be able to complete it successfully.

Furthermore, because any software source code we contribute to open source projects is publicly available, our ability to protect our intellectual property rights with respect to such software source code may be limited or lost entirely. As a result, we may be unable to prevent our competitors or others from using such software source code contributed by us.

Our live broadcasting business is still in its early stage of monetization, and we face intense competition for users and hosts, as well as strict regulatory supervision by government authorities.

Our live broadcasting business is still in its early stage. We face significant competition in the live broadcasting business for both users and hosts. The live broadcasting program on our platform primarily focuses on interest areas such as animation, comics, games, e-sports events, art, lifestyle and online education. We cannot assure you that such content will continue to attract new users and retain existing ones.

We have entered into exclusive cooperation agreements with certain popular hosts on our platform. We may not be able to maintain or renew these agreements on acceptable terms or at all. In such event, we may be unable to retain these popular hosts on our platform, and our operating results will be adversely affected. We cooperate with talent agencies to recruit, manage, train and support our hosts. Furthermore, we may lose hosts if the talent agencies that manage them are unable to reach or maintain satisfactory cooperation arrangements with such hosts. Furthermore, if talented and popular hosts cease to contribute content to our platform, or their live streams fail to attract users, we may experience a decline in user traffic and user engagement, which may have material and adverse impact on our results of operations and financial conditions.

In addition, the costs attributed to hosts’ compensation have increased significantly in China during the past few years for companies that provide such services. If we are unable to generate sufficient revenues to outpace the increase in such compensation, we may lose opportunities to retain the popular hosts on our platform and thus incur more losses. In addition, the compensation we pay to the hosts could significantly increase our cost of revenues and materially adversely affect our margins, financial condition and results of operations.

We have a revenue sharing arrangement with both our hosts and talent agencies under which we share with them a portion of the revenues from the sales of virtual items on our platform. In addition, we also cooperate with popular e-sports teams to make their game-play available on our platform by paying them a sponsorship fee. The absolute amounts and revenue percentages that we pay hosts and talent agencies may increase. If our competitor platforms offer higher revenue sharing ratios with an intent to attract our popular hosts, costs to retain our hosts may further increase. If we are not able to continue to retain our hosts and produce high-quality content on our platform at commercially acceptable costs, our business, financial condition and results of operations would be adversely impacted. Furthermore, as our business and user base further expand, we may have to devote more resources in encouraging our hosts and talent agencies to produce content that meets the varied interests of a diverse user base, which would increase the costs of contents on our platform. If we are unable to generate sufficient revenues that outpace our increased content costs, our business, financial condition and results of operations may be materially and adversely affected.

In addition, our live broadcasting services may be abused by hosts and other users. We have an internal control system in place to review and monitor live broadcasting streams and will shut down those streams that may violate PRC laws and regulations. However, we may not identify all such streams and content. Failure to comply with applicable laws and regulations may result in the revocation of our licenses to provide internet content or other licenses, the closure of the concerned platforms and reputational harm. We may also be held liable for such censored information displayed on our platform.
We cooperate with various talent agencies to manage and recruit our hosts. If we are not able to maintain our relationship with talent agencies, our operations may be materially and adversely affected.

We cooperate with talent agencies to manage, organize, and recruit hosts on our platform. As we are an open platform that welcomes all hosts to register on our websites, cooperation with talent agencies substantially increases our operation efficiency in terms of discovering, supporting, and managing hosts in a more organized and structured manner, and turning amateur hosts to full-time hosts.

We share a portion of the revenues generated from the sales of virtual items attributed to the hosts’ live streams with hosts and talent agencies who manage these hosts. If the interests between us, and hosts and the talent agencies are not well balanced, or if we cannot design a revenue-sharing mechanism that is agreeable to both hosts and talent agencies, we may not be able to retain or attract hosts or talent agencies, or both. In addition, while we have entered into exclusive streaming agreements with certain hosts, none of the talent agencies we cooperate with has an exclusive cooperation relationship with us. If other platforms offer better revenue-sharing incentive to talent agencies, such talent agencies may choose to devote more of their resources to hosts who stream on the other platforms, or they may encourage their hosts to use or even enter into an exclusive agreement with other platforms, all of which could materially and adversely affect our business, financial condition and results of operations.

We rely on third-party logistics services for our product delivery when performing our e-commerce business, and if such third-party logistics services fail to provide reliable logistics services, our e-commerce business and reputation may be materially and adversely affected.

We offer ACG-related merchandise and offline events tickets on our platform, and generate revenues from sales of these products. Our e-commerce business uses a number of third-party logistics companies to deliver our products to customers. Any interruption to or failure in logistics services could prevent the timely or proper delivery of our products. These interruptions may be due to events that are beyond our control or the control of these third-party logistics services, such as inclement weather, natural disasters, transportation interruptions or labor unrest or shortage. We may not be able to find alternative logistics companies to provide logistics services in a timely and reliable manner, or at all, to replace such third-party logistics services to the extent necessary. If products sold on our platform are not delivered in proper condition or on a timely basis or at all, our e-commerce business and reputation would suffer.

We have a unique community culture that is vital to our success. Our operations may be materially and adversely affected if we fail to maintain our culture and brand image within our addressable user communities.

Our users have developed a unique community culture that distinguishes us from other online content providers. Our users come to our platform for creative content covering a wide array of cultures and interests as well as strong, vibrant and safe communities. We believe that maintaining and promoting such community culture is critical to retaining and expanding our user base. We have taken multiple initiatives to preserve our community culture and values, such as requiring users to pass a membership exam before they are allowed to send bullet-chats and utilize other interactive functions on our platform, and temporarily blocking or permanently deleting accounts of users who posted inappropriate content or comments.

Despite our efforts, we may be unable to maintain and foster our unique community culture and cease to be the preferred platform for our target users and content creators. As our user base is expanding, we may have difficulties in guiding our new users to honor and abide by our community values despite the initiatives we have adopted and may adopt in the future. In such event, our user engagement and loyalty may suffer, which would in turn negatively affect user traffic and our attractiveness to other customers and partners. In addition, frictions among our users and inflammatory comments posted by internet trolls may damage our community culture and brand image, which would be detrimental to our operations. Historically, some incidents of intense frictions among our users who belonged to different micro-interests and fans groups disrupted our operations. Users who have met through our services may become involved in emotionally charged situations and could suffer adverse moral, emotional or physical consequences. Such events could be highly publicized and have a significant negative impact on our reputation. Government authorities may require us to discontinue or restrict the relevant services. As a result, our business could suffer and our user base and results of operations may be materially and adversely affected.
If we fail to develop effective advertising products and system, retain existing advertisers or attract new advertisers to advertise on our platform, or if we are unable to collect accounts receivable from the advertisers or advertising agencies in a timely manner, our financial condition, results of operations and prospects may be materially and adversely affected.

We generate a portion of our revenues from advertising. We enter into contracts with both advertisers and third-party advertising agencies, and the financial soundness of these customers may affect our collection of accounts receivable. We make a credit assessment of the advertiser and advertising agency to evaluate the collectability of the advertising service fees before entering into an advertising contract. However, we cannot assure you that we are or will be able to accurately assess the creditworthiness of each advertiser or advertising agency, and any inability of advertisers or advertising agencies to pay us in a timely manner may adversely affect our liquidity and cash flows.

Our ability to generate and maintain our advertising revenues depends on a number of factors, including the maintenance and enhancement of our brand, the scale, engagement and loyalty of our users and the market competition on advertising prices. We cannot assure you that we will be able to retain existing advertisers or advertising agencies or attract new ones. If we fail to retain and enhance our relationships with third-party advertising agencies or advertisers themselves, our business, results of operations and prospects may be adversely affected.

We rely upon our partner to make our service available through smart TV.

In smart TV video streaming market, only a small number of qualified license holders can provide internet audio and visual program service to the TV terminal users via smart TVs, set-top boxes and other electronic products. Most of those license holders are radio or TV stations. Private companies that wish to operate such business need to cooperate with those license holders to legally provide relevant services. We cooperate with a PRC licensed entity for the development of relevant programs and provision of audio-visual program services through private network and targeted communication channels, such as smart TVs. If we are not successful in maintaining existing or creating new relationships, or if we encounter technological, content licensing, regulatory or other impediments to delivering our streaming content to our members via these devices, our ability to grow our business may be adversely impacted.

We may not be successful in developing relationships with key participants in the mobile industry or in developing services that operate effectively with these operating systems, networks, devices and standards.

We make our products and services available across a variety of operating systems, mainly on mobile devices and personal computers. As mobile usage accelerates, we expect to generate a large portion of our business and revenues from mobile. If we are unable to successfully capture and retain the growing number of users that access internet services through mobile devices, or if we are slower than our competitors in developing attractive products and services adaptable for mobile devices, we may fail to capture a significant share or 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 mobile users, we may not be able to successfully monetize them in the future.

We depend on the interoperability of our products and services with popular devices, desktop and mobile operating systems and web browsers that we do not control, such as Windows, Mac OS, Android, IOS, and others. Any changes in devices or their systems that degrade the functionality of our products and services or give preferential treatment to competitive products or services could adversely affect usage of our products and services. We may not be successful in developing relationships with key participants in the mobile industry or in developing services that operate effectively with these operating systems, networks, devices and standards. Further, if the number of systems, networks and devices for which we develop our products and services increases, it will result in an increase in our costs and expenses, and adversely affect our gross margin and results of operation.
Any malfunction, capacity constraint or operation interruption for any extended period may have an adverse impact on our business.

Our ability to provide superior user experience on our platform depends on the continuous and reliable operation of our IT systems. We cannot assure you that we will be able to procure sufficient bandwidth in a timely manner or on acceptable terms or at all. Failure to do so may significantly impair user experience on our platform and decrease the overall effectiveness of our platform to users, content providers and advertisers. Our IT systems and proprietary content distribution network are vulnerable to damage or interruption as a result of fires, floods, earthquakes, power losses, telecommunications failures, undetected errors in software, computer viruses, hacking and other attempts to harm our IT systems. Disruptions, failures, unscheduled service interruptions or a decrease in connection speeds could damage our reputation and cause our users, content providers and advertisers to migrate to our competitors’ platforms. If we experience frequent or persistent service disruptions, whether caused by failures of our own IT systems or those of third-party service providers, our user experience may be negatively affected, which in turn may have a material and adverse effect on our reputation and business. We cannot assure you that we will be successful in minimizing the frequency or duration of service interruptions. As the number of our users increases and our users generate more content on our platform, we may be required to expand and adapt our technology and infrastructure to reliably store and process content. It may become increasingly difficult to maintain and improve the performance of our platform, especially during peak usage times, as our services become more complex and our user traffic increases.

Any compromise of the cyber security of our platform could materially and adversely affect our business, operations and reputation.

Our products and services involve the storage and transmission of users’ and other customers’ information, and security breaches expose us to a risk of loss of this information, litigation and potential liability. We experience cyber-attacks of varying degrees from time to time, and we have been able to rectify attacks without significant impact to our operations in the past. Our security measures may also be breached due to employee error, malfeasance or otherwise. Additionally, outside parties may attempt to fraudulently induce employees, users or other customers to disclose sensitive information in order to gain access to our data or our users’ or other customers’ data or accounts, or may otherwise obtain access to such data or accounts. Because the techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed, we could lose users and other customers, and may be exposed to significant legal and financial risks, including legal claims and regulatory fines and penalties. Any of these actions could have a material and adverse effect on our business, reputation and results of operations.

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

The video programs on our platform may contain programming errors that may only become apparent after their release. We generally have been able to resolve such flaws and errors. However, we cannot assure you that we will be able to detect and resolve all these programming errors effectively. Undetected programming errors could adversely affect our user experience and market acceptance.

Our software has contained, and may now or in the future contain, errors, bugs or vulnerabilities. Any errors, bugs or vulnerabilities discovered in our code after release could result in damage to our reputation, loss of users, loss of content providers, loss of revenue or liability for damages, any of which could adversely affect our business and operating results.

Privacy concerns relating to our products and services and the use of user information could damage our reputation, deter current and potential users and customers from using our products.

We collect personal data from our users in order to better understand our users and their needs for the purpose of our content feeds recommendation and to help our advertisement customers target specific demographic groups. Concerns about the collection, use, disclosure or security of personal information or other privacy-related matters, even if unfounded, could damage our reputation, cause us to lose users and other customers and adversely affect our results of operations. While we strive to comply with applicable data protection laws and regulations, as well as our privacy policies pursuant to our terms of use and other obligations we may have with respect to privacy and data protection, any failure or perceived failure to comply with these laws, regulations or policies may result in inquiries and other proceedings or actions against us by government agencies or others, as well as negative publicity and damage to our reputation and brand, each of which could cause us to lose users and customers and have an adverse effect on our business and results of operations. See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Related to Internet Information Security and Privacy Protection.”
Any systems failure or compromise of our security that results in the unauthorized access to or release of our users’ or other customers’ data could significantly limit the adoption of our products and services, as well as harm our reputation and brand and, therefore, our business. We expect to expend significant resources to protect against security breaches. The risk that these types of events could seriously harm our business is likely to increase as we expand the number of services we offer and increase the size of our users base.

Our practices may become inconsistent with new laws or regulations concerning data protection, or the interpretation and application of existing consumer and data protection laws or regulations, which is often uncertain and in flux. If so, in addition to the possibility of fines, this could result in an order requiring that we change our practices, which could have an adverse effect on our business and operating results. Complying with new laws and regulations could cause us to incur substantial costs or require us to change our business practices in a manner materially adverse to our business. Failure or perceived failure to comply with applicable laws and regulations related to the collection, use, or sharing of personal information or other privacy-related and security matters could result in a loss of confidence in us by customers and users, which could adversely affect our business, financial condition and results of operations.

**We utilize payment collection channels to collect proceeds from our paying users’ purchases. Any failure by those payment collection channels to process payments effectively and securely may materially and adversely affect our revenue realization and brand recognition.**

We depend on the billing and payment systems of third parties such as online third-party payment processors to maintain accurate records of payments of sales proceeds by paying users and collect such payments. We receive periodic statements from these third parties which indicate the aggregate amount of fees that were charged to paying users of our products and services. 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. 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.

Failure to timely collect our receivables from third parties whose billing and payment systems we use and third-party payment processors may adversely affect our cash flows. Our third-party payment processors may from time to time experience cash flow difficulties. Consequently, they may delay their payments to us or fail to pay us at all. Any delay in payment or inability of current or potential third-party payment processors to pay us may significantly harm our cash flow and results of operations.

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 that we use. If a well-publicized internet security breach were to occur, users concerned about the security of their online payments may become reluctant to purchase our products through payment service providers even if the publicized breach did not involve payment systems or methods used by us. In addition, billing software errors could damage user confidence in these payment systems. If any of the above were to occur and damage our reputation or the perceived security of the payment systems we use, we may lose paying users as they may be discouraged from purchasing products or services on our platform, which may have an adverse effect on our business and results of operations.
Our success depends on the efforts of our key employees, including our senior management members and other technology talents. If we fail to hire, retain and motivate our key employees, our business may suffer.

We depend on the continued contributions of our senior management and other key employees, many of whom are difficult to replace. The loss of the services of any of our executive officers or other key employees could harm our business. Competition for qualified talent in China is intense, particularly in the internet and technology industries. Our future success depends on our ability to attract a large number of qualified employees and retain existing key employees. If we are unable to do so, our business and growth may be materially and adversely affected and the trading price of our ADSs could suffer. Our need to significantly increase the number of our qualified employees and retain key employees may cause us to materially increase compensation-related costs, including stock-based compensation.

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

We adopted a global share incentive plan in 2014 and a share incentive plan in 2018, which we refer to as the Global Share Plan and the 2018 Plan, respectively, in this annual report, for the purpose of granting share-based compensation awards to employees, directors and consultants to incentivize their performance and align their interests with ours. We recognize expenses in our consolidated financial statements in accordance with U.S. GAAP. Under each of the share incentive plans, we are authorized to grant options and other types of awards. As of February 28, 2020, awards to purchase 6,766,402 ordinary shares under the Global Share Plan and 5,378,000 ordinary shares under the 2018 Plan have been granted and outstanding, excluding awards that were forfeited or cancelled after the relevant grant dates. Some of our outstanding awards set the completion of an initial public offering of our ordinary shares as performance condition for vesting. As of December 31, 2019, our unrecognized share-based compensation expenses relating to unvested awards amounted to RMB472.0 million (US$67.8 million), adjusted for estimated forfeitures.

If we cannot obtain sufficient cash when we need it, we may not be able to meet our payment obligations under our convertible notes.

In April 2019, we issued US$500 million in aggregate principal amount of convertible senior notes due 2026, which we refer to as 2026 Notes in this annual report. These notes bear interest at a rate of 1.375% per year, payable semiannually in arrears on April 1 and October 1 of each year, beginning on October 1, 2019, and will mature on April 1, 2026.

We derive most of our revenues from, and hold most of our assets through, our subsidiaries. As a result, we may rely in part upon distributions and advances from our subsidiaries in order to help us meet our payment obligations under the notes and our other obligations. Our subsidiaries are distinct legal entities and do not have any obligation (legal or otherwise) to provide us with distributions or advances. We may face tax or other adverse consequences, or legal limitations, on our ability to obtain funds from these entities. In addition, our ability to obtain external financing in the future is subject to a variety of uncertainties, including:

- our financial condition, results of operations and cash flows;
- general market conditions for financing activities by internet companies; and
- economic, political and other conditions in the PRC and elsewhere.

If we are unable to obtain funding in a timely manner or on commercially acceptable terms, we may not be able to meet our payment obligations under our convertible notes. If we fail to pay interest on the notes, we will be in default under the indenture governing the notes, which in turn may constitute a default under existing and future agreements governing our indebtedness.
If we fail to implement and maintain an effective system of internal controls to remediate our material weakness over financial reporting, we may be unable to accurately report our results of operations, meet our reporting obligations or prevent fraud, and investor confidence and the market price of our ADSs may be materially and adversely affected.

In auditing our consolidated financial statements for the fiscal years ended December 31, 2017 and 2018, we and our independent registered public accounting firm identified one material weakness in our internal control over financial reporting, in accordance with the standards established by the Public Company Accounting Oversight Board of the United States (PCAOB).

As defined in the standards established by the PCAOB, a “material weakness” is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness identified related to our lack of sufficient resources regarding financial reporting and accounting personnel with understanding of U.S. GAAP, in particular, to address complex U.S. GAAP technical accounting issues, related disclosures in accordance with U.S. GAAP and financial reporting requirements set forth by the SEC. The material weakness, if not timely remedied, may have led to significant misstatements in our consolidated financial statements in the future.

Following the identification of the material weakness, we have taken measures to remedy the material weakness. Our management has concluded that our internal control over financial reporting was effective as of December 31, 2019 after the remediation. For details on these initiatives, please see “Item 15. Controls and Procedures—Internal Control Over Financial Reporting—Remediation of the Material Weakness in Internal Control over Financial Reporting Reported in 2017 and 2018.”

The SEC, as required under Section 404 of the Sarbanes-Oxley Act of 2002, has adopted rules requiring public companies to include a report of management on the effectiveness of such companies’ internal control over financial reporting in their respective annual reports. In addition, an independent registered public accounting firm for a public company may be required to issue an attestation report on the effectiveness of such company’s internal control over financial reporting. Our management may conclude that our internal control over financial reporting is not effective. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm, after conducting its own independent testing, may issue a report that is qualified if it is not satisfied with our internal controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us. In addition, as we have become a public company, our reporting obligations may place a significant strain on our management, operational and financial resources and systems for the foreseeable future. We may be unable to timely complete our evaluation testing and any required remediation.

If we fail to achieve and maintain an effective internal control environment, we could suffer material misstatements in our consolidated 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 rely on certain key operating metrics to evaluate the performance of our business, and real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business.

We rely on certain key operating metrics, such as MAU and paying users, to evaluate the performance of our business. Our operating metrics may differ from estimates published by third parties or from similarly titled metrics used by other companies due to differences in methodology and assumptions. We calculate these operating metrics using internal company data that have not been independently verified. If we discover material inaccuracies in the operating metrics we use, or if they are perceived to be inaccurate, our reputation may be harmed and our evaluation methods and results may be impaired, which could negatively affect our business. If investors make investment decisions based on operating metrics we disclose that are inaccurate, we may also face potential lawsuits or disputes.
We do not have any business insurance coverage.

The insurance industry in China is still in an early stage of development, and insurance companies in China currently offer limited business-related insurance products. We do not maintain business interruption insurance or general third-party liability insurance, nor do we maintain property insurance, product liability insurance or key-man insurance. We consider this practice to be reasonable in light of the nature of our business and the insurance products that are available in China and in line with the practices of other companies in the same industry of similar size in China. Any uninsured risks may result in substantial costs and the diversion of resources, which could adversely affect our results of operations and financial condition.

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

Our business could be adversely affected by the effects of epidemics. COVID-19, a novel strain of coronavirus, has spread worldwide. Our headquarters are located in Shanghai, China and we also lease office space in Wuhan for content screening team of approximately 450 employees. This outbreak of communicable diseases has caused, and may continue to cause us and certain of our business partners, to implement temporary adjustment of work schemes allowing employees to work from home and adopt remote collaboration. We have taken measures to reduce the impact of this epidemic outbreak, including, upgrading our telecommuting system, monitoring our employees’ health on a daily basis and optimizing our technology system to support potential growth in user traffic. However, we might still experience lower work efficiency and productivity, which may adversely affect our service quality. In addition, the outbreak may cause delay or cancellation in our offline events as well as delay in the delivery of our merchandise sold on our platform to the customers, which may in turn adversely affect our revenue and financial conditions. This outbreak has also caused the restrictions on our employees’ and other service providers’ ability to travel. As a result of any of the above developments, our business, financial condition and results of operations could be materially and adversely affected. The extent to which COVID-19 impacts our results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and the actions to contain the coronavirus or treat its impact, among others.

In recent years, there have been other breakouts of epidemics in China and globally. Our operations could be disrupted if one of our employees is suspected of having H1N1 flu, avian flu or another epidemic, since it could require our employees to be quarantined and/or our offices to be disinfected. In addition, our results of operations could be adversely affected to the extent that the outbreak harms the PRC economy in general and the mobile internet industry in particular.

We are also vulnerable to natural disasters and other calamities. Although we have servers that are hosted in an offsite location, our backup system does not capture data on a real-time basis and we may be unable to recover certain data in the event of a server failure. We cannot assure you that any backup systems will be adequate to protect us from the effects of fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins, war, riots, terrorist attacks or similar events. Any of the foregoing events may give rise to server interruptions, breakdowns, system failures, technology platform failures or internet failures, which could cause the loss or corruption of data or malfunctions of software or hardware as well as adversely affect our ability to provide services on our platform.

Any future outbreak of contagious diseases, extreme unexpected bad weather or natural disasters would adversely affect our offline events. If there is a recurrence of an outbreak of certain contagious diseases or natural disasters, the offline events operated by us may be cancelled or delayed. Government advices regarding, or restrictions on, holding offline events, in the event of an outbreak of any contagious disease or occurrence of natural disasters may have a material adverse effect on our business and operating results.

Our ability to conduct business in international markets may be adversely affected by legal, regulatory and other risks.

International expansion of our online games is an important component of our growth strategy and may subject us to additional risks and challenges, including but not limited to challenges in formulating effective local sales and marketing strategies targeting users from various jurisdictions and cultures, who have a diverse range of preferences and demands; challenges in identifying appropriate local business partners and establishing and maintaining good working relationships with them; exposure to different tax jurisdictions that may subject us to greater fluctuations in our effective tax rate and potentially adverse tax consequence; and risks of increased costs associated with doing business in foreign jurisdictions. If we fail to address any of these risks and challenges associated with our international expansion, our reputation, business and results of operations may be adversely affected.
A severe or prolonged downturn in the Chinese or global economy could materially and adversely affect our business and financial condition.

The global macroeconomic environment is facing numerous challenges. The growth rate of the Chinese economy has gradually slowed since 2010 and the trend may continue. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world’s leading economies, including the United States and China. 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. Any severe or prolonged slowdown in the global or Chinese economy may materially and adversely affect our business, results of operations and financial condition.

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

Our auditor, the independent registered public accounting firm that issued the audit reports 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 Public Company Accounting Oversight Board (United States), or PCAOB, is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with applicable professional standards. Our auditor is located in, and organized under the laws of, the PRC, which is a jurisdiction where the PCAOB has been unable to conduct inspections without the approval of the Chinese authorities. In May 2013, the PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the China Securities Regulatory Commission, or 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, the CSRC or the PRC Ministry of Finance in the United States and the PRC, respectively. 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 PCAOB and audit Chinese companies that trade on U.S. exchanges.

On December 7, 2018, the SEC and the PCAOB issued a joint statement highlighting continued challenges faced by the U.S. regulators in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. However, it remains unclear what further actions, if any, the SEC and the PCAOB will take to address the problem.

This lack of the PCAOB inspections in China prevents the PCAOB from fully evaluating 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 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.

Any failure to comply with PRC property laws and relevant regulations regarding certain of our leased premises may materially and adversely affect our business, financial condition, results of operations and prospects.

We have not registered certain of our lease agreements with the relevant government authorities. Under the relevant PRC laws and regulations, we may be required to register and file with the relevant government authority executed leases. The failure to register the lease agreements for our leased properties will not affect the validity of these lease agreements, but the competent housing authorities may order us to register the lease agreements in a prescribed period of time and impose a fine ranging from RMB1,000 to RMB10,000 for each non-registered lease if we fail to complete the registration within the prescribed timeframe.
Proceedings instituted by the SEC against certain PRC-based accounting firms, including our independent registered public accounting firm, could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act.

In December 2012, the SEC instituted administrative proceedings against the Big Four PRC-based accounting firms, including our independent registered public accounting firm, alleging that these firms had violated U.S. securities laws and the SEC’s rules and regulations thereunder by failing to provide to the SEC the firms’ audit work papers with respect to certain PRC-based companies that are publicly traded in the United States.

On January 22, 2014, the administrative law judge, or the ALJ, presiding over the matter rendered an initial decision that each of the firms had violated the SEC’s rules of practice by failing to produce audit papers and other documents to the SEC. The initial decision censured each of the firms and barred them from practicing before the SEC for a period of six months.

On February 6, 2015, the four China-based accounting firms each agreed to a censure and to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC and audit U.S.-listed companies. The settlement required the firms to follow detailed procedures and to seek to provide the SEC with access to Chinese firms’ audit documents via the CSRC. 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 the accounting firms are subject to additional remedial measures, our ability to file our financial statements in compliance with SEC requirements could be impacted. A determination that we have not timely filed financial statements in compliance with the SEC requirements could ultimately lead to the delisting of our ordinary shares from Nasdaq or the termination of the registration of our ordinary shares under the Securities Exchange Act of 1934, or both, which would substantially reduce or effectively terminate the trading of our ordinary shares in the United States.

Difficulties in identifying, consummating and integrating acquisitions and alliances and potential write-off in connection with our investment or acquisitions may have a material and adverse effect on our business and results of operations.

We have acquired, and may in the future acquire, companies that are complementary to our business. From time to time, we may also make alternative investments and enter into strategic partnerships or alliances as we see fit. For example, in September 2018, we increased the shareholding and acquired majority equity interests in Zenith Group Holdings Co., Limited (“Zenith”), the owner of a series of famous virtual singers, such as Luo Tianyi. In the fourth quarter of 2019, we acquired the remaining equity interests in Zenith. In December 2018, we entered into an agreement with certain affiliates of NetEase, Inc. to acquire NetEase Comics business, including copyrights of a large number of storylines from leading publishers and comic artists. In December 2018, we entered into an agreement to increase our shareholdings and to acquire majority equity interests in Maoer Inc., an audio platform offering audio drama. In July 2019, we entered into a series of agreements to acquire a controlling interest in Chaodian Inc. (“Chaodian”). Chaodian operates offline events, such as concerts and exhibitions Bilibili Macro Link and Bilibili World, and a talent agency that is currently managing many of our content creators.
However, past and future acquisitions, partnerships or alliances may expose us to potential risks, including risks associated with:

• the integration of new operations and the retention of customers and personnel;
• significant volatility in our operating profit (loss) due to changes in the fair value of our contingent purchase consideration payable;
• unforeseen or hidden liabilities, including those associated with different business practices;
• the diversion of management’s attention and resources from our existing business and technology by acquisition, transition and integration activities;
• failure to achieve synergies with our existing business and generate revenues as anticipated;
• failure of the newly acquired businesses, technologies, services and products to perform as anticipated;
• inability to generate sufficient revenues to offset additional costs and expenses;
• breach or termination of key agreements by the counterparties;
• the costs of acquisitions;
• international operations conducted by some of our subsidiaries;
• any different interpretations on contingent purchase consideration; or
• the potential loss of, or harm to, relationships with both our employees and customers resulting from our integration of new businesses.

Any of the potential risks listed above could have a material and adverse effect on our ability to manage our business and our results of operation.

In addition, we record goodwill if the purchase price we pay in the acquisitions exceeded the amount assigned to the fair value of the net assets or business acquired. We are required to test our goodwill and intangible assets for impairment annually or more frequently if events or changes in circumstances indicate that they may be impaired. We may record impairment of goodwill and intangible assets acquired in connection with our acquisitions if the carrying value of our goodwill and related intangible assets acquired in connection with our past or future acquisitions are determined to be impaired. We cannot be assured the acquired businesses, technologies, services and products from our past acquisitions and any potential transaction will generate sufficient revenue to offset the associated costs or other potential unforeseen adverse effects on our business.

Any financial or economic crisis, or perceived threat of such a crisis may materially and adversely affect our business, financial condition and results of operations.

The global financial markets experienced significant disruptions in 2008 and the United States, European and other economies went into recession. The recovery from the lows of 2008 and 2009 was uneven and the global financial markets are facing new challenges, including the escalation of the European sovereign debt crisis since 2011, the hostilities in the Ukraine, the end of quantitative easing by the U.S. Federal Reserve and the economic slowdown in the Eurozone in 2014. It is unclear whether these challenges will be contained and what effects they each may have. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies that have been adopted by the central banks and financial authorities of some of the world’s leading economies, including China’s. Recently there have been signs that the rate of China’s and global economic growth is declining. Any prolonged slowdown in global economic development might lead to tighter credit markets, increased market volatility, sudden drops in business and dramatic changes in business.
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 regulations on foreign investment in internet and other related businesses, or if these regulations or their interpretation change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.

PRC laws and regulations impose certain restrictions or prohibitions on foreign ownership of companies that engage in internet and other related businesses, including the provision of internet content and online game operations. Specifically, foreign ownership of an internet content provider may not exceed 50%, and the major foreign investor is required to have a record of good performance and operating experience in managing value-added telecommunications business. We are a company registered in the Cayman Islands and Hode Technology (our WFOE) is considered a foreign-invested enterprise. To comply with PRC laws and regulations, we conduct our business in China mainly through Shanghai Kuanyu and Shanghai Hode (our VIEs) and their respective subsidiaries, based on a series of contractual arrangements by and among Hode Technology, our VIEs, and their shareholders. As a result of these contractual arrangements, we exert control over our consolidated affiliated entities and consolidate their financial results in our financial statements under U.S. GAAP. Our consolidated affiliated entities hold the licenses, approvals and key assets that are essential for our operations.

In the opinion of our PRC counsel, AnJie Law Firm, based on its understanding of the relevant PRC laws and regulations, each of the contracts among Hode Technology, our VIEs and their shareholders is valid, binding and enforceable in accordance with its terms. However, we have been further advised by our PRC counsel that there are substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. Thus, the PRC government may ultimately take a view contrary to the opinion of our PRC counsel. If we are found in violation of any PRC laws or regulations or if the contractual arrangements among Hode Technology, our VIEs and their shareholders are determined as illegal or invalid by the PRC court, arbitral tribunal or regulatory authorities, the relevant governmental authorities would have broad discretion in dealing with such violation, including, without limitation:

- revoking the business licenses and/or operating licenses of such entities;
- imposing fines on us;
- confiscating any of our income that they deem to be obtained through illegal operations;
- discontinuing or placing restrictions or onerous conditions on our operations;
- placing restrictions on our right to collect revenues;
- shutting down our servers or blocking our app/websites;
- requiring us to restructure the operations in such a way as to compel us to establish a new enterprise, re-apply for the necessary licenses or relocate our businesses, staff and assets;
- imposing additional conditions or requirements with which we may not be able to comply; or
- taking other regulatory or enforcement actions against us that could be harmful to our business.

The imposition of any of these penalties may result in a material and adverse effect on our ability to conduct our business operations. In addition, if the imposition of any of these penalties causes us to lose the rights to direct the activities of our consolidated affiliated entities or the right to receive their economic benefits, we would no longer be able to consolidate their financial results.
We rely on contractual arrangements with our VIEs and their shareholders for our operations in China, which may not be as effective in providing operational control as direct ownership.

Due to PRC restrictions or prohibitions on foreign ownership of internet and other related businesses in China, we operate our business in China through our VIEs and their subsidiaries, in which we have no ownership interest. We rely on a series of contractual arrangements with our VIEs and their shareholders, including the powers of attorney, to control and operate business of our consolidated affiliated entities. These contractual arrangements are intended to provide us with effective control over our consolidated affiliated entities and allow us to obtain economic benefits from them. See “Item 4. Information on the Company—C. Organizational Structure.” for more details about these contractual arrangements. In particular, our ability to control the consolidated affiliated entities depends on the powers of attorney, pursuant to which Hode Technology (our WFOE) can vote on all matters requiring shareholder approval in our VIEs. We believe these powers of attorney are legally enforceable but may not be as effective as direct equity ownership.

Although we have been advised by our PRC counsel, AnJie Law Firm, that each of the contracts among Hode Technology, our VIEs and their shareholders is valid, binding and enforceable under existing PRC laws and regulations, these contractual arrangements may not be as effective in providing control over our VIEs and their subsidiaries as direct ownership. If our VIEs or their shareholders fail to perform their respective obligations under the contractual arrangements, we may incur substantial costs and expend substantial resources to enforce our rights. These contractual arrangements are governed by and interpreted in accordance with PRC law, and disputes arising from these contractual arrangements will be resolved through arbitration in China. However, the legal system in China, particularly as it relates to arbitration proceedings, is not as developed as the legal system in many other jurisdictions, such as the United States. See “—Risks Related to Doing Business in China—Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us.” There are very few precedents and little official guidance as to how contractual arrangements in the context of a variable interest entity should be interpreted or enforced under PRC law. There remain significant uncertainties regarding the ultimate outcome of arbitration should legal action become necessary. These uncertainties could limit our ability to enforce these contractual arrangements. In addition, arbitration awards are final and can only be enforced in PRC courts through arbitration award recognition proceedings, which could cause additional expenses and delays. In the event we are unable to enforce these contractual arrangements or we experience significant delays or other obstacles in the process of enforcing these contractual arrangements, we may not be able to exert effective control over our VIEs and may lose control over the assets owned by our VIEs. As a result, we may be unable to consolidate the financial results of such entities in our consolidated financial statements, our ability to conduct our business may be negatively affected, and our operations could be severely disrupted, which could materially and adversely affect our results of operations and financial condition.

We may lose the ability to use and enjoy assets held by our VIEs and their subsidiaries that are important to our business if our VIEs and their subsidiaries declare bankruptcy or become subject to a dissolution or liquidation proceeding.

Our VIEs hold certain assets that are important to our operations, including the ICP License, License for Online Transmission of Audio-visual Programs and the Online Culture Operating Permit. Under our contractual arrangements, the shareholders of our VIEs may not voluntarily liquidate our VIEs or approve them to sell, transfer, mortgage or dispose of their assets or legal or beneficial interests exceeding certain threshold in the business in any manner without our prior consent. However, in the event that the shareholders breach this obligation and voluntarily liquidate our VIEs, or our VIEs declare bankruptcy, or all or part of their assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our operations, which could materially and adversely affect our business, financial condition and results of operations. Furthermore, if our VIEs or their subsidiaries undergo a voluntary or involuntary liquidation proceeding, their shareholders or unrelated third-party creditors may claim rights to some or all of its assets, hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.
Contractual arrangements we have entered into with our VIEs may be subject to scrutiny by the PRC tax authorities. A finding that we owe additional taxes could negatively affect our financial condition and the value of your investment.

Pursuant to applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by PRC tax authorities. We may be subject to adverse tax consequences if the PRC tax authorities determine that the contractual arrangements among our WFOE, our VIEs and their subsidiaries are not on an arm’s length basis and therefore constitute favorable transfer pricing. As a result, the PRC tax authorities could require that our VIEs adjust their taxable income upward for PRC tax purposes. Such an adjustment could increase our VIEs’ tax expenses without reducing the tax expenses of our WFOE, subject our VIEs to late payment fees and other penalties for under-payment of taxes, and result in the loss of any preferential tax treatment our WFOE may have. As a result, our consolidated results of operations may be adversely affected.

If the chops of our PRC subsidiaries, our VIEs and their subsidiaries, are not kept safely, are stolen or are used by unauthorized persons or for unauthorized purposes, the corporate governance of these entities could be severely and adversely compromised.

In China, a company chop or seal serves as the legal representation of the company towards third parties even when unaccompanied by a signature. Each legally registered company in China is required to maintain a company chop, which must be registered with the local Public Security Bureau. In addition to this mandatory company chop, companies may have several other chops which can be used for specific purposes. The chops of our PRC subsidiaries, our VIEs and their subsidiaries are generally held securely by personnel designated or approved by us in accordance with our internal control procedures. To the extent those chops are not kept safe, are stolen or are used by unauthorized persons or for unauthorized purposes, the corporate governance of these entities could be severely and adversely compromised and those corporate entities may be bound to abide by the terms of any documents so chopped, even if they were chopped by an individual who lacked the requisite power and authority to do so.

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

The shareholders of our VIEs include Yi Xu, Rui Chen, Xi Cao, Qian Wei and Ni Li, who are also our shareholders, and, in some cases are our directors or officers. Conflicts of interest may arise between the roles of them as shareholders, directors or officers of our company and as shareholders of our VIEs. For individuals who are also our directors and officers, we rely on them to abide by the laws of the Cayman Islands, which provide that directors and officers owe a fiduciary duty to our company to act in good faith and in the best interest of our company and not to use their positions for personal gain. The shareholders of our VIEs have executed powers of attorney to appoint Hode Technology (our WFOE) or a person designated by Hode Technology to vote on their behalf and exercise voting rights as shareholders of our VIEs. We cannot assure you that when conflicts arise, these shareholders will act in the best interest of our company or that conflicts will be resolved in our favor. If we cannot resolve any conflicts of interest or disputes between us and these shareholders, we would have to rely on legal proceedings, which may be expensive, time-consuming and disruptive to our operations. There is also substantial uncertainty as to the outcome of any such legal proceedings.

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

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

Under PRC laws and regulations, a wholly foreign-owned enterprise in China, such as Hode Technology, may pay dividends only out of its accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise is required to set aside at least 10% of its after-tax profits each year, after making up previous years’ accumulated losses, if any, to fund certain statutory reserve funds, until the aggregate amount of such fund reaches 50% of its registered capital. At the discretion of the board of directors of the wholly foreign-owned enterprise, it may allocate a portion of its after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends. Any limitation on the ability of our PRC subsidiaries to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.
Substantial uncertainties exist with respect to how the Foreign Investment Law may impact the viability of our current corporate structure and operations.

The National People’s Congress approved the Foreign Investment Law on March 15, 2019 and the State Council approved the Regulation on Implementing the Foreign Investment Law (the “Implementation Regulations”) on December 12, 2019, effective from January 1, 2020, which replaced 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 Supreme People’s Court of China issued a judicial interpretation on the Foreign Investment Law in December, 2019, effective from January 1, 2020, to ensure fair and efficient implementation of the Foreign Investment Law. The judicial interpretation clarifies the issues regarding the validity of the investment contract violating the restrictive or prohibitive requirements in the negative list. According to the judicial interpretation, courts in China shall not, among other things, support contracted parties to claim foreign investment contracts in sectors not on the Special Administrative Measures for Access of Foreign Investment (Negative List) (2019) as void because the contracts have not been approved or registered by administrative authorities. However, since PRC judicial and administrative authorities have significant discretion in interpreting and implementing statutory and contractual terms, it is difficult to predict the outcome of a judicial or administrative proceeding, and such unpredictability towards our contractual rights could adversely affect our business and impede our ability to continue our operations. The Foreign Investment Law and Implementation Regulations embody 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.

The Foreign Investment Law removes all references to the terms of “de facto control” or “contractual control” as defined in the draft published in 2015 by the Ministry of Commerce, or MOFCOM. However, the Foreign Investment Law has a catch-all provision under the definition of “foreign investment” which includes investments made by foreign investors in China through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. Therefore, the State Council may in the future promulgate laws and regulations that deem investments made by foreign investors through contractual arrangements as “foreign investment,” and our contractual arrangements may be subject to and be deemed to violate the market entry requirements in China. The “variable interest entity” structure, or VIE structure, has been adopted by many PRC-based companies, including us, to obtain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions in China. See Item 4.C “—Organizational Structure.”

In addition, the Foreign Investment Law further specifies that foreign investments shall be conducted in line with the “negative list” to be issued or approved to be issued by the State Council. The internet content service, internet audio-visual program services and online culture activities that we conduct through our consolidated affiliated entities are subject to foreign investment restrictions set forth in the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2019) (2019 Negative List) issued by MOFCOM and the National Development and Reform Commission. It is uncertain whether the industry of internet content service, internet audio-visual program services and online culture activities, in which our variable interest entities operate, will be subject to the foreign investment restrictions or prohibitions under the then updated “negative list” to be issued. If the then updated “negative list” requires companies with existing VIE structure like us to take further actions, such as MOC market entry clearance, we will face uncertainties as to whether such clearance can be timely obtained, or at all.
Risks Related to Doing Business in China

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

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

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

Regulation and censorship of information disseminated over the mobile and internet in China may adversely affect our business and subject us to liability for content posted on our platform.

Internet companies in China are subject to a variety of existing and new rules, regulations, policies, and license and permit requirements on the distribution of information over the mobile and internet. Under these rules and regulations, content service providers are prohibited from posting or displaying over the mobile or internet content that, among others, violates PRC laws and regulations, impairs the national dignity of China or the public interest, is obscene, superstitious, fraudulent or defamatory, or may be deemed by relevant government authorities as “socially destabilizing” or leaking “state secrets” of China. For more information, see “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Related to Internet Information Security and Privacy Protection.” In connection with enforcing these rules, regulations, policies and requirements, relevant government authorities may suspend services by, or revoke licenses of, any internet or mobile content service provider that is deemed to provide illicit content online or on mobile devices, and such activities may be intensified in connection with any ongoing government campaigns to eliminate prohibited content online. For example, in 2016, the National Office of Combating Pornography and Illegal Publications, the State Internet Information Office, the Ministry of Industry and Information Technology, or the MIIT, the Ministry of Culture, or the MOC, and the Ministry of Public Security jointly launched a “Clean Up the Internet 2016” campaign. Based on publicly available information, the campaign aims to eliminate pornographic information and content in the internet information services industry by, among other things, holding liable individuals and corporate entities that facilitate the distribution of pornographic information and content. During the campaign, relevant government authorities shut down 2,500 websites, removed 15,000 links and closed 310,000 accounts. Certain major public internet companies voluntarily initiated self-investigations to filter and remove content from their websites and cloud servers. In 2017, the regulatory authorities jointly initiated a “Clean Up the Internet 2017” campaign and, based on the publicly available information on November 7, 2017, 1,655 websites have been shut down during the campaign. In January 2019, CNSA, issued the Regulations on Administration of Network Short Video Platforms and Censoring Criteria for Network Short Video Contents to tighten the censorship on short video contents. The regulatory authorities carried out a series of law enforcement actions against violation of personal information protection from January to December 2019. On January 25, 2019, the CAC, the MIIT, the Ministry of Public Security, and the State Administration for Market Regulation jointly issued the Notice on Special Governance of Illegal Collection and Use of Personal Information via Apps, which restates the requirement of legal collection and use of personal information, encourages APP operators to conduct security certifications, and encourages search engines and APP stores to clearly mark and recommend those certified APPs. At the same time, they announced a one-year special crackdown on the illegal collection and misuse of personal information by apps. As a result, a number of mobile apps were condemned publicly for their non-compliance with personal information protection policies, including, among other non-compliance actions, the failure to publish rules on the collection and improper use of users’ personal information, the failure to provide channels for users to access and revise their information, the failure to provide functions for users to cancel accounts, the unauthorized collection of personal information, the unreasonable requests for access, and the unauthorized sharing of information with third parties. For more information, see “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Related to Online Transmission of Audio-Visual Programs.” and “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Related to Internet Information Security and Privacy Protection.”
We endeavor to eliminate illicit content from our platform. We have made substantial investments in resources to monitor content that users post on our platform and the way in which our users engage with each other through our platform. In the past, we have terminated certain user accounts in order to eliminate spam, fictitious accounts and indecent content from our platform. We use a variety of methods to ensure our platform remains a healthy and positive experience for our users, including a designated content management team and our own data analytics software. Although we employ these methods to filter our users and content posted by our users, we cannot be sure that our internal content control efforts will be sufficient to remove all content that may be viewed as indecent or otherwise non-compliant with PRC law and regulations. Government standards and interpretations as to what constitutes illicit online content or behavior are subject to interpretation and may change.

We have paid fines in connection with content posted on our platform, and government standards and interpretations may change in a manner that could render our current monitoring efforts insufficient. The PRC government has wide discretion in regulating online activities and, irrespective of our efforts to control the content on our platform, government campaigns and other actions to reduce illicit content and activities could subject us to negative press or regulatory challenges and sanctions, including imposition of fines, suspension or revocation of our licenses to operate in China or a ban of our platform, including closure of one or more parts of or our entire business. Further, our senior management could be held criminally liable if we are deemed to be profiting from illicit content on our platform. Although our operations have not been materially adversely affected by government campaigns or any other regulatory actions in the past, we cannot assure you that our business and operations will be immune from government actions or sanctions in the future. If government actions or sanctions are brought against us, or if there are widespread rumors that government actions or sanctions have been brought against us, our reputation could be harmed, we may lose users and other customers, our revenues and results of operation may be materially and adversely affected and the value of our ADSs could be dramatically reduced.

In March 2018, the SAPPRFT issued a notice to further regulate the transmission of internet audio-visual programs. Due to the lack of clarification and detailed implementation rules, it is unclear to us whether and how this notice would be applicable to the PUGC content posted on our platform by our users. In November 2019, the CAC, the NRTA and the MCT, jointly issued the Notice on Promulgation of the Administrative Provisions on Internet Audio-visual Information Services, which required the providers of internet audio-visual information services to have sufficient capacities to deal with cyber threats, prevent internet illegal and criminal activities, and defend the integrity, safety and availability of online data. We have conducted a review of the content that may be implicated on our platform and believe our current content monitoring measures in place are adequate. However, given the uncertainty in the interpretation and implementation of this notice, we may be required to subsequently implement further content monitoring measures, which could materially and adversely affect our business, financial condition and results of operations. For further information regarding this notice, see "Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Related to Online Transmission of Audio-Visual Programs."

**Adverse changes in economic and political policies of the PRC government could have a material and adverse effect on overall economic growth in China, which could materially and adversely affect our business.**

A substantial majority of our revenues is sourced from China. Accordingly, our results of operations, financial condition and prospects are influenced by economic, political and legal developments in China. Economic reforms begun in the late 1970s have resulted in significant economic growth. However, any economic reform policies or measures in China may from time to time be modified or revised. China’s economy differs from the economies of most developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past 30 years, growth has been uneven across different regions and among different economic sectors.

The PRC government exercises significant control over China’s economic growth through strategically allocating resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Although the PRC economy has grown significantly in the past decade, that growth may not continue, as evidenced by the slowing of the growth of the PRC economy since 2010. Any adverse changes in economic conditions in China, in the policies of the PRC government or in the laws and regulations in China could have a material adverse effect on the overall economic growth of China. Such developments could adversely affect our business and operating results, lead to reduction in demand for our services and adversely affect our competitive position.
Currently there is no law or regulation specifically governing virtual asset property rights and therefore it is not clear what liabilities, if any, online game operators may have for virtual assets.

While playing online games or participating on platform activities, our users acquire and accumulate some virtual assets, such as special equipment and other accessories. Such virtual assets can 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 General Provisions of Civil Law effective in October 2017, ownership of data and virtual assets are civil rights protected by laws. However, there is currently no further 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 several PRC court judgments, courts generally required the online game operators to provide well-developed security systems to protect virtual assets owned by players and some courts required game operators to return the virtual items or found game operators liable for the loss and damage incurred therefrom if the online game operators are found to be in default or violate players’ rights. 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.

Restrictions on virtual currency may adversely affect our online game revenues.

Our revenues from mobile games are collected through the online sale of in-game currencies, which are considered to be the “virtual currency” as such term is defined in the Notice on Strengthening the Administration of Online Game Virtual Currency, which was jointly issued by the MOC and MOFCOM in 2009. PRC laws and regulations, including this notice, have provided various restrictions on virtual currency and imposed various requirements and obligations on online game operators with respect to the virtual currency used in their games, including that (i) any entity engaged in the services relating to the issuance or trading of virtual currencies for online gaming shall comply with the conditions relevant to the establishment of an internet culture entity for business purpose and file an application with the provincial administrative department of culture at its locality for preliminary examination and then with the MOC for approval; (ii) the total amount of virtual currency issued by online game operators and the amount purchased by individual users in China is subject to limits, and online game operators are required to report the total amount of their issued virtual currency on a quarterly basis and are prohibited from issuing disproportionate amounts of virtual currency in order to generate revenues; (iii) virtual currency may only be provided to users in exchange for payment in RMB and may only be used to pay for virtual goods and services of the issuer of the currency, and online game operators are required to keep transaction data records for no less than 180 days; (iv) online game operators are prohibited from providing lucky draws or lotteries that are conducted on the condition that participants contribute cash or virtual currency in exchange for game props or virtual currencies; (v) online game operators are prohibited from providing virtual currency trading services to minors; and (vi) companies involved with virtual currency in China must be either issuers or trading platforms, and may not operate simultaneously both as issuers and as trading platforms. We must tailor our business model carefully, including designing and operating our databases to maintain user information for the minimum required period, in order to comply with the current PRC laws and regulations, including the foregoing notices, in a manner that in many cases can be expected to result in an adverse impact on our online game revenues.

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

Under PRC advertising laws and regulations, we are obligated to monitor the advertising content shown on our platform to ensure that such content is true and accurate and in compliance with applicable laws and regulations. In addition, where a special government review is required for specific types of advertisements prior to internet posting, such as advertisements relating to pharmaceuticals, medical instruments, agrochemicals and veterinary pharmaceuticals, we are obligated to confirm that such review has been performed and approval has been obtained. Violation of these laws and regulations may subject us to penalties, including imposition of fines, confiscation of our advertising income, orders to cease dissemination of the advertisements and orders to publish an announcement correcting the misleading information. In circumstances involving serious violations by us, PRC governmental authorities may force us to terminate our advertising operations or revoke our licenses.
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While we have made significant efforts to ensure that the advertisements shown on our platform are in full compliance with applicable PRC laws and regulations, we cannot assure you that all the content contained in such advertisements is true and accurate as required by the advertising laws and regulations, especially given the uncertainty in the interpretation of these PRC laws and regulations. If we are found to be in violation of applicable PRC advertising laws and regulations, we may be subject to penalties and our reputation may be harmed, which may have a material and adverse effect on our business, financial condition, results of operations and prospects.

If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders.

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside of the PRC with a “de facto management body” within the PRC is considered a PRC resident enterprise. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control over and overall management of the business, productions, personnel, accounts and properties of an enterprise. In 2009, the State Administration of Taxation issued a circular, known as 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. Although Circular 82 only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners like us, the criteria set forth in the circular may reflect the State Administration of Taxation’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 Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident enterprise by virtue of having its “de facto management body” in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions 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.

We believe that none of our entities outside of China is a PRC resident enterprise for PRC tax purposes. However, 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.” If the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, we will be subject to the enterprise income tax on our global income at the rate of 25% and we will be required to comply with PRC enterprise income tax reporting obligations. In addition, we may be required to withhold a 10% withholding tax from dividends we pay to our shareholders that are non-resident enterprises, including the holders of our ADSs. In addition, non-resident enterprise shareholders (including our ADS holders) may be subject to PRC tax at a rate of 10% on gains realized on the sale or other disposition of the ADSs or ordinary shares, if such gains is treated as sourced from within the PRC. Furthermore, if PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, dividends paid to our non-PRC individual shareholders (including our ADS holders) and any gain realized on the transfer of the ADSs or ordinary shares by such holders may be subject to PRC tax at a rate of 20% (which, in the case of dividends, may be withheld at source by us), if such gains are deemed to be from PRC sources. These rates may be reduced by an applicable tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise, but it is unclear whether our non-PRC shareholders would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise. Any such tax may reduce the returns on your investment in the ADSs or the ADSs issuable upon conversion of the 2026 Notes.

If we are required to withhold PRC tax from interest payments on our 2026 Notes, we may be required, subject to certain exceptions, to pay such additional amounts as will result in receipt by the holders of the notes of such amounts as would have been received had no such withholding been required. Under certain circumstances, we will have the option to redeem the notes prior to their maturity, and a holder may not be able to re-invest the redemption proceeds in comparable securities at the same rate of return of the notes. In addition, the requirement to pay additional amounts will increase the cost of servicing interest payments on the notes and could have an adverse effect on our financial condition.
There are significant uncertainties under the PRC Enterprise Income Tax Law relating to the withholding tax liabilities of our PRC subsidiaries, and dividends payable by our PRC subsidiaries to our offshore subsidiaries may not qualify to enjoy certain treaty benefits.

Under the PRC Enterprise Income Tax Law and its implementation rules, the profits of a foreign-invested enterprise generated through operations, which are distributed to its immediate holding company outside China, will be subject to a withholding tax rate of 10%. Pursuant to a special arrangement between Hong Kong and China, such rate may be reduced to 5% if a Hong Kong resident enterprise owns more than 25% of the equity interest in the PRC company. Our current PRC subsidiaries are wholly owned by our Hong Kong subsidiaries, such as Hode HK. Accordingly, Hode HK may qualify for a 5% tax rate in respect of distributions from its PRC subsidiaries. Under the Notice of the State Administration of Taxation on Issues regarding the Administration of the Dividend Provision in Tax Treaties promulgated in 2009, the taxpayer needs to satisfy certain conditions to enjoy tax benefits under a tax treaty. These conditions include: (i) the taxpayer must be the beneficial owner of the relevant dividends, and (ii) the corporate shareholder to receive dividends from the PRC subsidiaries must have met the direct ownership thresholds during the 12 consecutive months preceding the receipt of the dividends. Further, the SAT promulgated the Notice on How to Understand and Recognize the “Beneficial Owner” in Tax Treaties in 2009, which limits the “beneficial owner” to individuals, enterprises or other organizations normally engaged in substantive operations, and sets forth certain detailed factors in determining “beneficial owner” status.

Entitlement to a lower tax rate on dividends according to tax treaties or arrangements between the PRC central government and governments of other countries or regions is subject to the Administrative Measures for Non-Resident Taxpayers to Enjoy Treaties under Tax Treaties, which provides that non-resident enterprises are not required to obtain pre-approval from the relevant tax authority in order to enjoy the reduced withholding tax. Instead, non-resident enterprises and their withholding agents may, by self-assessment and on confirmation that the prescribed criteria to enjoy the tax treaty benefits are met, directly apply the reduced withholding tax rate, and file necessary forms and supporting documents when performing tax filings, which will be subject to post-tax filing examinations by the relevant tax authorities. As a result, we cannot assure you that we will be entitled to any preferential withholding tax rate under tax treaties for dividends received from our PRC subsidiaries.

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

We face uncertainties regarding the reporting on and consequences of previous private equity financing transactions involving the transfer and exchange of shares in our company by non-resident investors.

In February 2015, the SAT issued the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises, or SAT Bulletin 7, as amended in 2017. Pursuant to this bulletin, an “indirect transfer” of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. According to SAT Bulletin 7, “PRC taxable assets” include assets attributed to an establishment in China, immovable properties located in China, and equity investments in PRC resident enterprises, in respect of which gains from their transfer by a direct holder, being a non-PRC resident enterprise, would be subject to PRC enterprise income taxes. When determining whether there is a “reasonable commercial purpose” of the transaction arrangement, features to be taken into consideration include: whether the main value of the equity interest of the relevant offshore enterprise derives from PRC taxable assets; whether the assets of the relevant offshore enterprise mainly consist of direct or indirect investment in China or if its income mainly derives from China; whether the offshore enterprise and its subsidiaries directly or indirectly holding PRC taxable assets have real commercial nature which is evidenced by their actual function and risk exposure; the duration of existence of the business model and organizational structure; the replicability of the transaction by direct transfer of PRC taxable assets; and the tax situation of such indirect transfer and applicable tax treaties or similar arrangements. In respect of an indirect offshore transfer of assets of a PRC establishment, the resulting gain is to be included with the enterprise income tax filing of the PRC establishment or place of business being transferred, and would consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to the immovable properties located in China or to equity investments in a PRC resident enterprise, which is not related to a PRC establishment or place of business of a non-resident enterprise, a PRC enterprise income tax of 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. Where the payer fails to withhold any or sufficient tax, the transferor is required to declare and pay such tax to the tax authority by itself within the statutory time limit. Late payment of applicable tax will subject the transferor to default interest. SAT Bulletin 7 does not apply to transactions of sale of shares by investors through a public stock exchange where such shares were acquired from a transaction through a public stock exchange.
There is uncertainty as to the application of SAT Bulletin 7. We face uncertainties as to the reporting and other implications of certain past and future transactions where PRC taxable assets are involved, such as offshore restructuring, sale of the shares in our offshore subsidiaries or investments. Our company may be subject to filing obligations or taxed if our company is transferor in such transactions, and may be subject to withholding obligations if our company is transferee in such transactions under SAT Bulletin 7. For transfer of shares in our company by investors that are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist in the filing under SAT Bulletin 7. As a result, we may be required to expend valuable resources to comply with SAT Bulletin 7 or to request the relevant transferees from whom we purchase taxable assets to comply with these circulars, or to establish that our company should not be taxed under these circulars, which may have a material adverse effect on our financial condition and results of operations.

Discontinuation of any of the preferential tax treatments available to us or imposition of any additional taxes could adversely affect our financial condition and results of operations.

The EIT Law and its implementation rules, effective 2008, unified the previously-existing separate income tax laws for domestic enterprises and FIEs and adopted a unified 25% EIT rate applicable to all resident enterprises in China, subject to certain exceptions. In addition, certain enterprises may enjoy a preferential EIT rate of 15% under the EIT Law if they qualify as High and New Technology Enterprise, or HNTE, subject to various qualification criteria. In 2017, Shanghai Hode qualified as a HNTE which allows it to enjoy a three-year preferential EIT rate of 15% from 2017. In 2018, Shanghai Bilibili Technology Co., Ltd. qualified as a HNTE which allows it to enjoy a three-year preferential EIT rate of 15% from 2018. If Shanghai Hode or Shanghai Bilibili Technology Co., Ltd. fail to maintain or renew their HNTE status, their applicable EIT rate may be increased to 25%, which could have a material adverse effect on our financial condition and results of operations.

There are uncertainties with respect to value-added tax rates relating to the tax liabilities of our PRC subsidiaries.

The PRC Ministry of Finance, the SAT and the General Administration of Customs promulgated the Announcement on Policies to Deepen Value-Added Tax Reform on March 20, 2019, which provides that the value-added tax rate of 16% in manufacturing and other industries is reduced to 13%, the value-added tax rate of 10% in transportation and other industries is reduced to 9%, and the value-added tax rate in value-added telecommunication service and other industries stays at 6% from April 1, 2019. We are subject to value-added tax at a rate of 13% on sales from April 1, 2019, less any deductible value-added tax we have already paid or borne. It is uncertain whether the value-added tax rate will be raised in the future, which could have a material adverse effect on our financial condition and results of operations. If we fail to comply with these regulations, we may be subject to sanctions including corrective orders, imposition of fines and confiscation of illegal gains.

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

The Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, and other recently adopted regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time consuming and complex. For example, the M&A Rules require that MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, if (i) any important industry is concerned, (ii) such transaction involves factors that impact or may impact national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honored brand. Moreover, the Anti-Monopoly Law promulgated by the Standing Committee of the National People’s Congress effective 2008 requires that transactions which are deemed concentrations and involve parties with specified turnover thresholds (meaning 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 MOFCOM before they can be completed. In addition, in 2011, the General Office of the State Council promulgated a Notice on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, also known as Circular 6, which officially established a security review system for mergers and acquisitions of domestic enterprises by foreign investors. Further, MOFCOM promulgated the Regulations on Implementation of Security Review System for the Merger and Acquisition of Domestic Enterprises by Foreign Investors, effective 2011, to implement Circular 6. Under Circular 6, a security review is required for mergers and acquisitions by foreign investors having “national defense and security” concerns and mergers and acquisitions by which foreign investors may acquire the “de facto control” of domestic enterprises with “national security” concerns. Under the foregoing MOFCOM regulations, MOFCOM will focus on the substance and actual impact of the transaction when deciding whether a specific merger or acquisition is subject to security review. If MOFCOM decides that a specific merger or acquisition is subject to a security review, it will submit it to the Inter-Ministerial Panel, an authority established under Circular 6 led by the National Development and Reform Commission, and MOFCOM under the leadership of the State Council, to carry out security review. The regulations prohibit foreign investors from bypassing the security review by structuring transactions through trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions. There is no explicit provision or official interpretation stating that the merging or acquisition of a company engaged in the internet content or mobile games business requires security review, and there is no requirement that acquisitions completed prior to the promulgation of the Security Review Circular are subject to MOFCOM review.

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

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

The State Administration of Foreign Exchange, or SAFE, promulgated the Circular on Relevant Issues Relating to Domestic Resident’s Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, in July 2014 that requires PRC residents or entities to register with SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. In addition, such PRC residents or entities must update their SAFE registrations when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, or mergers or divisions. According to the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment released in February 2015 by SAFE, or SAFE Circular 13, local banks will examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration, under SAFE Circular 37 from June 2015.

If our shareholders who are PRC residents or entities do not complete their registration with the local SAFE branches or local banks, our PRC subsidiaries may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to us, and we may be restricted in our ability to contribute additional capital to our PRC subsidiaries. Moreover, failure to comply with the SAFE registration described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

Messrs. Yi Xu, Rui Chen, Xi Cao and Ms. Qian Wei and Ms. Ni Li have completed initial SAFE registration in connection with our financings and will update their registration filings with SAFE under SAFE Circular 37 when any changes should be registered under SAFE Circular 37. However, we may not at all times be fully aware or informed of the identities of all our shareholders or beneficial owners that are required to make or update such registrations, and we cannot compel our beneficial owners to comply with SAFE registration requirements. As a result, we cannot assure you that all of our shareholders or beneficial owners who are PRC residents or entities have complied with, and will in the future make or obtain any applicable registrations or approvals required by, SAFE regulations. Failure by such shareholders or beneficial owners to comply with SAFE regulations or failure by us to amend the foreign exchange registrations of our PRC subsidiaries, could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiaries’ ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

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

Pursuant to SAFE Circular 37, PRC residents who participate in share incentive plans in overseas non-publicly-listed companies due to their position as director, senior management or employees of the PRC subsidiaries of the overseas companies may submit applications to SAFE or its local branches for the foreign exchange registration with respect to the stock incentive plan. Our directors, executive officers and other employees who are PRC residents and who have been granted options may follow SAFE Circular 37 to apply for the foreign exchange registration with respect to their options. Under the notices 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 shares 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. Failure of our PRC stock option holders to complete their SAFE registrations may subject these PRC residents to fines and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiary, limit our PRC subsidiary’s ability to distribute dividends to us, or otherwise materially adversely affect our business. The SAT has issued certain circulars concerning equity incentive awards. Under these circulars, our employees working in China who exercise share options or are granted restricted shares will be subject to PRC individual income tax. Each of our PRC subsidiaries has obligations to file documents related to employee share options or restricted shares with relevant tax authorities and to withhold individual income taxes for those employees. 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 governmental authorities.

PRC regulation of loans to, and direct investment in, PRC entities by offshore holding companies and governmental control of currency conversion may restrict or prevent us from using the proceeds of offering of ADSs and notes to make loans to our PRC subsidiaries and our VIEs and their subsidiaries, or to make additional capital contributions to our PRC subsidiaries.

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

Most of these ways are subject to PRC regulations and approvals. For example, loans by us to our wholly owned PRC subsidiaries to finance their activities cannot exceed statutory limits and must be registered with the local counterpart of SAFE. If we decide to finance our wholly owned PRC subsidiaries by means of capital contributions, these capital contributions are subject to the requirement of making necessary filings in the Foreign Investment Comprehensive Management Information System and registration with other governmental authorities in China. Due to the restrictions imposed on loans in foreign currencies extended to any PRC domestic companies, we are not likely to make such loans to our consolidated affiliated entities, which are PRC domestic company. Further, we are not likely to finance the activities of our consolidated affiliated entities by means of capital contributions due to regulatory restrictions relating to foreign investment in PRC domestic enterprises engaged in internet information services, online games, online audio-visual program services and related businesses.
Fluctuation in exchange rates could have a material and adverse effect on our results of operations and the value of your investment.

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

A substantial majority of our revenues and costs is denominated in RMB. Any significant depreciation of the RMB may materially adversely affect the value of, and any dividends payable on, our ADSs in U.S. dollars. For example, when we convert our U.S. dollars denominated funds into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us. In addition, appreciation or depreciation in the value of the Renminbi relative to U.S. dollars would affect our financial results reported in U.S. dollar terms regardless of any underlying change in our business or results of operations.
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 Renminbi into foreign currency. As a result, fluctuations in exchange rates may have a material adverse effect on your investment.

**Governmental control of currency conversion may limit our ability to utilize our 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 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 approval of SAFE by complying with certain procedural requirements. 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 to our company. However, approval from or registration with appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. As a result, we need to obtain SAFE approval to use cash generated from the operations of our PRC subsidiaries in China to pay off their respective debt in a currency other than Renminbi owed to entities outside China, or to make other capital expenditure payments outside China in a currency other than Renminbi.

In light of the flood of capital outflows of China in 2016 due to the weakening RMB, the PRC government has imposed more restrictive foreign exchange policies and stepped up scrutiny of major outbound capital movement including overseas direct investment. More restrictions and substantial vetting process are put in place by SAFE to regulate cross-border transactions falling under the capital account. If any of our shareholders regulated by such policies fails to satisfy the applicable overseas direct investment filing or approval requirement timely or at all, it may be subject to penalties from the relevant PRC authorities. The PRC government may at its discretion further restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

**Risks Related to Our ADSs**

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

The trading price of our ADSs has ranged from US$12.85 to US$21.50 per ADS in 2019, and the last reported trading price on March 25, 2020 was US$22.87 per ADS. The trading price of our ADSs is likely to remain volatile and could fluctuate widely due to factors beyond our control. This may happen because of broad market and industry factors, including the performance and fluctuation of the market prices of other companies with operations located mainly in China that have listed their securities in the United States. In addition to market and industry factors, the price and trading volume for our ADSs may be highly volatile for factors specific to our own operations, including the following:

- variations in our revenues, earnings, cash flow and data related to our user base or user engagement;
- announcements of new investments, acquisitions, strategic partnerships or joint ventures by us or our competitors;
announcements of new product and service offerings, solutions and expansions by us or our competitors;
changes in financial estimates by securities analysts;
detrimental adverse publicity about us, our products and services or our industry;
additions or departures of key personnel;
releases at any time, in some cases without notice, of lock-up or other transfer restrictions on our outstanding ordinary shares, ADSs or other equity related securities;
sales of additional ADSs or other equity-related securities in the public markets, or issuance of ADSs upon conversion of convertible senior notes issued by us, or the perception of these events; and
actual or potential litigation or regulatory investigations.

Any of these factors may result in large and sudden changes in the volume and price at which our ADSs will trade.

In the past, shareholders of public companies have often brought securities class action suits against those companies following periods of instability in the market price of their securities. If we were involved in a class action suit, it could divert a significant amount of our management’s attention and other resources from our business and require us to incur significant expenses to defend the suit, which could harm our results of operations. 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 need additional capital, and the sale of additional ADSs or other equity securities could result in additional dilution to our shareholders, and the incurrence of additional indebtedness could increase our debt service obligations.*

We may require additional cash resources due to changed business conditions, strategic acquisitions or other future developments. If these resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain additional credit facilities. The sale of additional equity and equity-linked securities could result in additional dilution to our shareholders. The sale of substantial amounts of our ADSs (including upon conversion of the concurrently offered convertible senior notes) could dilute the interests of our shareholders and ADS holders and adversely impact the market price of our ADSs. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

*Conversion of the convertible senior notes offered may dilute the ownership interest of existing shareholders, including holders who had previously converted their convertible senior notes.*

In April 2019, we issued the 2026 Notes. These notes bear interest at a rate of 1.375% per year, payable semiannually in arrears on April 1 and October 1 of each year, beginning on October 1, 2019, and will mature on April 1, 2026.

The conversion of some or all of the convertible senior notes will dilute the ownership interests of existing shareholders and existing holders of our ADSs. Any sales in the public market of the ADSs issuable upon such conversion may increase the opportunities to create short positions with respect to the ADSs, which could adversely affect prevailing market prices of our ADSs. In addition, the existence of the convertible senior notes may encourage short selling by market participants because the conversion of the convertible senior notes could depress the price of our ADSs. The price of our ADSs could be affected by possible sales of our ADSs by investors who view the convertible senior notes as a more attractive means of equity participation in us and by hedging or arbitrage trading activity, which we expect to occur involving our ADSs.

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Provisions of our convertible notes could discourage an acquisition of us by a third party.

Certain provisions of our 2026 Notes could make it more difficult or more expensive for a third party to acquire us, or may even prevent a third party from acquiring us. For example, upon the occurrence of certain transactions constituting a fundamental change, holders of the convertible senior notes will have the right, at their option, to require us to repurchase all of their convertible senior notes or any portion of the principal amount of such notes. In the event of a fundamental change, we may also be required to increase the conversion rate for conversions in connection with such fundamental changes. By discouraging an acquisition of us by a third party, these provisions could have the effect of depriving the holders of our ordinary shares and holders of our ADSs of an opportunity to sell their ordinary shares and ADSs, as applicable, at a premium over prevailing market prices.

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

We have a dual-class share structure such that our ordinary shares consist of Class Y ordinary shares and Class Z ordinary shares. In respect of matters requiring the votes of shareholders, holders of Class Z ordinary shares will be entitled to one vote per share, while holders of Class Y ordinary shares will be entitled to ten votes per share based on our proposed dual-class share structure. Our ADSs represent Class Z ordinary shares. Each Class Y ordinary share is convertible into one Class Z ordinary share at any time by the holder thereof, while Class Z ordinary shares are not convertible into Class Y ordinary shares under any circumstances. Upon any sale of Class Y ordinary shares by a holder thereof to any person other than Rui Chen, Yi Xu and Ni Li or any entity which is not ultimately controlled by any of Rui Chen, Yi Xu or Ni Li, such Class Y ordinary shares shall be automatically and immediately converted into the same number of Class Z ordinary shares.

As of the date of this annual report, three of our directors, Rui Chen, Yi Xu and Ni Li, beneficially own all of our issued Class Y ordinary shares. As of February 28, 2020, these Class Y ordinary shares constitute approximately 26.0% of our total issued and outstanding share and 77.9% of the aggregate voting power of our total issued and outstanding share. As a result of the dual-class share structure and the concentration of ownership, holders of Class Y ordinary shares will have considerable influence over matters such as decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. Such holders may take actions that are not in the best interest of us or our other shareholders. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could have the effect of depriving our other shareholders of the opportunity to receive a premium for their shares as part of a sale of our company and may reduce the price of our ADSs. This concentrated control will limit your ability to influence corporate matters and could discourage others from pursuing any potential merger, takeover or other change of control transactions that holders of Class Z ordinary shares and ADSs may view as beneficial.

The dual-class structure of our ordinary shares may adversely affect the trading market for our ADSs.

S&P Dow Jones and FTSE Russell have recently announced changes to their eligibility criteria for inclusion of shares of public companies on certain indices, including the S&P 500, to exclude companies with multiple classes of shares and companies whose public shareholders hold no more than 5% of total voting power from being added to such indices. In addition, several shareholder advisory firms have announced their opposition to the use of multiple class structures. As a result, the dual-class structure of our ordinary shares may prevent the inclusion of our ADSs representing Class Z ordinary shares in such indices and may cause shareholder advisory firms to publish negative commentary about our corporate governance practices or otherwise seek to cause us to change our capital structure. Any such exclusion from indices could result in a less active trading market for our ADSs. Any actions or publications by shareholder advisory firms critical of our corporate governance practices or capital structure could also adversely affect the value of our ADSs.
If securities or industry analysts do not 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.

The sale or availability for sale of substantial amounts of our ADSs could adversely affect their market price.

Sales of substantial amounts of our ADSs in the public market, or the perception that these sales could occur, could adversely affect the market price of our ADSs and could materially impair our ability to raise capital through equity offerings in the future. We cannot predict what effect, if any, market sales of securities held by our significant shareholders or any other shareholder or the availability of these securities for future sale will have on the market price of our ADSs.

Because 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. As a result, we do not expect to pay any cash dividends in the foreseeable future. Therefore, you should not rely on an investment in our ADSs as a source for any future dividend income.

Our board of directors has complete discretion as to whether to distribute dividends, subject to certain requirements of Cayman Islands law. 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.

You may be subject to PRC income tax on dividends from us or on any gain realized on the transfer of our ADSs.

Under the PRC Enterprise Income Tax Law and its implementation rules, subject to any applicable tax treaty or similar arrangement between China and your jurisdiction of residence that provides for a different income tax arrangement, PRC withholding tax at the rate of 10% is normally applicable to dividends from PRC sources payable to investors that are non-PRC resident enterprises, which do not have an establishment or place of business in China, or which have such establishment or place of business if the relevant income is not effectively connected with the establishment or place of business. Any gain realized on the transfer of ADSs or ordinary shares by such non-PRC resident enterprise investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within China, unless a tax treaty or similar arrangement provides otherwise. Under the PRC Individual Income Tax Law and its implementation rules, dividends from sources within China paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20% and gains from PRC sources realized by such investors on the transfer of ADSs or ordinary shares are generally subject to 20% PRC income tax, in each case, subject to any reduction or exemption set forth in applicable tax treaties and similar arrangements and PRC laws. Although substantially all of our business operations are in China, it is unclear whether dividends we pay with respect to our ADSs, or the gain realized from the transfer of our ADSs, would be treated as income derived from sources within China and as a result be subject to PRC income tax if we were considered a PRC resident enterprise, as described above. See “—Risks Related to Doing Business in China—If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders.” If PRC income tax were imposed on gains realized through the transfer of our ADSs or on dividends paid to our non-PRC resident investors, the value of your investment in our ADSs may be materially and adversely affected. Furthermore, our ADS holders whose jurisdictions of residence have tax treaties or similar arrangements with China may not qualify for benefits under such tax treaties or arrangements.
We are a “controlled company” within the meaning of the Nasdaq Stock Market Rules and, as a result, may rely on exemptions from certain corporate governance requirements that provide protection to shareholders of other companies.

We are a “controlled company” as defined under the Nasdaq Stock Market Rules because Rui Chen, the chairman of our board of directors and our chief executive officer, holds more than 50% of our total voting power. For so long as we remain a controlled company under that definition, we are permitted to elect to rely, and may rely, on certain exemptions from corporate governance rules, including an exemption from the rule that a majority of our board of directors must be independent directors or that we have to establish a nominating committee and a compensation committee composed entirely of independent directors. As a result, you will not have the same protection afforded to shareholders of companies that are subject to these corporate governance requirements.

There can be no assurance that we will not be a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for any taxable year, which could result in adverse U.S. federal income tax consequences to U.S. Holders of our ADSs or ordinary shares.

A non-U.S. corporation will be a PFIC for any taxable year if either (i) at least 75% of its gross income for such year consists of certain types of “passive” income; or (ii) at least 50% of the value of its assets (generally based on an average of the quarterly values of the assets) during such year is attributable to assets that produce passive income or are held for the production of passive income (the “asset test”). Although the law in this regard is unclear, we intend to treat our VIEs as being owned by us for U.S. federal income tax purposes, not only because we exercise effective control over the operation of these entities but also because we are entitled to substantially all of their economic benefits, and, as a result, we consolidate their results of operations in our consolidated financial statements. Assuming that we are the owner of our VIEs for U.S. federal income tax purposes, and based on our current and expected income and assets (taking into account our current market capitalization), we do not believe we were a PFIC for the taxable year ended December 31, 2019 and we do not presently expect to be a PFIC for the current taxable year or the foreseeable future. However, no assurance can be given in this regard because the determination of whether we are or will become a PFIC is a fact-intensive inquiry made on an annual basis that depends, in part, upon the composition of our income and assets. Fluctuations in the market price of our ADSs may cause us to become a PFIC for the current or subsequent taxable years because the value of our assets for the purpose of the asset test may be determined by reference to the market price of our ADSs (which may be volatile). The composition of our income and assets may also be affected by how, and how quickly, we use our liquid assets. In addition, if it were determined that we do not own the stock of our VIEs for U.S. federal income tax purposes, our risk of being a PFIC may substantially increase.

If we are a PFIC in any taxable year, a U.S. Holder may incur significantly increased U.S. federal income tax on gain recognized on the sale or other disposition of the ADSs or ordinary shares and on the receipt of distributions on the ADSs or ordinary shares to the extent such gain or distribution is treated as an “excess distribution” under U.S. federal income tax rules and such holder may be subject to burdensome reporting requirements. Further, if we are a PFIC for any year during which a U.S. Holder holds our ADSs or ordinary 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 ordinary shares. See “Item 10. Additional Information—E. Taxation—U.S. Federal Income Tax Considerations—Passive Foreign Investment Company Rules.”

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

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

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

We are an exempted company limited by shares registered under the laws of the Cayman Islands. Our corporate affairs are governed by our memorandum and articles of association, the Companies Law (2020 Revision) of the Cayman Islands (as revised from time to time), or the Companies Law, and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States. Some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States.

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

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

**ADSs holders may not be entitled to a jury trial with respect to claims arising under the deposit agreement, which could result in less favorable outcomes to the plaintiff(s) in any such action.**

The deposit agreement governing the ADSs representing our ordinary shares provides that, subject to the depositary’s right to require a claim to be submitted to arbitration, the federal or state courts in the City of New York have exclusive jurisdiction to hear and determine claims arising under the deposit agreement and in that regard, to the fullest extent permitted by law, ADS holders waive the right to a jury trial of any claim they may have against us or the depositary arising out of or relating to our shares, the ADSs or the deposit agreement, including any claim under the U.S. federal securities laws.

If we or the depositary opposed a jury trial demand based on the waiver, the court would determine whether the waiver was enforceable based on the facts and circumstances of that case in accordance with the applicable U.S. state and federal law. To our knowledge, the enforceability of a contractual pre-dispute jury trial waiver in connection with claims arising under the U.S. federal securities laws has not been finally adjudicated by the United States Supreme Court. However, based on past court decisions, we believe that a contractual pre-dispute jury trial waiver provision is generally enforceable, including under the laws of the State of New York, which govern the deposit agreement. In determining whether to enforce a contractual pre-dispute jury trial waiver provision, courts will generally consider whether a party knowingly, intelligently and voluntarily waived the right to a jury trial. We believe that this is the case with respect to the deposit agreement and the ADSs. It is advisable that you consult legal counsel regarding the jury waiver provision before investing in the ADSs.

If you or any other holders or beneficial owners of ADSs bring a claim against us or the depositary in connection with matters arising under the deposit agreement or the ADSs, including claims under U.S. federal securities laws, you or such other holder or beneficial owner may not be entitled to a jury trial with respect to such claims, which may have the effect of limiting and discouraging lawsuits against us and/or the depositary. If a lawsuit is brought against us and/or the depositary under the deposit agreement, it may be heard only by a judge or justice of the applicable trial court, which would be conducted according to different civil procedures and may result in different outcomes than a trial by jury would have had, including results that could be less favorable to the plaintiff(s) in any such action.

Nevertheless, if this jury trial waiver provision is not enforced, to the extent a court action proceeds, it would proceed under the terms of the deposit agreement with a jury trial. No condition, stipulation or provision of the deposit agreement or ADSs serves as a waiver by any holder or beneficial owner of ADSs or by us or the depositary of compliance with the U.S. federal securities laws and the rules and regulations promulgated thereunder.

**Certain judgments obtained against us by our shareholders may not be enforceable.**

We are a Cayman Islands company and all of our assets are located outside of the United States. Substantially all of our current operations are conducted in China. In addition, a majority of our current directors and officers are nationals and residents of countries other than the United States. Substantially all of the assets of these persons are located 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 United States in the event that you believe that your rights have been infringed under the U.S. federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers.
As a company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the Nasdaq corporate governance listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with the Nasdaq corporate governance listing standards.

As a Cayman Islands company listed on the Nasdaq Stock Market, we are subject to the Nasdaq corporate governance listing standards. However, the Nasdaq corporate governance listing standards permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the Nasdaq corporate governance listing standards. We currently follow our home country practice that (i) does not require us to hold an annual meeting of shareholders no later than one year after the end of its fiscal year and (ii) does not require us to seek shareholder approval for amending our share incentive plans. As a result, our investors may not be provided with the benefits of certain corporate governance requirements of Nasdaq.

We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to U.S. domestic public companies.

Because we are a foreign private issuer under the Exchange Act, we are exempt from certain provisions of U.S. securities rules and regulations that are applicable to U.S. domestic issuers, including:

- the rules under the Exchange Act requiring the filing of quarterly reports on Form 10-Q or current reports on Form 8-K with the SEC;
- the sections of the Exchange Act regulating the solicitation of proxies, consents, or authorizations in respect of a security registered under the Exchange Act;
- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and
- the selective disclosure rules by issuers of material nonpublic information under Regulation FD.
We are required to file an annual report on Form 20-F within four months of the end of each fiscal year. In addition, we intend to publish our results on a quarterly basis through press releases, distributed pursuant to the rules and regulations of the Nasdaq Stock Market. Press releases relating to financial results and material events will also be furnished to the SEC on Form 6-K. However, the information we are required to file with or furnish to the SEC will be less extensive and less timely compared to that required to be filed with the SEC by U.S. domestic issuers. As a result, you may not be afforded the same protections or information, which would be made available to you, were you investing in a U.S. domestic issuer.

The voting rights of holders of ADSs are limited by the terms of the deposit agreement or the deposit agreement for restricted securities, as relevant, and you may not be able to exercise your right to vote your Class Z ordinary shares.

Holders of ADSs do not have the same rights as our registered shareholders. As a holder of our ADSs, you will not have any direct right to attend general meetings of our shareholders or to cast any votes at such meetings. You will only be able to exercise the voting rights which are carried by the underlying Class Z ordinary shares represented by your ADSs in directly by giving voting instructions to the depositary in accordance with the provisions of the deposit agreement. Under the deposit agreement, you may vote by giving voting instructions to the depositary. Upon receipt of your voting instructions, the depositary will try, as far as is practicable, to vote the Class Z ordinary shares underlying your ADSs in accordance with your instructions. If we ask for your instructions, then upon receipt of your voting instructions, the depositary will try to vote the underlying Class Z ordinary shares in accordance with these instructions. If we do not instruct the depositary to ask for your instructions, the depositary may still vote in accordance with instructions you give, but it is not required to do so. You will not be able to directly exercise your right to vote with respect to the underlying Class Z ordinary shares unless you withdraw the shares, and become the registered holder of such 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 shares underlying your ADSs and become the registered holder of such 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 currently effective amended and restated articles of association, for the purposes of determining those shareholders who are entitled to attend and vote at any general meeting, our directors may close our register of members and/or fix in advance a record date for such meeting, and such closure of our register of members or the setting of such a record date may prevent you from withdrawing the Class Z ordinary shares underlying your ADSs and becoming the registered holder of such shares prior to the record date, so that you would not be able to attend the general meeting or to vote directly. If we ask for your instructions, the depositary will notify you of the upcoming vote and will arrange to deliver our voting materials to you. We have agreed to give the depositary at least 30 business 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 Class Z ordinary shares represented by your ADSs. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for their manner of carrying out your voting instructions. The deposit agreement provides that if the depositary does not timely receive voting instructions from the ADS holders and if voting is by poll, then such holder shall be deemed, and the depositary shall deem such holder, to have instructed the depositary to give a discretionary proxy to a person designated by us to vote the Class Z ordinary shares underlying the relevant ADSs, with certain limited exceptions. This means that you may not be able to exercise your right to direct how the shares underlying your ADSs are voted and you may have no legal remedy if the shares underlying your ADSs are not voted as you requested.

You may experience dilution of your holdings due to inability to participate in rights offerings.

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

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

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Our website was first launched in June 2009 and was officially named “bilibili” in January 2010. We commenced our commercial operations in 2011 and established Shanghai Hode Information Technology Co., Ltd., or Shanghai Hode, to expand our operations in May 2013. Subsequently, we obtained control over Shanghai Kuanyu Digital Technology Co., Ltd., or Shanghai Kuanyu, in July 2014 to further expand our operations.

We incorporated Bilibili Inc. under the laws of the Cayman Islands as our offshore holding company in December 2013. In February 2014, we established Hode HK Limited, or Hode HK, a wholly-owned Hong Kong subsidiary. In September 2014, Hode HK established a wholly-owned PRC subsidiary, Hode Shanghai Limited, which we refer to as Hode Technology or our WFOE in this annual report.

Due to restrictions imposed by PRC laws and regulations on foreign ownership of companies that engage in internet and other related business, our WFOE later entered into a series of contractual arrangements with Shanghai Hode and Shanghai Kuanyu, which two entities we collectively refer to as our VIEs in this annual report, and their respective shareholders. As a result of our direct ownership in our WFOE and the variable interest entity contractual arrangements, we are regarded as the primary beneficiary of our VIEs. We treat them and their subsidiaries as our consolidated affiliated entities under U.S. GAAP, and have consolidated the financial results of these entities in our consolidated financial statements in accordance with U.S. GAAP.

On March 28, 2018, our ADSs commenced trading on the Nasdaq Global Select Market under the symbol “BILI.” We raised from our initial public offering approximately $443.3 million in net proceeds after deducting underwriting commissions and the offering expenses payable by us.

In October 2018, we entered into a definitive agreement with Tencent, for Tencent to invest an aggregate amount of approximately US$317.6 million in our company, after deducting transaction expenses in an aggregate amount of approximately US$0.4 million, we received net proceeds of approximately US$317.2 million. On October 25, 2018, we entered into a strategic collaboration agreement with Tencent for sharing and operating existing and additional anime and games on our platform.

In December 2018, we and Taobao entered into a business collaboration agreement in content-driven e-commerce and commercialization of our intellectual property assets. Under the agreement, we and Taobao will collaborate to develop a dynamic ecosystem that will better connect content creators, merchandise and users on both platforms, among other things.

In April 2019, we issued the 2026 Notes. These notes bear interest at a rate of 1.375% per year, payable semiannually in arrears on April 1 and October 1 of each year, beginning on October 1, 2019, and will mature on April 1, 2026. Concurrently with the issuance of 2026 Notes, we also completed a registered offering of ADSs, where we offered 14,173,813 ADSs and certain selling shareholders offered 6,526,187 ADSs, at US$18.00 per ADS.
Corporate Information

Our principal executive offices are located at Building 3, Guozheng Center, No. 485 Zhengli Road, Yangpu District, Shanghai, 200433, People’s Republic of China. Our telephone number at this address is +86 21 25099255. Our registered office in the Cayman Islands is located at the offices of Walkers Corporate Limited, Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands.

The SEC maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. We maintain our website at [http://ir.bilibili.com/](http://ir.bilibili.com/).

B. Business Overview

We represent the iconic brand of online entertainment for young generations in China. We provide high-quality content and an immersive entertainment experience, and have built our platform based on the strong emotional connections of our users to our content and communities. We started as a content community inspired by anime, comics and games, or ACG, and have evolved into a full-spectrum online entertainment world covering a wide array of genres and media formats, including videos, live broadcasting and mobile games. We attract our users with engaging content, retain users with our vibrant communities, and curate the right content to satisfy our users’ entertainment needs.

Our Users

We have a young and culturally aspirational user base willing to invest in a high-quality entertainment experience. We empower users to create, discover and share quality content, attracting new users with diverse interests and backgrounds, and adding new channels and sub-channels to our platform.

Any user who visits our platform can watch or search content, and then he or she must register to activate the basic interactive features on our platform, such as liking videos and following content creators. Additional interactive features, such as bullet chatting and commenting, will become available to registered users once they become our “official members” by passing our multiple-choice membership exam consisting of 100 questions.

In January 2018, we launched the premium membership program allowing paying members to enjoy exclusive or view licensed content as well as original content in advance, which has attracted millions of subscriptions since then. As of December 31, 2019, we had 7.6 million valid premium members.

Our users have demonstrated high level of engagement on our platform. In the fourth quarter of 2019, we had an average of 130.3 million MAUs, as compared to 92.8 million for the same period in 2018. In 2019, the average daily time spent per active user on our mobile app was approximately 80.1 minutes, as compared to 78.4 minutes in 2018. Our official members are even more engaged. As of December 31, 2019, we had over 67.9 million official members, as compared to 45.3 million as of December 31, 2018. For official members who visited our platform in each month of 2018, our 12th-month retention rate was above 80%.

Our users also actively engage with a variety of social features offered on our platform, such as sending bullet-chats, commenting and messaging, as well as interactive features that enable them to interact with content creators, such as virtual gifting to show their support and appreciation. In 2019, we had an average of 37.1 million users who participated in social interactions monthly, generating a total of 2.1 billion interactions on a monthly basis, as compared to 24.2 million and 766.7 million in 2018.

Our Content

We offer a full spectrum of entertainment content, including PUG videos, licensed videos, original content, live broadcasting, short video clips, pictures, blogs and mobile games. Our content offerings cover a wide variety of themes, among which lifestyle, entertainment, games, anime and technology were the five most popular themes in terms of number of video views in the fourth quarter of 2019. The average time spent for entertainment content offered on our platform spans widely from less than one minute to more than an hour, depending on the format and genre of the content. In the fourth quarter of 2019, we had approximately 710.5 million average daily video views, as compared to approximately 435.9 million average daily video views in the same period of 2018.
PUG videos

Professional user generated videos, or PUG videos, have recently emerged as a popular category of content as it combines the content breadth offered by user generated content and the quality and specialization offered by professional generated content. With the development of affordable and easy-to-use hardware including digital camcorders and mobile devices with high-resolution video cameras, as well as advances in software technology such as desktop editing software, the barrier for producing quality video content is gradually vanishing. Video production is now done by a wide range of participants, from amateurs, to professional users who have certain level of production and editing capabilities and to professionals from production studios or workshops, and the lines that separate each category of content providers are becoming increasingly blurred.

We offer content creators tools and outlets for individualized creative expression outside traditional mainstream content formats. Since our inception in 2011, our PUG video content has experienced strong growth in terms of not only the number of users who upload videos produced or aggregated by themselves, but also the number and varieties of videos uploaded every day and the number of daily video views. In the fourth quarter of 2019, an average of approximately 94,700 videos were uploaded to our platform each day, covering a wide range of interest areas including anime, game, music, fashion, lifestyle and technology, and different editorial styles such as live documentary, spoof videos and others, as compared to a daily average of approximately 57,200 videos were uploaded in the same period of 2018. PUG videos are popular among and well received by our users due to their originality and creativity as well as their sharing and interactive characteristics. In 2019, PUG video views accounted for approximately 90.1% of our total video views, as compared to 89.0% in 2018.

Licensed videos

Licensed videos are another important category of our content offerings. Our licensed videos mainly include anime, television serial drama, movies, documentaries and variety shows. We have partnered with reputable content providers for licensed videos, including leading PRC and overseas television networks and studios. In October 2018, we entered into a strategic collaboration agreement with Tencent for sharing and operating existing and additional anime and games on Bilibili’s online entertainment platform, pursuant to which, we and Tencent will participate in the exchange and purchase of existing anime copyright, and jointly procure, produce and invest in anime projects, as well as seek investment opportunities in the animation and comic industry.

Original Contents

Our original content includes both content produced in-house and content produced in collaboration with quality third-party partners. In 2019, we released a number of popular quality Chinese anime, documentaries, variety shows and other programs, including Bilibili-produced titles of such as Chinese anime Incarnation, series food documentary The Story of Chuaner, Season 2 and animal reality show Animal Hospital, which helped us attract new users on a broader scale. In November, 2019, we hosted our annual “Made By Bilibili” event announcing our schedule for launching 40 Chinese anime titles in 2020 and 2021.

Live broadcasting and VAS

Live broadcasting provides an open venue for users to register and set up channels so that viewers with common interests can gather online and interact with hosts and among themselves. Unlike traditional recorded videos, live broadcasting allows the users to interact with the hosts on a real-time basis. Our live broadcasting channels cover a wide array of interests including anime, game, music, fashion, lifestyle and technology. As of the date of this annual report, game, music, dancing and drawing shows have accounted for a substantial majority of the content offered on our live broadcasting program. Furthermore, we provide diversified live broadcasting content instead of relying on specific hosts to attract users. In 2018, we started a number of initiatives to expand our live broadcasting content such as live streaming e-sports games to cater to our game lover users, including top-level matches in League of Legend and the Overwatch League Championships. We recorded peak live-streaming page views in the 2019 League of Legends Pro League S9 grand finals. In addition, in December 2019, we entered into a letter of intent to purchase the three-year license for live broadcasting the League of Legends World Championship in China starting from 2020 at an aggregate purchase price of RMB800 million (US$114.9 million).
Members of our premium membership programs enjoy various privileges. Premium members have the exclusive or advanced access to a large content library comprised of animation, documentaries, TV series, movies and variety shows.

In November 2018, we launched the Bilibili Comic, a mobile app offering anime and comic contents.

In December 2018, we entered into an agreement with affiliates of NetEase, Inc. to acquire NetEase Comics business, including copyrights of storylines from leading publishers and comic artists, to further enrich our offerings of anime and comics and to upgrade our suite of premium-licensed content.

In December 2018, we increased our shareholdings in Maoer Inc., an audio platform offering audio drama, to expand our content offerings.

**Short video clips, pictures and blogs**

Besides PUG videos, our users can also upload shorter and more spontaneous video clips made by amateurs using mobile phones with video camera functions. To facilitate the instant creation, sharing and viewing of content, we launched a feature that allows users to record and upload short video clips directly on our mobile app in November 2016. Our friendly interface enables users to record and edit short video clips entirely on their mobile devices with no length limits starting in 2018. In addition, we also launched features in October 2016 that allow user to upload pictures of cosplay, drawings and paintings, fashion as well as blogs to further increase the variety of content formats we provide to our users and content creators.

**Mobile games**

There is a large population of game lovers among our users. Game is the third most popular genre on our platform based on video views in 2019. We offer animation and comics themed mobile games that are compatible with our communities and user preferences, some of which are designed based on popular content on our platform. The games we offer are all immersive games, covering some of the most popular and engaging genres, such as massively multiplayer online role-playing games. In these games, users play online in a virtual environment existing on network game servers that connect a large number of players simultaneously to interact with each other within the games. As of December 31, 2019, we operated 29 exclusively distributed mobile games, over 750 jointly operated mobile games and one self-developed mobile game.

The most popular mobile games on our platform include Fate/Grand Order and Azur Lane. Fate/Grand Order is an online role playing game based on the Fate series, an anime collective that began with the visual novel Fate/staynight and has since gathered a number of derivative works and adaptations bearing the same “Fate” name. Noticing the popularity of the Fate series on our platform, we strategically localized and launched Fate/Grand Order on an exclusive basis in China in September 2016. We extended our operation agreement on Fate/Grand Order until September 2020, and we are in the process of extending the term of this operation agreement.

**Our Content Creators**

We encourage and support content creators’ creation of original PUG videos, which has been the primary source of user traffic and the key driver for the growth of our user base and communities. In the fourth quarter of 2019, we had approximately 1.0 million average monthly active content creators, compared to approximately 0.6 million in the same period of 2018, and received an average of approximately 2.8 million monthly video submissions in the fourth quarter of 2019, compared to approximately 1.7 million in the same period of 2018, and 90.9% of the total video views are contributed by PUG videos in December 2019. As of December 31, 2019, the number of content creators with more than 10,000 followers had increased by 75.2% since December 31, 2018. It is essential for us to have our network of content creators upload and contribute quality PUGC to our platform, especially PUG videos. We have taken a number of initiatives to encourage and facilitate production of creative PUG videos by content creators. We also entered into contracts with select content creators and offer them economic incentives to compensate and reward them for the quality contents generated on our platform. Most of these content creators are individuals or studio teams that enjoy great popularity on our platform. We plan to enter into more contracts with content creators to incentivize them to continue to generate popular and appealing PUGC. We have also introduced certain creative, quality PUGC to advertisers directly to create revenue-generating opportunities for content creators.
Our Platform

Our platform includes our "bilibili" mobile app, PC websites, Smart TV, Bilibili Comic, Maoer and a variety of related features, functionalities, tools and services that we provide to users and content creators. For mobile devices, users typically access our content through our dedicated “bilibili” mobile app or a mobile website that is largely similar in terms of functionality and appearance to our mobile app. Our mobile app is available for user download from the Apple and Android app stores. We also provide a PC website at www.bilibili.com. We additionally offer entertainment content across on smart TV devices. The majority of our active users are on mobile, and our mobile products continue to grow faster than our PC products.

We utilize our big data analytical capabilities in our feed system to categorize and recommend content based on user data captured on our platform and analytics produced by our deep learning algorithms. The basic features we offer on our platform include content uploading, viewing and commenting. Our platform also can categorize, rank, search for, curate and recommend content uploaded and viewed to simplify the content discovery process.

Our social and interactive features

Our communities are built on creative content as well as vibrant interactions among users. Users’ interactions on our platform revolve around content. Content is also the media for users who share similar interests and hobbies to find and engage with each other and establish a common bond. We provide the following social and interactive features for our users.

Bullet chatting. Bullet chatting is a live commenting function that enables content viewers to send comments that fly across the screen like bullets, and has become very popular among young internet users in China. Only registered users who passed our membership exam can send bullet-chats on our platform. Bullet-chats are frame- and context-specific and can be seen by all viewers who watch the same content at different times, and therefore can intrigue interactive commenting among content viewers. The bullet chatting feature has transformed the video-viewing experience by displaying thoughts and feelings of other audience viewing the same video and thus introducing additional meaning and context beyond what can be communicated by the content itself.

Liking and following. Users can like content in several ways to encourage content creators, such as giving a “thumbs up”, voting, adding to favorites and casting coin. Users can also opt to follow a content creator, and then they will be able to see such content creator’s timeline posts.

Interacting with fans. Content creators can use timeline and fans group to interact with their fans. Timeline enables users to express and share their interests and stories in the form of text and multimedia content such as pictures and short video clips. Content creators can utilize this feature to notify their followers when they upload and release new content on our platform. In addition, users can join fans group to interact with content creators, live broadcasting hosts and other followers.

Gifting and rewarding. Users can send free or paid virtual items to live broadcasting hosts and content creators to show their support and appreciation.

Sharing and communicating. Users can share and repost content uploaded by other users, add comments, send instant messages and view their history of interactions with other users.

Community events. Every year, we hold large festivals and community events for our users, including Chinese New Year Gala and Bilibili Dancing Festival. We invite content creators and hosts of our live broadcasting program to participate in the preparation of some of these events. Chinese New Year Gala is our signature community event that we started in 2010 where we invite all content creators to create and upload ACG-inspired videos and select the best among them to produce an extended program according to each year’s theme to celebrate Chinese New Year with our users. In January 2020, we hosted the Bilibili Top 100 Content Creators Award Ceremony to celebrate and award the outstanding achievements of leading content creators in various categories. In December 2019, we hosted our first New Year’s Eve concert “The Most Beautiful Night of 2019” to mark December 31, 2019, the turn of the decade. The 4-hour entertainment showcase was an immediate hit and quickly became one of the most talked about New Year’s Eve gala in China. The playbacks have been viewed over 90 million times, generating approximately 3 million bullet-chats.
Our support features for content creators

We have developed the following support features and applications to encourage and facilitate production of creative content by content creators.

Uploading tools. We have developed a variety of uploading tools to enable users to efficiently upload multi-media content, including videos in different length, pictures, blogs and other forms of content. Some of our uploading tools also contain editing features which can help users add a variety of visual and audio effects to the content.

Analytic tools. Our analytic tools allow users to see a range of backstage data, such as demographics of followers and viewers, and data on user behavior, such as following/un-following, viewing, commenting and bullet chatting. Such information gives content creators insights into current trends and user preferences and help content creators improve and make their creative work more relevant.

Support and Reward Programs. We have initiated a series of programs in 2018 to support our content creators, such as hosting seminars to share experiences and techniques, and rewarding those content of high-quality, reputation and popularity. These programs help content creators to improve their techniques, deepen their bond in this community, and incentivize them to create better contents.

Community and member operations

The vitality and integrity of our communities are cornerstones of our business. Our users come to our platform for creative content as well as for our strong and vibrant community culture. To preserve our culture and community values, we have employed the following features in operating our communities.

Membership exam for registered users. Registered users need to pass our multiple-choice membership exam consisting of 100 questions in order to become our “official members”, after which additional interactive and community features, such as bullet chatting and commenting, will become available to them. The membership exam includes questions on community etiquette regarding uploading videos and sending bullet-chats, and a set of questions from a range of topics with which registered users are familiar, such as anime, music, games and technology. Registered users need to answer a total of 60 questions correctly to pass the membership exam. As of December 31, 2019, we had 67.9 million official members who passed our membership exam.

Community management. Our veteran users have voluntarily formed a community discipline committee to monitor and report any inappropriate content that has been posted on our platform, which has proven to be an effective means to regulate our users’ behavior in our communities. To support their efforts, we have worked with and provided them with technical means to help them carry out their activities more effectively and enforce their disciplinary decisions. If we confirm that a user has uploaded content that contains provocative and hate speech, personal attacks, fraudulent information or other offensive information, we may temporarily suspend or permanently terminate such user’s account, and display such user’s account information and reason for the disciplinary action under “Dark Chamber” tab, which is open to all users on our platform. This measure also allows users to participate in the management of our communities and helps us educate users and foster a self-regulating environment to protect and strengthen the community values that we hold dear. See “—Content Management and Review.”

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Our Monetization Model

Our monetization efforts are based on the integrated goals of offering quality content to attract users, building vibrant communities to retain users, and stimulating content consumption to achieve monetization. We generate revenues primarily from mobile games, live broadcasting and VAS, advertising services, e-commerce and others.

Mobile games

We started to publish mobile games on our platform for third-party developers in January 2014, and launched our first self-developed game in August 2017. Our users access the mobile games on our platform and log into and play with their bilibili accounts. They purchase in-game virtual items that enhance their game-playing experience. The mobile games on our platform are selected and curated based on content, themes, cultural characteristics and features that appeal to the existing users in our communities.

As of December 31, 2019, we operated 29 exclusively distributed mobile games, over 750 jointly operated mobile games and one self-developed mobile game. For our exclusively distributed mobile games, we generally were granted royalty-bearing license with the exclusive right to market and distribute mobile games in China. We also entered into joint operating agreements with game developers and distributors pursuant to which we were granted non-exclusive licenses to promote and distribute games on our platform.

We routinely customize our exclusively distributed mobile games and adapt them to our users’ preferences and provide operation and servicing support with our own servers to optimize the game experience for our users. For jointly operated mobile games, we generally provide distribution, payment solutions and market promotion services, while game developers are responsible for providing game products, hosting and maintenance of game servers and determining the pricing of in-game virtual items.

To further explore opportunities in this business sector, we entered into a strategic collaboration agreement with Tencent, pursuant to which, we will jointly operate more Tencent games on our platform.

Live broadcasting and VAS

We offer various live broadcasting content covering a broad range of interests and topics. We offer various virtual items for sale on our live broadcasting program. These virtual items can produce special effects on the screen, such as storms and fireworks. Users can also purchase virtual items on other parts of our platform, and send the virtual items to their favorite content creators to show appreciation and provide them with monetary rewards.

We share with the hosts the revenues generated on our live broadcasting program. We have entered into exclusive cooperation agreements with certain popular hosts on our platform, pursuant to which we agreed to pay certain level of salary to these hosts in addition to the revenue-sharing arrangements, and we plan to enter into cooperation agreements with more hosts in the future to secure popular hosts and further expand our live broadcasting program.

In January 2018, we launched a premium membership program allowing paying members to enjoy exclusive or view licensed content as well as original content in advance. As of December 31, 2019, we had 7.6 million valid premium members.

In November 2018, we launched the Bilibili Comic, a mobile app offering anime and comics contents. In December 2018, we acquired NetEase Comics business, to further enrich our offerings of anime and comics and to upgrade our suite of premium-licensed content. In December 2018, we entered into an agreement to increase our shareholdings and to acquire majority equity interests in Maoer Inc., an audio platform offering audio drama.
Advertising services

We offer advertising services in different placement formats, including (i) background advertisements that appear above or below a selected video screen concurrently with a user viewing a video, (ii) advertisements placed at the launch screen of our mobile apps, (iii) in-program advertisements and (iv) performance-based feed advertisements. We launched feed advertising services in December 2017. This format allows us to push personalized feed advertisements to users throughout our platform. It has become the fastest growing advertising format on our mobile platform. Our brand advertisers include international and domestic companies that operate in a variety of industries, including consumer retail, electronic products and games. We also work with our popular content creators and offer brand advertisers customized in-program advertisements.

E-commerce and others

We offer ACG-related merchandise and offline events tickets on our platform, and generate revenues from sales of these products.

In December 2018, we and Taobao Marketplace, or Taobao, entered into a business collaboration agreement in content-driven e-commerce and commercialization of our IP assets. Under the agreement, we and Taobao will collaborate to develop a dynamic ecosystem that will better connect content creators, merchandise and users on both platforms. We and Taobao will also work to promote and commercialize our IP assets, leveraging consumer insights on both platforms. Additionally, Taobao will provide us with e-commerce technical support to ensure quality user experience.

Branding and Marketing

We have built our brand and user communities with modest marketing expenditures to date as we primarily rely on viral marketing, word of mouth referrals and repeat user visits driven by superior user experience. We are focused on improving the quality of our content and product offerings, as well as user experience. In addition, we have initiated various marketing activities to further promote our brand awareness among existing and potential users and advertisers. For example, we market our services through direct marketing, trade shows and other media events.

User Privacy and Safety

The vitality and integrity of our communities are cornerstones of our business. We dedicate significant resources to the goal of strengthening our communities through developing and implementing programs designed to protect user privacy, promote a safe environment, and ensure the security of user data. The user privacy policy on our platform describes our data use practices and how privacy works on our platform. Specifically, we provide users with adequate notice as to what data are being collected and undertake to manage and use the data collected in accordance with applicable laws and make reasonable efforts to prevent the unauthorized use, loss or leak of user data. In addition, we use a variety of technologies to protect the data with which we are entrusted and have a team of privacy professionals dedicated to the ongoing review and monitoring of data security practices. For example, we store all user data in encrypted format and strictly limit the number of personnel who can access those servers that store user data. For our external interfaces, we also utilize firewalls to protect against potential attacks or unauthorized access.

Content Management and Review

We maintain two levels of content management and review procedures to monitor the content uploaded to our platform to help ensure that no content that may be deemed to be prohibited by government rules and regulations is posted and to promptly remove any infringing content. The first level of review procedure is conducted through our proprietary artificial intelligence-based screening system. This system automatically flags and screens out newly uploaded videos that have piracy issues or contain illegal or inappropriate content by comparing them with copyrighted or objectionable videos stored in our own in-house “black list” databases and identifying those with similar codes. Once the content is processed by our technology screening system, our system then extracts fingerprint trails from the content and sends them to our content screening team for the second-level review. As of February 28, 2020, our content screening team consists of approximately 1,200 employees dedicated to screening and monitoring the content uploaded on our platform on a 24-hour, 7-day basis. They work around the clock to ensure that the flagged content identified by our screening system is reviewed and confirmed before it can be released. We provide initial training during the onboarding process for new hires. We also offer periodic training sessions to keep these employees apprised of any regulatory and policy changes, and supervise and monitor their work. All of the content needs to go through these two levels of review procedures before it is released on our platform.

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All of the other content, primarily consisting of bullet-chats posted by users, is also automatically filtered by our screening system, which utilizes an artificial intelligence-based screening system to conduct semantic analysis on bullet-chats to analyze, identify and screen out inappropriate bullet-chats. With respect to live broadcasting, we have a separate monitoring team to review and monitor the content and activities of hosts of our live broadcasting program as well as the bullet-chats posted by viewers.

We utilize a real-name system to authenticate the identities of our content creators and live broadcasting hosts. In addition, before each upload, we require the user to confirm that the user has agreed to the terms and conditions set forth in the user agreement of our platform. Pursuant to such user agreement, each user undertakes not to upload or distribute content that violates any PRC laws or regulations or infringes the intellectual property rights of any third party, and agrees to indemnify us for all damages arising from third-party claims against us caused by violating or infringing content uploaded or linked by the user. Cooperation agreements with our popular content creators also provide for standard clauses that restrict the content creators from uploading infringing content on our platform. We also remove users’ uploads when we are notified or made aware by copyright owners or from other sources authorized by copyright owners of copyright infringements, such as lists of inappropriate or infringing content that the regulatory authorities publish from time to time and market information on releases of movies and television serial drama.

Our abuse reporting infrastructure also allows any of our users to report inappropriate, offensive or dangerous content to us through “report” links easily found on our platform. We have enhanced this reporting system with our community discipline committee, which is comprised of our veteran users who volunteer to monitor and report any inappropriate content that has been posted on our platform. In addition, if we confirm that user has uploaded content that contains provocative and hate speech, personal attacks, fraudulent information or other offensive information, we may temporarily suspend or permanently terminate such user’s account, and display such user’s account information and reason for the disciplinary action under “Dark Chamber” tab, which is open to all users on our platform.

**Competition**

We face significant competition primarily from companies that operate online entertainment platforms in China designed to engage users, especially Generation Z, and capture their time spent on mobile devices and online. In particular, our competitors mainly include large online video streaming platforms, online game developers and operators, other platforms offering video products, live broadcasting platforms, comics content providers, social media platforms and other online entertainment platforms. We compete to attract, engage and retain users, to attract and retain advertisers, and to attract and retain content providers to improve and expand our content library and unique offerings. Our competitors may compete with us in a variety of ways, including by obtaining exclusive online distribution rights for popular content, conducting brand promotions and other marketing activities, and making acquisitions. We have exclusive distribution rights only for certain PUGC content on our platform. Our content creators are generally free to post their content on our competitors’ platforms, which may divert user traffic from our platform.

We believe that we can compete effectively with our competitors on the basis of the following factors: (i) the strength and reputation of our brand, (ii) our ability to provide creative and quality PUGC, (iii) the demographic composition and engagement of our user base, (iv) the performance and reliability of our platform, and (v) our ability to develop new products and services and enhancements to existing products and services to keep up with user preferences and demands.

As we introduce new products and services on our platform, as our existing products continue to evolve, or as other companies introduce new products and services, we may become subject to additional competition.

**Insurance**

We do not maintain insurance policies covering damages to our network infrastructures or information technology systems. We also do not maintain business interruption insurance or general third-party liability insurance, nor do we maintain product liability insurance or key-man insurance. We consider our insurance coverage to be in line with that of other companies in the same industry of similar size in China.
Regulation

This section sets forth a summary of the most significant rules and regulations that affect our business activities in China or the rights of our shareholders to receive dividends and other distributions from us.

Regulations Related to Foreign Investment

Foreign Investment Law. According to the Foreign Investment Law promulgated on March 15, 2019 and effective on January 1, 2020, foreign investments are entitled to pre-entry national treatment and are subject to negative list management system. The pre-entry national treatment means that the treatment given to foreign investors and their investments at the stage of investment access is not lower than that of domestic investors and their investments. The negative list management system means that the State implements special administrative measures for access of foreign investment in specific industries and sectors. Foreign investors shall not invest in any forbidden industries or sectors stipulated in the negative list and shall meet the conditions stipulated in the negative list before investing in any restricted industries and sectors. In principle, the PRC government will not impose expropriation on foreign investments. However, under special circumstances, for the public interest, the PRC government is allowed to impose expropriation on foreign investment under legal procedure, and PRC government should grant fair and reasonable compensation to the relevant foreign investors. Foreign-invested enterprises are allowed to raise funds through public issuance of shares, corporate bonds and other securities in accordance with the PRC law.

Industry Catalogue Related to Foreign Investment. Investment activities in China by foreign investors are principally governed by the Guidance Catalogue of Industries for Foreign Investment, which was promulgated by MOFCOM and the National Development and Reform Commission, as amended from time to time. Industries listed in the catalogue are divided into three categories: encouraged, restricted and prohibited. Industries not listed in the catalogue are generally open to foreign investment unless specifically restricted by other PRC regulations. Establishment of wholly foreign-owned enterprises is generally allowed in encouraged industries. For some restricted industries, foreign investors can only conduct investment activities through equity or contractual joint ventures, while in some cases PRC partners are required to hold the majority interests in such joint ventures. In addition, projects in the restricted category are subject to higher-level governmental approvals. Foreign investors are not allowed to invest in industries in the prohibited category. The Special Administrative Measures (Negative List) for the Access of Foreign Investment (2019), or the 2019 Negative List, was promulgated by the National Development and Reform Commission and the MOFCOM on June 30, 2019 and became effective on July 30, 2019. The negative list for access of foreign investment specified in the Guidance Catalogue of Industries for Foreign Investment in 2017 was repealed simultaneously. If foreign investment falls into industries specified in the 2019 Negative List, special administrative measures shall apply. According to the 2019 Negative List, the proportion of foreign investments in entities engaged in value-added telecommunications business shall not exceed 50%. The online transmission of audio-visual programs business, online publishing services and internet cultural business remain as prohibited industries for foreign investment.

Foreign Investment in Telecommunication Business. Regulations for Administration of Foreign-Invested Telecommunications Enterprises, promulgated by the PRC State Council in 2001 and most recently amended in February 2016, 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. These regulations prohibit a foreign entity from owning more than 50% of the total equity interest in any value-added telecommunications service business in China and the major foreign investor in any value-added telecommunications service business in China shall have good track record in such industry.

In 2006, the Ministry of Information Industry, or MII, the predecessor of the MIIT, issued the Circular on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business, pursuant to which a PRC company that holds an ICP License is prohibited from leasing, transferring or selling the ICP License to foreign investors in any form, and from providing any assistance, including resources, sites or facilities, to foreign investors that conduct value-added telecommunications business illegally in China. 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 must comply with its approved ICP License, and such company should establish and improve its internal internet and information security policies and standards and emergency management procedures.
Regulations Related to Value-added Telecommunications Services

In 2000, the PRC State Council promulgated the Telecommunications Regulations, most recently amended in February 2016. The Telecommunications Regulations categorize all telecommunications businesses in China as either basic or value-added. Value-added telecommunications services are defined as telecommunications and information services provided through public network infrastructures. The “Classified Catalogue of Telecommunications Services”, an attachment to the Telecommunications Regulations, most recently amended by the MIIT on June 6, 2019, categorizes various types of telecommunications and telecommunications-related activities into basic or value-added telecommunications services. According to the catalogue, internet information services, or ICP services, are classified as value-added telecommunications services. Under the Telecommunications Regulations, commercial operators of value-added telecommunications services must first obtain an ICP License from the MIIT or its provincial level counterparts.

According to the Administrative Measures on Internet Information Services, or the Internet Information Measures, promulgated by the State Council in 2000 and amended in 2011, “internet information services” refer to the provision of information through the internet to online users, and is divided into “commercial internet information services” and “non-commercial internet information services.” A commercial ICP service operator must obtain an ICP License from the relevant governmental authorities before engaging in any commercial ICP service within China, while ICP License is not required if the operator will only provide internet information on a non-commercial basis. The Internet Information Measures and other relevant measures also ban internet activities that constitute publication of any content that, among others, propagates obscenity, pornography, gambling and violence, or incites the commission of crimes or infringes upon the lawful rights and interests of third parties. If an internet information service provider detects information transmitted on their system that falls within the specifically prohibited scope, such provider must terminate such transmission, delete such information immediately, keep records and report to the governmental authorities in charge. Any internet information service provider’s violation of these requirements will lead to the revocation of its ICP License and, in serious cases, the shutting down of its website.

The Administrative Measures for Telecommunications Business Operating License, promulgated by the MIIT, effective on September 1, 2017, 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. Under these measures, a commercial ICP service operator must first obtain an ICP License from the MIIT or its provincial level counterparts, otherwise such operator might be subject to sanctions including corrective orders and warnings from the competent governmental authority, imposition of fines and confiscation of illegal gains and, in the case of significant infringements, orders to close the website.

In addition to the regulations and measures above, provision of commercial internet information services on mobile internet applications are regulated by the Administrative Provisions on Information Services of Mobile Internet Applications, promulgated by the State Internet Information Office in June 2016. Information service providers of mobile internet applications are subject to these provisions, including acquiring relevant qualifications and being responsible for management of information security. An internet application program provider must verify a registered user’s true identity based on mobile phone number and other identity information. An internet application program provider should not enable functions that can collect a user’s geographical location information, access user’s contact list, activate the camera or recorder in the user’s mobile device, activate functions irrelevant to its services, or to conduct bundle installations of irrelevant application programs, unless the internet application program provider has clearly indicated the intention to the user and obtained the user’s consent.

On December 16, 2016, the MIIT promulgated the Interim Measures on the Administration of Pre-Installation and Distribution of Applications for Mobile Smart Terminals, effective on July 1, 2017. The Mobile Application Interim Measures requires, among others, that internet information service providers must ensure that a mobile application, as well as its ancillary resource files, configuration files and user data can be uninstalled by a user conveniently, unless it is a basic function software, which means a software that supports the normal function of hardware and operating system of a mobile smart device.
Regulations Related to Online Transmission of Audio-Visual Programs

In 2005, the State Council promulgated the Certain Decisions on the Entry of the Non-State-owned Capital into the Cultural Industry. In the same year, five PRC regulatory agencies, namely, the MOC, the State Administration of Radio, Film and Television, or the SARFT, the General Administration of Press and Publication, or the GAPP, the CSRC and MOFCOM, 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.

In 2007, the SARFT and MII jointly promulgated the Administrative Provisions on Internet Audio-visual Program Service, or the Audio-visual Program Provisions, effective 2008 and amended in August 2015. The Audio-visual Program Provisions apply to the provision of audio-visual program services to the public via internet (including mobile network) within China. Providers of internet audio-visual program services are required to obtain a License for Online Transmission of Audio-visual Programs issued by the SARFT or complete certain registration procedures with the SARFT. 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 service determined by the SARFT. In a press conference jointly held by the SARFT and MII in 2008, the SARFT and MII clarified that providers of internet audio-visual program services who had engaged in such services prior to the promulgation of the Audio-visual Program Provisions shall be eligible to register their businesses and continue their operations of internet audio-visual program services so long as those providers have not been in violation of the laws and regulations.

In 2008, the SARFT issued a Notice on Relevant Issues Concerning Application and Approval of License for Online Transmission of Audio-visual Programs, as amended in August 2015, 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. The SARFT further issued the Notice on Strengthening the Administration of the Content of Internet Audio-visual 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. The SARFT issued a Notice on Improving the Administration of Online Audio-visual Content Including Internet Drama and Micro Films in 2012, and a Supplemental Notice on Improving the Administration of Online Audio-visual Content Including Internet Drama and Micro Films Transmitted via internet in September 2014. According to these notices, the audio-visual programs of film and drama category published to the public through information network shall be television drama under the Permit for Issuance of Television Drama, films under the Permit for Public Projection of Films, cartoons under the Permit for Issue of Cartoons or academic literature movies and television plays under the Permit for Public Projection of Academic Literature Movies and Television Plays. Providers of such services shall obtain the prior consents from copyright owners of all such audio-visual programs.

Further, in 2009, the SARFT issued the Notice on Strengthening the Administration of the Content of Internet Audio-visual 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. The SARFT issued a Notice on Improving the Administration of Online Audio-visual Content Including Internet Drama and Micro Films in 2012, and a Supplemental Notice on Improving the Administration of Online Audio-visual Content Including Internet Drama and Micro Films Transmitted via internet in September 2014. These two notices stress that entities producing online audio-visual content, such as internet drama and micro films, must obtain a permit for radio and television program production and operation, and that online audio-visual content service providers should not release any internet drama or micro films that were produced by any entity lacking such permit. For internet drama or micro films produced and uploaded by individual users, the online audio-visual service providers transmitting such content will be deemed responsible as a producer. Further, under these two notices, online audio-visual service providers can only transmit content uploaded by individuals whose identity has been verified and such content shall comply with the relevant content management rules. These notices also require that online audio-visual content, including internet drama and micro films, to be filed with the relevant authorities before release.

In 2015, the SARFT promulgated the Provisions on the Administration of Private Network and Targeted Transmission Audio-visual Program Services, which apply to the provision of radio, television programs and other audio-visual programs to targeted audience on television and all types of handheld electronic device. These provision covers the internet and other information networks as targeted transmission channels, including the provision of content, integrated broadcast control, transmission and distribution and other activities conducted in such forms as internet protocol television, private network mobile television and internet television. Anyone who provides private network and targeted transmission audio-visual program services must obtain a License for Online Transmission of Audio-visual Program issued by the SARFT and operate its business pursuant to the scope as provided in such license. Foreign-invested enterprises are not allowed to engage in the above referenced business.
In July 2016, the MOC promulgated Notice on Strengthening the Administration of Network Performance, which regulates the behavior of entities conducting businesses related to network performance and performers. Entities operating network performance shall be responsible for the services and content posted on their website by performers. They must refine their content management mechanism, and shut down the channel and stop the dissemination of any network performance as soon as they realize that such network performance is in violation of relevant laws and regulations. Network performers shall be responsible for their performances and shall not perform any program containing violence, pornography, or other similarly prohibited elements.

In addition, the SARFT issued Notice on Strengthening the Management of Live-Streaming Service for the Network Audio-visual Programs in September 2016, pursuant to which an internet live-streaming service provider shall (i) equip personnel to review the content of the live-stream; (ii) establish the technical methods and work mechanisms in order to emergently replace the unlawful content by using the backup program; (iii) record the live-streaming program and keep the records for at least 60 days to fulfil the inspections requirements from the competent administrative authorities. The State Internet Information Office promulgated the Administrative Provisions on Internet Live-Streaming Services in November 2016, pursuant to which an internet live-streaming service provider shall (i) establish a live-streaming content review platform; (ii) conduct authentication registration of internet live-streaming issuers based on their identity certificates, business licenses and organization code certificates, etc.; and (iii) enter into a service agreement with internet live-streaming services user to specify both parties’ rights and obligations.

In March 2018, the SAPPRFT issued the Notice on Further Regulating the Transmission Order of Internet Audio-visual Programs, which requires that, among others, audio-visual platforms shall: (i) not produce or transmit programs intended to parody or denigrate classic works, (ii) not re-edit, re-dub, re-caption or otherwise ridicule classic works, radio and television programs, or original internet audio-visual programs without authorization, (iii) not transmit re-edited programs which unfairly distort the original content, (iv) strictly monitor the adapted content uploaded by platform users and not provide transmission channels for illicit content, (v) immediately take down unauthorized content upon receipt of complaints from copyright owners, radio and television stations, or film and television production institutions, (vi) strengthen the administration of movie trailers and prevent improper broadcasting of movie clips and trailers prior to authorized release, and (vii) strengthen the administration of sponsorship and endorsement for internet audio-visual programs. Pursuant to this notice, the provincial branches of SAPPRFT shall have the authority to supervise radio and television stations and websites that offer audio-visual programs within its jurisdiction and require them to further improve their content management systems and implement relevant management requirements.

In August 2018, the National Office of Combating Pornography and Illegal Publications, MIIT, the Ministry of Public Security and three other governmental authorities jointly issued the Notice on Strengthening the Management of Network Live Broadcasting Service, which requires a network live broadcasting service provider to make ICP filing for its website and apply for licenses with the relevant governmental authorities if its business involves the operation of, such as, telecommunication business, internet news information, network performances, and live broadcasting of network audio-visual programs. A network live broadcasting service provider is further required to implement users’ real-name authentication, strengthen the management of hosts, establish the blacklist of hosts, improve the censorship and monitor of the content of live broadcasting, and the disciplines of the illegal and harmful contents. A network live broadcasting service provider who fails to comply with such requirements may be prohibited from providing live broadcasting service immediately.

In January 2019, the CNSA issued the Regulations on Administration of Network Short Video Platforms, which requires network platforms to obtain the License for Online Transmission of Audio-visual Programs and relevant qualifications to provide short video services, and to strictly operate within the scope of such license. The network short video platform is required to establish a chief-editor content management and responsibility system, and all contents of a short video, including but not limited to its title, description, bullet-chats and comments shall be reviewed in advance before the content is broadcasted. Furthermore, the content reviewer is expected to have high political awareness and professionality. These content reviewers shall be trained by the provincial or higher level radio and television management departments, and the number of content reviewers shall be sufficient considering the number of short videos uploaded and broadcasted on the platform. In principle, the number of content reviewers should be more than one-thousandth of the number of short videos newly broadcasted on the platform per day.
In January 2019, the CNSA issued the Censoring Criteria for Network Short Video Contents, which sets forth in details of contents prohibited to be broadcasted, such as violence, pornography, gambling, terrorism, superstitious and illegal or immoral contents.

In March 2019, the NRTA promulgated the Provisions on the Administration of Programs for Minors, which requires the internet audio-visual program service providers to establish special channels to stream programs for minors at conspicuous places in a conspicuous manner. Internet audio-visual program services providers shall censor programs for minors prior to the broadcasting according to relevant provisions; and for the live-streaming programs, the internet audio-visual program services providers should take necessary technical measures such as delayed live-streaming or substitutions with alternative programs to ensure that the live-streaming will not contain any content prohibited by this Regulation, such as violence and terrorism. Internet audio-visual program service providers shall assign special personnel with minors protection working experience or education background to take in charge of the pre-broadcasting censorship. These service providers are also required to establish evaluation committees to review the programs for minors periodically, and to submit a written report annually about the protection of minors to the NRTA local branch. If a network user uploads programs containing the image and information of a minor without the consent of the minor’s statutory guardian(s), then the statutory guardian(s) of the minor are entitled to notify the internet audio-visual program services provider to take necessary measures such as deleting, blocking and disconnecting the link, and the internet audio-visual program services provider should take relevant measures timely upon the receipt of the notice and after the confirmation of the identity.

On November 18, 2019, the CAC, the MCT and the NRTA, jointly issued the Administrative Provisions on Online Audio-Visual Information Services, effective on January 1, 2020, which provides that online audio-visual information service providers are the principals responsible for information content security management, and should, among other things, establish and improve their internal policies in relation to user registration, scrutiny of information publication, and information safety management. Organizations and individuals are prohibited from using online audio-visual information services and related information technology to carry out illegal activities and infringe legal rights and interests of others. The Provisions further set out requirements for utilization of new applications driven by new technology (such as deep learning and virtual reality) to produce, publish and disseminate audio-visual information, for example, audio-visual information service providers are required to conduct safety evaluation, identify and label fraudulent audio-visual information, and to defeat rumors, false news and content violating user agreements.

**Regulations Related to Foreign Television Programs**

Broadcast of foreign television programs is under strict regulation by the SARFT. In 1997, the State Council promulgated the Administrative Regulations on Television and Radio, as most recently amended in March 2017, under which any foreign television drama or other foreign television program to be broadcast by television or radio stations shall be subject to the prior inspection and approval by the SARFT or its authorized entities.

In addition, in 2004, the SARFT promulgated the Administrative Regulations on the Introduction and Broadcasting of Foreign Television Programs, pursuant to which only organizations designated by the SARFT are qualified to apply to the SARFT or its authorized entities for introduction or broadcasting of foreign television drama or foreign television programs. Approval of such application is subject to the general plan of the SARFT and contents of such foreign television drama or programs may not by any means threaten the national security or violate any laws or regulations. In 2012, the SARFT issued the Notice on Further Strengthening the Administration of the Introduction and Broadcasting of Foreign Television Programs, emphasizing that the aforesaid regulations shall be strictly followed.

**Regulations Related to Production of Radio and Television Programs**

In 2004, the SARFT promulgated the Regulations on the Administration of Production of Radio and Television Programs, or the Radio and TV Programs Regulations, as amended in August 2015. Under the Radio and TV Programs Regulations, any entities that engage in the production of radio and television programs are required to apply for a license from the SARFT or its provincial level counterparts. Entities with the Permit for Production and Operation of Radio and TV Programs shall conduct their operations strictly in compliance with the approved scope of production and operation and other than radio and TV stations, such entities shall not produce radio and TV programs regarding current political news or similar subjects and columns.
 Regulations Relating to Commercial Performances

The Administrative Regulations on Commercial Performances was promulgated by the State Council and took effect on February 6, 2016. According to these regulations, a culture and arts performance group shall have full-time performers and equipment in line with its performing business, and obtain approval from local culture administrative department to legally engage in commercial performances. A performance brokerage agency shall have three or more full-time performance brokers, and obtain approval from local culture administrative department. The culture administrative department will issue a commercial performance license upon the approval. Anyone or any entity engaging in commercial performance activities without such approval may face confiscation of performance equipment and illegal proceeds, and a fine of 8 to 10 times the illegal proceeds, and where there are no illegal proceeds or the illegal proceeds are less than RMB10,000, a fine of RMB50,000 to RMB100,000.

Regulations Related to Private Network and Targeted Communication Audio-Visual Program Services

On April 25, 2016, the SAPPRFT issued the Provisions on the Administration of Private Network and Targeted Communication Audio-visual Program Services, effective on June 1, 2016. According to these provisions, private network and targeted communication audio-visual program services include the provision, integrated control, transmission and distribution of audiovisual content through internet protocol television (IPTV), private network mobile TV, internet TV, and other targeted channels. Operators engaging in private network and targeted communication audio-visual program services must obtain a permit for the network transmission of audio-visual Programs from the SAPPRFT. Only PRC state-owned or state-controlled entities may engage in private network and targeted communication audio-visual program services. We cooperate with a PRC licensed entity for the development of relevant programs and provision of audio-visual program services through private network and targeted communication channels, such as smart TVs. According to a press conference of SAPPRFT regarding the Private Network audio-visual Programs Administration Provisions, internet audio-visual program services provided through the public internet, other than private network and targeted communication channels, should comply with the Audio-visual Program Provisions. See “—Regulations Related to Online Transmission of Audio-Visual Programs” for a description of regulations affecting internet audio-video program services provided through the public internet.

Regulations Related to Online Cultural Activities

The MOC promulgated the Provisional Measures on Administration of Internet Culture in 2011, as most recently amended in 2017, and further issued the Notice on Issues Relating to Implementing the Provisional Measures on Administration of Internet Culture in the same year, which apply to entities that engage in activities related to “online cultural products”. “Online cultural products” are classified as cultural products developed, published and disseminated via internet which mainly include: (i) online cultural products particularly developed for publishing via internet, such as, among other things, online music and video files, network games and online animation features and cartoons (including flash animation); and (ii) online cultural products converted from audio and visual products, games, performing arts, artworks and animation features and cartoons, and published via internet. Pursuant to these legislations, entities are required to obtain the Online Culture Operating Permits from the applicable provincial level counterpart of the MOC if they intend to commercially engage in any of the following types of activities:

- production, duplication, import, release or broadcasting of online cultural products;
- publishing of online cultural products on the internet or transmission thereof to computers, fixed-line or mobile phones, radios, television sets or gaming consoles for the purpose of browsing, reading, reviewing, using or downloading such products by online users; or
- exhibitions or contests related to online cultural products.

In 2006, the MOC issued Several Suggestions on the Development and Administration of the Internet Music, or the Suggestions, which reiterate, among other things, the requirement for the internet service provider to obtain an internet culture business permit to carry on any business relating to internet music products. In addition, foreign investors are prohibited from operating internet culture businesses. However, the laws and regulations on internet music products are still evolving, and there have not been any provisions stipulating whether or how music video will be regulated by the Suggestions.
In October 2015, the MOC issued its Notice on Further Strengthening and Improving the Management of Online Music Content. According to this notice, the entities should examine and verify the content of online music by themselves, while the culture management administration should supervise in the act and afterwards.

In August 2013, the MOC issued the Administrative Measures for Content Self-review by Internet Culture Business Entities, which requires internet culture business entities to review the content of products and services to be provided prior to providing such content and services to the public. The content management system of an internet culture business entity is required to specify the responsibilities, standards and processes for content review as well as accountability measures, and is required be filed with the provincial level counterpart of the MOC.

On December 15, 2019, the Regulations on the Ecological Governance of Network Information Content were promulgated by the CAC, effective from March 1, 2020, which specify the scopes of content that are encouraged, prohibited and prevented from producing, re-producing and publishing. The network information content service platforms should fulfill the main responsibility of content management and should establish the ecological governance mechanism of the network information, improve systems of user registration, account management, information publishing review, and emergency response. The regulations also set forth detailed rules for network information content service platforms to manage user accounts, examine online information on a real time basis, remove unfounded rumors and crack down illicit industry chains.

Regulations Related to the Internet Follow-up Comment Services

Pursuant to the Administrative Provisions on Internet Follow-up Comment Services promulgated by the State Internet Information Office, effective October 2017, an internet follow-up comment services provider shall strictly assume the primary responsibilities and discharge the following obligations:

- verify the real identity information of registered users;
- establish and improve a user information protection system;
- establish a system of reviewing at first and then publishing comments if they offer internet follow-up comment services to news information;
- furnish corresponding static information content on the same platform and page at the same time if they provide internet follow-up comment services by way of bullet chatting;
- establish and improve an internet follow-up comment review and administration, real-time check, emergency response and other information security administration systems, timely identify and process illicit information and submit a report to the relevant competent authorities;
- develop internet follow-up comment information protection and administration technologies, innovate internet follow-up comment administration modes, R&D and utilize an anti-spam administration system and improve the spam handling capability;
- timely identify security flaws and loopholes and other risks existing in internet follow-up comment services, take remedial measures and submit a report to the relevant competent authorities;
- build a reviewing and editing team in line with service scale and improve the professionalism of editors;
- assist the relevant competent authorities in carrying out the supervision and inspection work and provide necessary technologies, materials and data support; and
- enter into an agreement with their registered users to stipulate the detailed rules on internet follow-up comment services and administration, the performance of the obligations of disclosing relevant internet laws and regulations.
Regulations Related to Online Games

**Regulatory Authorities and Restriction on Foreign Investment.** In 2008, the General Office of the State Council issued a circular, pursuant to which, the GAPP is responsible for the examination and approval of online games prior to the online publication, while the MOC is responsible for regulating the online game market. In 2009, the GAPP, 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,” which expressly requires that all online games need to be screened by the GAPP through the pre-approvals before they can be operated online, and any updated online game versions or any change to the online games shall be subject to further pre-approvals before they can be operated online.

Pursuant to the Notice to Adjust the Scope of Online Culture Operation License Approval and to Further Regulate the Approval Work released by MCT in May 2019, Ministry of Culture and Tourism (the “MCT,” the successor of the MOC) no longer assumes the responsibility to regulate online game industry, and the provincial counterparts of MCT would no longer grant Online Culture Operation Licenses covering the business scope of using the information network to operate online games. The licenses granted by the MCT before this notice will remain valid until the expiration dates of these licenses, but those whose business scopes include only the operation of online games cannot be renewed after the expiration dates. On July 23, 2019, the MCT announced the abolishment of the Interim Measures on Administration of Online Games, which regulated the issuance of Online Culture Operation Licenses relating to online games.

Both the internet publishing services (including the online game publishing) and internet culture operation (including the online game operation) fall within the prohibited categories in the Negative List. The Notice Regarding the Consistent Implementation of the “Regulation 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 Online Games and the Examination and Approval of Imported Online Games, or the GAPP Notice, promulgated by the GAPP, together with the National Copyright Administration and the Office of the National Working Group for Crackdown on Pornographic and Illegal Publications in 2009, provides that, among other things, foreign investors are not permitted to invest or engage in online game operations in China through their wholly-owned subsidiaries, equity joint ventures or cooperative joint ventures, and foreign investors are not permitted to gain control over or participate in domestic online game operations indirectly through joint ventures, contractual agreements or technical support. Serious violation of the GAPP Notice will result in suspension or revocation of relevant licenses and registrations.

**Online Game Examination and Publishing.** Pursuant to the Administrative Measures for Internet Publishing Services jointly promulgated by the SAPPRFT and the MIIT in February 2016, online publications such as games provided to the public through information networks must be approved by the SAPPRFT and the service operator must obtain an online publishing service license. An online publishing service provider shall first file an application with the competent provincial-level counterpart of the SAPPRFT in the place where it is located and the application, if approved, shall be submitted to the SAPPRFT for approval. For the publishing of online games authorized by foreign copyright owners, the online publishing service provider shall obtain legal authorization for the copyright and complete the approval formalities.

In May 2016, the SAPPRFT issued a Notice on Administration of Mobile Game Publishing Services, or the Mobile Game Notice, which provides that the content of mobile games is subject to its review, and that mobile game publishers and operators must apply for publishing and authorization codes for the games. Under the Mobile Game Notice, significant upgrades and expansion packs for mobile games that have previously been approved for publishing could be regarded as new works, and the operators will be required to obtain approval for such upgrades and expansion packs before they are released. In the event of any failure to meet these license and approval requirements, an operator may face heavy penalties, such as being ordered to stop operation, or having its business license revoked.

The Central Committee of the Communist Party of China issued the Plan for Deepening the Institutional Reform of the Party and State and the National People’s Congress adopted the Institutional Reform Plan of the State Council in March 2018 (collectively, the “Institutional Reform Plans”). According to the Institutional Reform Plans, the SAPPRFT was reformed and now known as the NRTA and the NAPP. Concurrently with the implementation of this reformation, the assessment and pre-approval of domestic and foreign developed online games by GAPP had been suspended during April to December 2018 and had resumed since December 2018. After this re-organization, companies need to apply with the NAPP for the approvals publishing the online games.
Online Game Operation. In June 2010, the MOC promulgated the Interim Measures on Administration of Online Games, or the Online Game Interim Measures, amended on December 15, 2017, which governed the research, development and operation of online games and the issuance and trading services of virtual currency. All operators of online games, issuers of virtual currency and providers of virtual currency trading services are required to obtain Internet Culture Operation Licenses. An Internet Culture Operation License is valid for three years.

In May 2019, MCT released the Notice on Adjusting the Scope of Examination and Approval regarding the to Further Regulate the Approval Work, pursuant to which the provincial counterparts of MCT would no longer grant Internet Culture Operation License covering he business scope of using the information network to operate online games.

On July 23, 2019, the MCT announced the abolishment of the Online Game Interim Measures. After the abolishment, the game operators are no longer required to apply to MCT for examination of imported online games or go through filing procedures for domestic online games.

In 2007, the MOC, the People’s Bank of China and other relevant governmental 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 e-commerce. It also provides that virtual currency shall only be used to purchase virtual items. In 2009, the MOC and MOFCOM 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.

Regulations Related to Anti-fatigue System, Real-name Registration System and Parental Guardianship Project

In 2007, the GAPP 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 2011, the GAPP, 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 2011, the 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 provincial level counterpart of the MOC each quarter.
In August 2016, the CAC issued the Regulations for the Administration of Mobile Internet Applications Information Services, pursuant to which the mobile applications information service providers shall satisfy relevant qualifications required by laws and regulations, strictly carry out the information security management responsibilities and fulfill their obligations in various aspects relating to the real-name system, protection of users’ information and the examination and management of information content. The app store service providers shall file with the local cyberspace administration authorities within 30 days after its app store services being launched, and such app store service providers are responsible for overseeing app information service providers operated in their stores.

In August 2018, the National Health Commission, the MOE, together with several other government agencies, jointly issued the Implementation on Comprehensive Prevention and Control of Juveniles’ Myopia, which sets forth the plans to control the number of new online games and to restrict the amount of time when juveniles play games and use electronic devices.

On October 25, 2019, the NAPP issued the Notice on Preventing Minor’s Addiction to Online Games, which requires all online gamers to register accounts with their valid identity information and all game companies to stop providing game services to users who fail to do so. Furthermore, minors are prohibited from playing games exceeding a certain period of time per day or charging their accounts exceeding a certain amount.

Regulations Related to Internet Publication

The NAPP is the governmental agency responsible for regulating publishing activities in China. In February 2016, the MIIT and the SAPPRFT jointly promulgated the Administrative Provisions on Online Publishing Services, or the Online Publishing Provisions, which took effect in March 2016. According to the Online Publishing Provisions, all online publishing services provided within the territory of China are subject to the Online Publishing Provisions, and an online publishing services permit shall be obtained to provide online publishing services. Pursuant to the Online Publishing Provisions, “online publishing services” refer to providing online publications to the public through information networks; and “online publications” refer to digital works with publishing features such as having been edited, produced or processed and are made available to the public through information networks, including: (i) written works, pictures, maps, games, cartoons, audio-visual reading materials and other original digital works containing useful knowledge or ideas in the field of literature, art, science or other fields; (ii) digital works of which the content is identical to that of any published book, newspaper, periodical, audio-visual product, electronic publication or the like; (iii) network literature databases or other digital works, derived from any of the aforesaid works by selection, arrangement, collection or other means; and (iv) other types of digital works as may be determined by the SAPPRFT. The foreign invested enterprises are prohibited from providing online publication services. If an online publication service provider intends to cooperate for an online publication services project with foreign invested enterprises, overseas organizations or overseas individuals, it must report to the SAPPRFT and obtain an approval in advance. Also, an online publication service provider is prohibited from lending, leasing, selling or otherwise transferring the Online Publication Service License, or to allow any other online information service provider to provide online publication services in its name.

Regulations Related to Advertising Business

According to the PRC laws and regulations, companies that engage in advertising activities must obtain from State Administration for Industry and Commerce or its local branches a business license which specifically includes operating an advertising business within its business scope. An enterprise engaging in advertising business as specified in its business scope does not need to apply for an advertising operation license, provided that such enterprise is not a radio station, television station, newspaper or magazine publisher or any other entity as specified in laws or administrative regulations. Enterprises conducting advertising activities without such a license may be subject to penalties, including fines, confiscation of advertising income and orders to cease advertising operations. The business license of an advertising company is valid for the duration of its existence, unless the license is suspended or revoked due to a violation of any relevant law or regulation. PRC advertising laws and regulations set forth certain content requirements for advertisements in China including, among other things, prohibitions on false or misleading content, superlative wording, socially destabilizing content or content involving obscenities, superstition, violence, discrimination or infringement of the public interest. Advertisers, advertising agencies, and advertising distributors are required 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. 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, the State Administration for Industry and Commerce or its local branches may revoke violators’ licenses or permits for their advertising business operations.
In July 2016, the State Administration for Industry and Commerce issued the Interim Measures for the Administration of Internet Advertising, or the Internet Advertising Measures, pursuant to which internet advertising refers to the commercial advertising for direct or indirect marketing goods or services in the form of text, image, audio, video, or others means through websites, webpages, internet applications, or other internet media. The Internet Advertising Measures specifically sets out the following requirements: (a) advertisements must be identifiable and marked with the word “advertisement” enabling consumers to distinguish them from non-advertisement information; (b) sponsored search results must be clearly distinguished from organic search results; (c) it is forbidden to send advertisements or advertisement links by email without the recipient’s permission or induce internet users to click on an advertisement in a deceptive manner; and (d) internet information service providers who do not participate in the business activities of internet advertising are required to stop publishing illegal advertisement only if they know or should have known the advertising is illegal.

In February 2018, the State Administration for Industry and Commerce issued the Notice on Launching Special Rectification on Internet Advertising, pursuant to which, the government authorities will investigate and tackle those false and illegal internet advertisements that cause adverse social impact, raise strong claims from the people, or harm the personal and property safety of the people. The internet media and platforms with large social impact and coverage shall be the focus of this rectification.

Regulations Related to Internet Information Security and Privacy Protection

PRC government authorities have enacted laws and regulations with respect to internet information security and protection of personal information from any abuse or unauthorized disclosure. Internet information in China is regulated and restricted from a national security standpoint. The Standing Committee of the National People’s Congress enacted the Decisions on Maintaining Internet Security in 2000, and amended in 2009, which may subject violators to criminal punishment in China for any effort to: (i) gain improper entry into a computer or system of strategic importance; (ii) disseminate politically disruptive information; (iii) leak state secrets; (iv) spread false commercial information; or (v) infringe intellectual property rights. The Ministry of Public Security has promulgated measures that prohibit use of the internet in ways which, among other things, result in a leakage of state secrets or a spread of socially destabilizing content. If an internet information service provider violates these measures, the Ministry of Public Security and the local security bureaus may revoke its operating license and shut down its websites.

Under the Several Provisions on Regulating the Market Order of Internet Information Services issued by the MIIT in 2011, an internet information service provider may not collect any user personal information or provide any such information to third parties without the consent of the users and it must 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 internet information service provider is also required to properly maintain the user personal information, and in case of any leak or likely leak of the user personal information, the internet information service provider must take immediate remedial measures and, in severe circumstances, 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 Standing Committee of the National People’s Congress in December 2012 and the Order for the Protection of Telecommunication and Internet User Personal Information issued by the MIIT in July 2013, any collection and use of user personal information must 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 internet information service provider must also keep such information strictly confidential, and is further prohibited from divulging, tampering or destroying any such information, or selling or providing such information to other parties. An internet information service provider is required to take technical and other measures to prevent the collected personal information from any unauthorized disclosure, damage or loss. Any violation of these laws and regulations may subject the internet information service provider to warnings, fines, confiscation of illegal gains, revocation of licenses, cancellation of filings, closedown of websites or even criminal liabilities.
In addition, pursuant to the Notice on Legally Punishing Criminal Activities Infringing upon the Personal Information of Citizens issued by of the Supreme People’s Court, the Supreme People’s Procuratorate and the Ministry of Public Security in 2013, and the Interpretation on Several Issues regarding Legal Application in Criminal Cases Infringing upon the Personal Information of Citizens issued by the Supreme People’s Court and the Supreme People’s Procuratorate in May 2017, the following activities may constitute the crime of infringing upon a citizen’s personal information:

(i) providing a citizen’s personal information to specified persons or releasing a citizen’s personal information online or through other methods in violation of relevant national provisions; (ii) providing legitimately collected information relating to a citizen to others without such citizen’s consent (unless the information is processed, not traceable to a specific person and not recoverable); (iii) collecting a citizen’s personal information in violation of applicable rules and regulations when performing a duty or providing services; or (iv) collecting a citizen’s personal information by purchasing, accepting or exchanging such information in violation of applicable rules and regulations.

Further, pursuant to the Ninth Amendment to the Criminal Law issued by the Standing Committee of the National People’s Congress in August 2015, which became effective in November 2015, any internet service provider that fails to fulfill the obligations related to internet information security administration as required by applicable laws and refuses to rectify upon orders is subject to criminal penalty for the result of (i) any dissemination of illegal information in large scale; (ii) any severe effect due to the leakage of the client’s information; (iii) any serious loss of criminal evidence; or (iv) other severe situation, and any individual or entity that (i) sells or provides personal information to others in a way violating the applicable law, or (ii) steals or illegally obtain any personal information is subject to criminal penalty in severe situation.

In November 2016, the Standing Committee of the National People’s Congress promulgated the Network Security Law of the People’s Republic of China, or the Network Security Law, effective June 1, 2017. The Network Security Law is formulated to maintain the network security, safeguard the cyberspace sovereignty, national security and public interests, protect the lawful rights and interests of citizens, legal persons and other organizations, and requires that a network operator, which includes, among others, internet information services providers, take technical measures and other necessary measures in accordance with the provisions of applicable laws and regulations as well as the compulsory requirements of the national and industrial standards to safeguard the safe and stable operation of the networks, effectively respond to the network security incidents, prevent illegal and criminal activities, and maintain the integrity, confidentiality and availability of network data. The Network Security Law emphasizes that any individuals and organizations that use networks is required to comply with the PRC Constitution and laws, abide by public order and cannot endanger network security or make use of networks to engage in unlawful activities such as endangering national security, economic order and social order, and infringing the reputation, privacy, intellectual property rights and other lawful rights and interests of other people. The Network Security Law has reaffirmed the basic principles and requirements as specified in other existing laws and regulations on personal information protections, such as the requirements on the collection, use, processing, storage and disclosure of personal information, and internet service providers being required to take technical and other necessary measures to ensure the security of the personal information they have collected and prevent the personal information from being divulged, damaged or lost. Any violation of the provisions and requirements under the Network Security Law may subject the internet service provider to warnings, fines, confiscation of illegal gains, revocation of licenses, cancellation of filings, closedown of websites or even criminal liabilities.

On May 8, 2017, the Supreme People’s Court and the Supreme People’s Procuratorate released the Interpretations of the Supreme People’s Court and the Supreme People’s Procuratorate on Several Issues Concerning the Application of Law in the Handling of Criminal Cases Involving Infringement of Citizens’ Personal Information, or the Personal Information Interpretations, effective from June 1, 2017. The Personal Information Interpretations clarify several concepts regarding the crime of “infringement of citizens’ personal information” stipulated by Article 253A of the Criminal Law of the People’s Republic of China, including “citizen’s personal information”, “provision”, and “unlawful acquisition”. Also, the Interpretations specify the standards for determining “serious circumstances” and “particularly serious circumstances” of this crime.
On November 15, 2018, the CAC and the Ministry of Public Security jointly issued the Provisions on Security Assessment of the Internet Information Services with Public Opinion Attributes or Social Mobilization Capacity, which require providers of internet information services to conduct security assessments on their internet information services if their services include forums, blogs, microblogs, chat rooms, communication groups, public accounts, short-form videos, online live-streaming, information sharing, mini programs or other functions that provide channels for the public to express opinions or have the capability of mobilizing the public to engage in specific activities. Providers of internet information services must conduct self-assessment on, among other things, the legality of new technology involved in the services and the effectiveness of security risk prevention measures, and file the assessment report with the local competent cyberspace administration authority and public security authority.

On August 23, 2019, the CAC issued the Provisions on Protecting Children’s Personal Information in Cyberspace, effective from October 1, 2019. Network operators are required to establish special policies and user agreements to protect children’s personal information, and to appoint special personnel in charge of protecting children’s personal information. Network operators who collect, use, transfer or disclose personal information of children are required to, in a prominent and clear way, notify and obtain consent from children’s guardians. The CAC, the MIIT, the Ministry of Public Security and the State Administration for Market Regulation promulgated a series of regulations in relation to personal information collection and use in the field of Apps in 2019, including: (i) Circular concerning Special Campaigns against the Illegal Collection and Use of Personal Information by Apps; (ii) Circular concerning App Security Certification; and (iii) Guidelines for Self-Examination of Apps on the Illegal Use of Personal Information.

Meanwhile, the regulatory authorities carried out a series of law enforcement actions in 2019 against apps that fail to protect users’ personal information. For example, in the first quarter of 2019, MIIT organized a spot check on 106 internet services provided by 100 internet companies, and ordered some to correct their failures to publish policies on the collection and usage of users’ personal information, to provide channels for users to access and revise personal information, and to provide functions for users to cancel their accounts. In March, 2019, the State Administration for Market Regulation carried out a special law enforcement action against the infringement on consumers’ personal information. On October 31, 2019, the MIIT issued the Notice to Rectify Mobile Apps’ Infringement on Users’ Interests, announcing that it will launch a rectification program on mobile app service providers and distribution service providers, including App stores, from November 6, 2019 to December 20, 2019. The inspection covers the illegal collection and usage of personal information, unreasonable request for user authorization, and obstacles for users to cancel their accounts. On December 19, 2019, the MIIT issued a list of mobile apps that failed to pass its inspection, and none of our mobile Apps was not named therein.

Regulations Related to E-Commerce

In 2005, the General Office of the State Council issued Several Opinions on Accelerating the Development of Electronic Commerce to thoroughly stress the significance of the Electronic Commerce and regulate the development of e-commerce. In 2007, MOFCOM promulgated the Guiding Opinions on Online Trading (for Tentative Implementation), under which, the term of “Online Trading” is defined as “the commodity or service trading conducted between the buyer and the seller by making use of internet” and the behaviors of online trading participants are normalized.

According to the Opinions of the Ministry of Commerce on Promoting the Regularized Development of the E-Commerce promulgated by MOFCOM in 2007, it is required to, among others, regularize the information release and transmission behaviors of all parties concerned to online trading, applaud legal, regularized, fair and equitable online marketing, electronic contracting, after-sale services and other e-commerce trading acts, prevent and settle various kinds of trading disputes, regularize electronic payment acts and ensuring the safe flow of funds.

Implementing Opinions on Promoting E-Commerce Application was promulgated by MOFCOM in October 2013, which aims to further promote the development of e-commerce, guide the healthy and speedy development of network retailing, strengthen the development of e-commerce for rural villages and agricultural products, support the development of urban community e-commerce application system and promote innovative application of cross-border e-commerce.

In May 2015, the State Council promulgated the Opinions on Striving to Develop E-commerce to Speed Up the Cultivation of New Economic Driving Force in order to lower the requirements for market access, further simplify the registration of registered capital, deeply promote the reform from “certificate before license” to “license before certificate” in the field of e-commerce and simplify the approval process for the overseas listing of e-commerce enterprises in the territory and encourage the cross-border RMB direct investment in the field of e-commerce.
Further, Guiding Opinions on Fully Enhancing the Credit Construction in the E-commerce Sector was issued by the State Administration for Industry and Commerce and other governmental authorities in December 2016. These opinions require that e-commerce platforms shall (a) establish and perfect internal credit constraint mechanisms, and make full use of big data technologies to strengthen the credit control in terms of commodity quality, intellectual property rights, service level, etc.; (b) establish the business credit early risk warning system, and promptly publish the relevant information to society and risk prompts for seriously dishonest businesses selling forged and fake commodities and hyping credit by malicious scalping, according to requirements of relevant industrial competent and regulatory authorities; (c) establish and improve a report and complaint handling mechanism and respondively submit clues on suspected illegalities and irregularities identified to relevant industrial competent and regulatory authorities, and coordinate with relevant authorities concerning investigation and treatment. As for any e-commerce platform not actively fulfilling the subject responsibilities, the relevant industrial competent or regulatory authority shall promptly take measures such as talk and notification, and impose administrative punishments in accordance with the law.

On August 31, 2018, the Standing Committee of the National People’s Congress promulgated the E-commerce Law of the PRC, or the E-commerce Law, which came into effect on January 1, 2019. The E-commerce Law imposes a series of requirements on e-commerce platform operators, merchants operating on the platform and the individuals and entities carrying out business online. According to the E-commerce Law, e-commerce operators who provide search results based on consumers’ characteristics such as hobbies and consumption habits shall also provide consumers with options that are not targeted at their personal characteristics at the same time, respect and fairly protect the legitimate interests of the consumers. According to the E-commerce Law, e-commerce platform operators are required to assume joint liability with the merchants and may be subject to warnings and fines up to RMB2,000,000 where (i) they fail to take necessary actions when they know or should have known that the products or services provided by the merchants on the platform do not meet personal and property security requirements, or otherwise infringe upon consumers’ legitimate rights; or (ii) they fail to take necessary actions, such as deleting and blocking information, disconnecting, terminating transactions and services, when they know or should have known that the merchants on the platform infringe upon the intellectual property rights of others. With respect to products or services affecting consumers’ health and safety, e-commerce platform operators will be held liable if they fail to review the qualifications of merchants or fail to safeguard the interests of consumers, and may be subject to warnings and fines up to RMB2,000,000.

Regulations Related to Torts and the Internet Infringement of Intellectual Property Rights

The Tort Law was promulgated by the Standing Committee of the National People’s Congress, effective 2010. Under this law, if an internet service provider is aware that an internet user is infringing upon the civil right or interest of another person, such as rights of reputation, portraiture, privacy and copyrights, through its network services, and fails to take necessary measures, the internet service provider shall be jointly liable for such infringement with such internet user. Once the internet service provider is found to be jointly liable for the infringement by internet users, it may be ordered by the court to remove the infringing content, eliminate adverse impact, make public apology, pay economic compensation to the legal right holders and assume other liabilities in accordance with the law.

In October 2015, the General Office of the State Council issued Opinions of the General Office of the State Council on Strengthening the Governance of Infringement and Counterfeiting on the Internet to (i) take special actions to crack down online infringements and piracy and strengthen the monitoring and regulation in the key fields of internet (mobile phone) literature, music, film and TV, games, animation, software and standards with copyright to detect and punish infringement and piracy timely; (ii) expand the key scopes of copyright regulation, extend copyright regulation to new forms of transmission including mobile application, cloud storage, micro-blog and WeChat, and (iii) handle online patent dispute cases, strengthen law enforcement and safeguard patent rights in the field of e-commerce. In May 2017, in order to ramp up the efforts to clean up infringements and counterfeiting in the field of internet, the General Office of the State Council further issued “Circular of the General Office of the State Council on Issuing the Major Tasks in Nationwide Crackdown on the Infringement of Intellectual Property Rights and Production and Sale of Counterfeit and Shoddy Goods in 2017.” Meanwhile, the regulatory authorities have been conducting an annual “Clean Up the Internet” campaign in the past several years to combat the internet infringement of intellectual property.
Regulations Related to Intellectual Property Rights

The PRC authorities have adopted comprehensive legislation governing intellectual property rights, including copyrights, patents and trademarks.

Copyright

Under the Copyright Law, issued in 1990 and most recently amended in 2010, or the Copyright Law, and its related Implementing Regulations, issued in 2002 and amended in 2013, creators of protected works enjoy personal and property rights with respect to publication, authorship, alteration, integrity, reproduction, distribution, lease, exhibition, performance, projection, broadcasting, dissemination via information network, production, adaptation, translation, compilation and related activities. The term of a copyright, other than the rights of authorship, alteration and integrity of an author shall be unlimited in time, is life plus 50 years for individual authors and 50 years for corporations. In consideration of the social benefits and costs of copyrights, the PRC authorities balance copyright protections with limitations that permit certain uses, such as for private study, research, personal entertainment and teaching, without compensation to the author or prior authorization.

To address the problem of copyright infringement related to the content posted or transmitted over the internet, the PRC National Copyright Administration and MII jointly promulgated the Measures for Administrative Protection of Copyright Related to Internet, effective 2005. These measures apply to acts of automatically providing such functions as uploading, storing, linking or searching works, audio or video products, or other contents through the internet based on the instruction of website users who publish contents on internet, without editing, amending or selecting any stored or transmitted content. A copyright administration authority shall, when imposing administrative penalties upon the act infringing upon the right of communication through information network, apply the Measures for Imposing Copyright Administrative Penalties issued by the PRC National Copyright Administration in 2009.

The State Council promulgated the Regulation on Protection of the Right of Communication through Information Network, effective in 2006 and amended in March 2013. Under this regulation, an ICP service provider may be exempted from indemnification liabilities under the following 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 stores and 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 audio-visual 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 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.

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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 right 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.

**Patent**

The National People’s Congress adopted the Patent Law in 1984, as most recently amended in 2008. A patentable invention, utility model or design must meet three conditions: novelty, inventiveness and practical applicability. Patents cannot be granted for scientific discoveries, rules and methods for intellectual activities, methods used to diagnose or treat diseases, animal and plant breeds or substances obtained by means of nuclear transformation. The Patent Office under the State 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.

**Trademark**

Registered trademarks are protected under the Trademark Law adopted in 1982 and most recently amended in 2019, as well as the Implementation Regulation of the PRC Trademark Law adopted by the State Council on August 3, 2002 (Revised in 2014). The PRC Trademark Office of the State Administration for Industry and Commerce is responsible for the registration and administration of trademarks throughout China. 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.

**Domain name**

The domain names are protected under the Administrative Measures on the Internet Domain Names promulgated by MIIT, effective in November 2017. The 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 PRC domain names. CNNIC promulgated the Implementation Rules of Registration of Domain Name, or the CNNIC Rules, effective in May 2012. Pursuant to the Administrative Measures on the Internet Domain Names and the CNNIC Rules, 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 Rules. 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. On November 27, 2017, the MIIT issued Circular on Regulating the Use of Domain Names for Internet Information Services, effective on January 1, 2018, pursuant to which an internet access service provider shall, pursuant to requirements stated in the Anti-terrorism Law of the PRC and the Cyber Security Law of the PRC, verify the identity of each internet information service provider, and shall not provide services to any internet information service provider that refuses to submit truthful information about its identity.
**Software Copyright**

In order to further implement the Computer Software Protection Regulations promulgated by the State Council in 2001 and amended in January 2013, the National Copyright Administration issued the Computer Software Copyright Registration Procedures in 2002, which apply to software copyright registration, license contract registration and transfer contract registration.

**Regulations Related to Foreign Exchange Control and Administration**

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations, promulgated by the State Council in 1996 and most recently amended in 2008. Under the PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. By contrast, approval from or registration with appropriate governmental authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of foreign currency-denominated loans.

In November 2012, SAFE promulgated the Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment, which substantially amends and simplifies the current foreign exchange procedures. Pursuant to this circular, the opening of various special purpose foreign exchange accounts, such as pre-establishment expenses accounts, foreign exchange capital accounts and guarantee accounts, the reinvestment of Renminbi proceeds derived by foreign investors in China, and remittance of foreign exchange profits and dividends by a foreign-invested enterprise to its foreign shareholders no longer require the approval or verification of SAFE, and multiple capital accounts for the same entity may be opened in different provinces, which was not possible previously. In addition, SAFE promulgated another circular in May 2013, which specifies that the administration by SAFE or its local branches over direct investment by foreign investors in China must be conducted by way of registration and banks must process foreign exchange business relating to the direct investment in China based on the registration information provided by SAFE and its branches. In February 2015, SAFE promulgated the Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment, pursuant to which, instead of applying for approvals regarding foreign exchange registrations of foreign direct investment and overseas direct investment from SAFE, entities and individuals may apply for such foreign exchange registrations from qualified banks. The qualified banks, under the supervision of SAFE, may directly review the applications and conduct the registration.

In March 2015, SAFE issued the Circular of the State Administration of Foreign Exchange on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises, or SAFE Circular 19. Pursuant to SAFE Circular 19, the foreign currency capital contribution to a foreign invested enterprise, or an FIE, in its capital account may be converted into Renminbi on a discretional basis. Furthermore, in June 2016, SAFE promulgated Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts, or SAFE Circular 16, pursuant to which, in addition to foreign currency capital, enterprises registered in China may also convert their foreign debts, as well as repatriated funds raised through overseas listing, from foreign currency to Renminbi on a discretional basis. SAFE Circular 16 also reiterates that the use of capital so converted shall follow “the principle of authenticity and self-use” within the business scope of the enterprise. According to SAFE Circular 16, the Renminbi funds so converted shall not be used for the purposes of, whether directly or indirectly, (i) paying expenditures beyond the business scope of the enterprises or prohibited by laws and regulations; (ii) making securities investment or other investments (except for banks’ principal-secured products); (iii) granting loans to non-affiliated enterprises, except as expressly permitted in the business license; and (iv) purchasing non-self-used real estate (except for the foreign-invested real estate enterprises).
In January 2017, SAFE promulgated the Circular on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification, or SAFE Circular 3, which stipulates 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 shall check board resolutions regarding profit distribution, the original version of tax filing records and audited financial statements; and (ii) domestic entities shall hold income to account for previous years’ losses before remitting the profits. Further, pursuant to SAFE Circular 3, domestic entities shall 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 issued Notice of the State Administration of Foreign Exchange on Further Promoting the Facilitation of Cross-border Trade and Investment, or the Circular 28. Circular 28 allows non-investment foreign-invested enterprises to use their capital funds to make equity investments in China, provided that such investments do not violate the Negative List and the target investment projects are genuine and in compliance with PRC laws. Since Circular 28 was issued only recently, its interpretation and implementation in practice are still subject to substantial uncertainties.

**Regulations related to Dividend Distributions**

The principal regulations governing the distribution of dividends paid by wholly foreign-owned enterprises include the Company Law of the PRC last amended in 2018, the Foreign Investment Law issued in 2019 and the Implementation Regulations for the Foreign Investment Law effective in January 2020. Under these regulations, wholly foreign-owned enterprises in China may pay dividends only out of their accumulated profits, if any, as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise in China is required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves until its cumulative total reserve funds reaches 50% of its registered capital. These reserve funds, however, may not be distributed as cash dividends.

**Regulations Related to Foreign Exchange Registration of Offshore Investment by PRC Residents**

In July 2014, SAFE issued the Circular of the State Administration of Foreign Exchange on Issues concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles, or SAFE Circular 37, to replace 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. SAFE Circular 37 regulates foreign exchange matters in relation to the use of special purpose vehicles, or SPVs, by PRC residents or entities to seek offshore investment and financing or conduct round trip investment in China. Under SAFE Circular 37, an SPV refers to an offshore entity established or controlled, directly or indirectly, by PRC residents or entities for the purpose of seeking offshore financing or making offshore investment, using legitimate domestic or offshore assets or interests, while “round trip investment” refers to the direct investment in China by PRC residents or entities through SPVs, namely, establishing foreign-invested enterprises to obtain the ownership, control rights and management rights. SAFE Circular 37 requires that, before making contribution into an SPV, PRC residents or entities are required to complete foreign exchange registration with SAFE or its local branch. SAFE Circular 37 further provides that option or share-based incentive tool holders of a non-listed SPV can exercise the options or share incentive tools to become a shareholder of such non-listed SPV, subject to registration with SAFE or its local branch. In February 2015, SAFE promulgated the Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment, or SAFE Circular 13. SAFE Circular 13 has amended SAFE Circular 37 by requiring PRC residents or entities to register with qualified banks instead of SAFE or its local branch in connection with their establishment of an SPV.

PRC residents who have contributed legitimate domestic or offshore interests or assets to SPVs but have not yet to obtain SAFE registration before the implementation of SAFE Circular 37 shall register their ownership interests or control in such SPVs with SAFE or its local branch. An amendment to the registration is required if there is a material change involving the SPV registered, such as any change of basic information (including change of such PRC residents, change of name and operation term of the SPV), increases or decreases in investment amount, transfers or exchanges of shares, or mergers or divisions. Failure to comply with the registration procedures set forth in SAFE Circular 37 and SAFE Circular 13, misrepresent on or failure to disclose controllers of foreign-invested enterprise that is established through round-trip investment, may result in restrictions on the foreign exchange activities of the relevant foreign-invested enterprises, including payment of dividends and other distributions, such as proceeds from any reduction in capital, share transfer or liquidation, to its offshore parent company or affiliates and the capital inflow from the offshore parent company, and may also subject the relevant PRC residents or entities to penalties under PRC foreign exchange administration regulations.
Regulations Related to Employee Share Options

In February 2012, SAFE issued the Circular of the State Administration of Foreign Exchange on Issues concerning the Administration of Foreign Exchange Used for Domestic Individuals’ Participation in Equity Incentive Plans of Companies Listed Overseas, or SAFE Circular 7, replacing the Implementation Rules of the Administrative Measures for Individual Foreign Exchange issued in 2007, to regulate the foreign exchange administration of PRC citizens and non-PRC citizens who reside in China for a continuous period of not less than one year, with a few exceptions, who participate in stock incentive plans of overseas publicly-listed companies. According to SAFE Circular 7 and other related rules and regulations, such individuals who participate in any employee stock ownership plan or stock option plan of an overseas listed company, are required to register with SAFE or its local branches through a qualified PRC agent, which could be the PRC subsidiaries of such overseas listed company or other qualified institution selected by the PRC subsidiaries, and complete other procedures with respect to the stock incentive plan. In addition, the PRC agent is required to amend SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or other material changes. The PRC agent must, on behalf of these individuals 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 these individuals’ exercise of the employee share options. Such individuals’ foreign exchange income received from the sale of stocks and dividends distributed by the overseas listed company and any other income shall be fully remitted into a collective foreign currency account in China opened and managed by the PRC subsidiaries of the overseas listed company or the PRC agent before distribution to such individuals. We and our executive officers and other employees who are PRC citizens or non-PRC citizens who reside in China for a continuous period of not less than one year and have been granted options will be subject to these regulations upon the completion of our initial public offering. Failure of our PRC option holders or restricted shareholders to complete their SAFE registrations may subject us and these employees to fines and other legal sanctions.

In addition, the State Administration for Taxation has issued certain circulars concerning employee share options. Under these circulars, our employees working in China who exercise share options will be subject to PRC individual income tax. Our PRC subsidiaries have obligations to file documents related to employee share options with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options. If our employees fail to pay or 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 governmental authorities.
C. **Organizational Structure**

The following chart illustrates our company’s organizational structure, including our principal subsidiaries and consolidated affiliated entities as of the date of this annual report:

![Organizational Structure Diagram](image)

**Notes**

1. Rui Chen holds 100% equity interests in Shanghai Kuanyu. He is also the chairman of our board of directors and our chief executive officer.
2. Rui Chen, Yi Xu, Ni Li and two other individuals hold 52.3%, 34.8%, 3.4% and 9.5% equity interests in Shanghai Hode, respectively. Among them, Mr. Chen, Mr. Xu and Ms. Li are also directors and officers of our company.

The following is a summary of the currently effective contractual arrangements by and among our wholly-owned subsidiary, Hode Technology (our WFOE), our principal VIEs and their respective shareholders. These contractual arrangements enable us to (i) exercise effective control over our principal VIEs; (ii) receive substantially all of the economic benefits of our principal VIEs; and (iii) have an exclusive option to purchase all or part of the equity interests in and assets of them when and to the extent permitted by PRC law.

**Agreements that provide us effective control over our principal VIEs**

**Powers of Attorney.** On April 24, 2019, Mr. Rui Chen, the shareholder of Shanghai Kuanyu, executed a power of attorney to irrevocably appoint Hode Technology or its designated person as his attorney-in-fact to exercise all of his rights as a shareholder of Shanghai Kuanyu, including, but not limited to, the right to convene and attend shareholders’ meeting, vote on any resolution that requires a shareholder vote, such as the appointment or removal of directors and executive officers, and other voting rights pursuant to the then-effective articles of association of Shanghai Kuanyu. The power of attorney will remain in force for so long as the shareholder remains a shareholder of Shanghai Kuanyu.
On October 10, 2017, each of Messrs. Yi Xu, Rui Chen and Xi Cao, and Mses. Qian Wei and Ni Li, the shareholders of Shanghai Hode, executed a power of attorney, which contains terms substantially similar to the power of attorney executed by the shareholder of Shanghai Kuanyu described above.

**Equity Pledge Agreements.** Pursuant to the equity pledge agreement, dated April 24, 2019, among Hode Technology, Shanghai Kuanyu and Mr. Rui Chen, the shareholder of Shanghai Kuanyu, Mr. Chen pledged all of his equity interests in Shanghai Kuanyu to guarantee his and Shanghai Kuanyu’s performance of their obligations under the contractual arrangements including the exclusive technology consulting and service agreement, the exclusive option agreement and the power of attorney. In the event of a breach by Shanghai Kuanyu or Mr. Chen of contractual obligations under these agreements, Hode Technology, as pledgee, will have the right to dispose of the pledged equity interests in Shanghai Kuanyu. Mr. Chen also undertakes that, during the term of the equity pledge agreements, he will not dispose of the pledged equity interests or create or allow any encumbrance on the pledged equity interests. During the term of the equity pledge agreement, Hode Technology has the right to receive all of the dividends and profits distributed on the pledged equity interests.

On October 10, 2017, Hode Technology, Shanghai Hode and each of the shareholders of Shanghai Hode entered into an equity pledge agreement, which contains terms substantially similar to the equity pledge agreement described above. We have completed the registration of the equity pledges with the relevant Office of the State Administration for Industry and Commerce in accordance with the PRC Property Rights Law.

**Spousal Consent Letters.** Pursuant to the spousal consent letter, dated April 24, 2019, the spouse of Mr. Rui Chen, the sole shareholder of Shanghai Kuanyu, unconditionally and irrevocably agreed that the equity interest in Shanghai Kuanyu held by and registered in the name of Mr. Chen will be disposed of pursuant to the equity interest pledge agreement, the exclusive option agreement and the power of attorney. The spouse agreed not to assert any rights over the equity interest in Shanghai Kuanyu held by her spouse. In addition, in the event that the spouse obtains any equity interest in Shanghai Kuanyu held by her spouse for any reason, she agreed to be bound by the contractual arrangements.

On October 10, 2017, the respective spouse of Rui Chen, Xi Cao and Qian Wei, each a shareholder of Shanghai Hode, executed a spousal consent letter, which contains terms substantially similar to the spousal consent letter described above.

**Agreements that allow us to receive economic benefits from our principal VIEs**

**Exclusive Technology Consulting and Services Agreements.** Under the exclusive technology consulting and services agreement between Hode Technology and Shanghai Kuanyu, dated April 24, 2019, Hode Technology has the exclusive right to provide to Shanghai Kuanyu consulting and services related to, among other things, research and development, system operation, advertising, internal training and technical support. Hode Technology has the exclusive ownership of intellectual property rights created as a result of the performance of this agreement. Shanghai Kuanyu agrees to pay Hode Technology an annual service fee, at an amount that is agreed by Hode Technology. This agreement will remain effective for a 10-year term and then be automatically renewed, unless Hode Technology gives Shanghai Kuanyu a termination notice 90 days before the term ends.

On October 10, 2017, Hode Technology and Shanghai Hode entered into an exclusive technology consulting and services agreement, which contains terms substantially similar to the exclusive technology consulting and services agreement described above.

**Agreements that provide us with the option to purchase the equity interests in our principal VIEs**

**Exclusive Call Option Agreements.** Pursuant to the exclusive call option agreement, dated April 24, 2019, among Hode Technology, Shanghai Kuanyu and Mr. Rui Chen, the shareholder of Shanghai Kuanyu, Mr. Chen irrevocably granted Hode Technology an exclusive option to purchase, or have its designated person to purchase, at its discretion, to the extent permitted under PRC law, all or part of his equity interests in Shanghai Kuanyu, and the purchase price shall be the lowest price permitted by applicable PRC law. In addition, Shanghai Kuanyu has granted Hode Technology an exclusive option to purchase, or have its designated person to purchase, at its discretion, to the extent permitted under PRC law, and at the lowest price permitted by applicable PRC law, whichever is higher. Mr. Chen undertakes that, without the prior written consent of Hode Technology or us, he may not increase or decrease the registered capital, dispose of its assets, incur any debts or guarantee liabilities, enter into any material purchase agreements, conduct any merger, acquisition or investments, amend its articles of association or provide any loans to third parties. The exclusive call option agreement will remain effective until all equity interests in Shanghai Kuanyu held by Mr. Chen and all assets of Shanghai Kuanyu are transferred or assigned to Hode Technology or its designated representatives.
On October 10, 2017, Hode Technology, Shanghai Hode and each of the shareholders of Shanghai Hode entered into an exclusive call option agreement, which contains terms substantially similar to the exclusive call option agreement described above.

In the opinion of AnJie Law Firm, our PRC legal counsel

• the ownership structures of Hode Technology, Shanghai Kuanyu and Shanghai Hode will not result in any violation of PRC laws or regulations currently in effect; and

• the contractual arrangements among Hode Technology, Shanghai Kuanyu and Shanghai Hode and their shareholders governed by PRC law are valid, binding and enforceable, and will not result in any violation of PRC laws or regulations currently in effect.

However, there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules. Accordingly, the PRC regulatory authorities may in the future take a view that is contrary to or otherwise different from the above opinion of our PRC legal counsel. If the PRC government finds that the agreements that establish the structure for operating our online entertainment business do not comply with PRC government restrictions on foreign investment in our businesses, 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—We rely on contractual arrangements with our VIEs and their shareholders for our operations in China, which may not be as effective in providing operational control as direct ownership.”, “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—Substantial uncertainties exist with respect to how the Foreign Investment Law may impact the viability of our current corporate structure and operations.” and “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—If we fail to obtain and maintain the requisite licenses and approvals required under the complex regulatory environment applicable to our businesses in China, or if we are required to take compliance actions that are time-consuming or costly, our business, financial condition and results of operations may be materially and adversely affected.”

D. Property, Plant and Equipment

Our headquarters is located at Wujiaochang commercial district in Shanghai, where we lease and occupy the office building with an aggregate floor area of approximately 34,000 square meters. A substantial majority of our employees are based at our headquarters in Shanghai. Our servers and network facilities for internal administrative functions are located at our headquarters. We have sales and marketing, accounting and anime production personnel as well as game development teams at our regional offices in Beijing and Tokyo. We also lease and occupy office space in Beijing. We also lease and occupy office space in Tokyo. In addition, we lease and occupy approximately 1,900 and 2,600 square meters of office space in Hubei and Anhui, respectively, for content screening team. These leases vary in duration from two to six years.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report on Form 20-F. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under “Item 3. Key Information—D. Risk Factors” or in other parts of this annual report on Form 20-F.
A. Operating Results

Key Factors Affecting Our Results of Operations

User growth and engagement

Our business depends on our ability to grow our user base, and maintain and increase user engagement. We have experienced rapid user growth since our inception. The following table sets forth our average MAUs for each of the quarters indicated:

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</thead>
<tbody>
<tr>
<td>Average MAUs</td>
<td>77,454.2</td>
<td>85,041.4</td>
<td>92,748.0</td>
<td>92,766.2</td>
<td>101,334.7</td>
<td>110,352.7</td>
<td>127,876.2</td>
<td>130,276.9</td>
</tr>
</tbody>
</table>

Our MAUs refers to the sum of our mobile app MAUs and PC MAUs after eliminating duplicates of users who utilize both terminals. Our active users generally view and consume a multitude of content offered on our platform, including videos, live broadcasting, mobile games and other content. Our mobile games are generally free to play, and we offer in-game virtual items that are available for sale, through which we generate our mobile game revenues. We derive a majority of revenues from our mobile game services, and, to a lesser extent, from live broadcasting and VAS and advertising. The number of our users and the level of their engagement on our platform indirectly affect our revenues because the more users we have, the more mobile game players, live broadcasting hosts and advertisers we have. In particular, mobile game user base growth and engagement are primarily driven by the launch of new games and the release of updates of our existing games.

Monetization of our user base with increasingly diversified product and service offerings

Our revenues and results of operations depend on our ability to monetize our large user base, to convert more users to paying users and to increase the spending of our paying users. Paying users on our platform include users who make payments for various products and services on our platform, including purchases in mobile games offered on our platform, and payments for virtual items in our live broadcasting programs and for VAS. A user who makes payments across different products and services offered on our platform using the same registered account is counted as one paying user.

The following table sets forth our average MAUs, our average monthly paying users, average monthly paying users for mobile games, average monthly revenue per paying user and average monthly revenue per paying user for mobile games for each of the quarters indicated:

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</tr>
</thead>
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<tr>
<td>Average MAUs</td>
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<td>85,041.4</td>
<td>92,748.0</td>
<td>92,766.2</td>
<td>101,334.7</td>
<td>110,352.7</td>
<td>127,876.2</td>
<td>130,276.9</td>
</tr>
<tr>
<td>Average monthly paying users</td>
<td>2,472.5</td>
<td>2,966.2</td>
<td>3,540.2</td>
<td>4,415.8</td>
<td>5,742.6</td>
<td>6,258.5</td>
<td>7,946.6</td>
<td>8,817.4</td>
</tr>
<tr>
<td>Average monthly paying users for mobile games</td>
<td>829.9</td>
<td>817.4</td>
<td>913.9</td>
<td>879.1</td>
<td>1,023.2</td>
<td>971.3</td>
<td>1,460.6</td>
<td>1,256.0</td>
</tr>
<tr>
<td>Average monthly revenue per paying user</td>
<td>105.7</td>
<td>102.2</td>
<td>86.0</td>
<td>69.0</td>
<td>67.6</td>
<td>66.4</td>
<td>58.1</td>
<td>54.5</td>
</tr>
<tr>
<td>Average monthly revenue per paying user for mobile games</td>
<td>276.5</td>
<td>322.6</td>
<td>271.4</td>
<td>270.3</td>
<td>284.6</td>
<td>315.7</td>
<td>213.0</td>
<td>231.3</td>
</tr>
</tbody>
</table>
The number of average monthly paying users has generally been increasing as we expanded our mobile games operations and diversify our live broadcasting and other value-added services offerings. The number of average monthly paying users and average monthly paying users for mobile games may vary from quarter to quarter and is subject to certain seasonal fluctuations. For example, the number of average monthly paying users for mobile games decreased in the fourth quarter of 2018 and 2019 primarily due to the seasonal effect associated with school terms as our user and game player base returned to school after the summer holidays. In addition, the average monthly revenue per paying user and average monthly revenue per paying user for mobile games may also fluctuate on a quarterly basis as they are often affected by a variety of factors such as seasonality and the number and type of promotions that may be conducted from time to time. Our average monthly revenue per paying user decreased in 2019 due to a substantial increase in the number of paying users attributable to our premium membership program, which has relatively low revenue per paying user.

We expect the number of our average monthly paying users to further grow in the near future. However, certain factors inherent in our business and industry could cause our actual results to be materially different from our expectations. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—If we fail to anticipate user preferences and provide products and services to attract and retain users, or if we fail to keep up with rapid changes in technologies and their impact on user behavior, we may not be able to attract sufficient user traffic to remain competitive, and our business and prospects may be materially and adversely affected.”

We have also disclosed a series of operating data in 2017, 2018 and 2019 throughout this annual report, including (i) the average monthly number of active content creators, (ii) the number of video submissions, (iii) the number of average monthly paying users for mobile games, (iv) the average daily time spent per active user on mobile app, (v) the users who participated in social interactions monthly, (vi) the number of average monthly social interactions, (vii) the percentage of PUG video views, and (viii) number of valid premium member. We believe that although these operating data generally are not directly correlated with revenues, they are indicators of the overall health and development of our platform, and their increases tend to coincide with the growth of our revenues.

**Our brand recognition and market leadership**

Our ability to maintain our prominent market leadership and brand recognition as the leading online entertainment platform is key to our ability to maintain and enhance relationships with our users, content providers, advertisers, game developers and other business partners, and increase our revenues. In addition, the reputation and attractiveness of our platform among young users also serves as an efficient marketing channel for our products and services, such as mobile games.

**Our ability to manage our costs and expenses**

Our results of operations depend on our ability to manage our costs and expenses. Our cost of revenues consists primarily of revenue-sharing costs, content costs, server and bandwidth costs and staff costs. We expect our revenue-sharing costs and content costs will increase in absolute amount as our user base expands and we continue to procure quality content. In addition, we expect the absolute amount of our server and bandwidth costs and our staff costs to increase as we grow our business. We will also invest in the growth by incurring sales and marketing expenses.

**Investment in technology and talent**

Our technology is critical for us to retain and attract users, other customers and business partners. Our current research and development efforts are primarily focused on enhancing our artificial intelligence technology, big data analytics capabilities and cloud technology.
Key Components of Results of Operations

Net revenues

The following table sets forth the components of our net revenues by amounts and percentages of our total net revenues for the periods presented:

<table>
<thead>
<tr>
<th>Net revenues:</th>
<th>For the Year Ended December 31,</th>
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<tbody>
<tr>
<td></td>
<td>2017</td>
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<tr>
<td></td>
<td>RMB</td>
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<tr>
<td>(in thousands, except for percentages)</td>
<td></td>
</tr>
<tr>
<td>Mobile games</td>
<td>2,058,226</td>
</tr>
<tr>
<td>Live broadcasting and VAS</td>
<td>176,443</td>
</tr>
<tr>
<td>Advertising</td>
<td>159,160</td>
</tr>
<tr>
<td>E-commerce and others</td>
<td>74,620</td>
</tr>
<tr>
<td>Total net revenues</td>
<td>2,468,449</td>
</tr>
</tbody>
</table>

Mobile games. We primarily offer exclusively distributed mobile games and jointly operated mobile games developed by third-party game developers. For exclusively distributed mobile games, we are responsible for game launch, hosting and maintenance of game servers, the operation of in-game promotions and customer services. We also develop localized versions for such games licensed from overseas developers. For jointly operated mobile game services, we offer our mobile game platform for mobile games developed by third-party game developers. We earn game distribution service revenue within the applicable contract periods by providing payment solutions and market promotion services, while game developers are responsible for providing game products, hosting and maintaining game servers and determining the pricing of in-game virtual items. As of December 31, 2019, we operated 29 exclusively distributed mobile games, over 750 jointly operated mobile games and one self-developed mobile game. Our revenues from mobile games depend on the number of paying users and average revenue per paying user, and ultimately are determined by our ability to select, procure and offer engaging games tailored to our platform and our user preferences.

Live broadcasting and VAS. We generate revenues from our live broadcasting program by sales of in-channel virtual items for use in our live broadcasting program so that users can send them to hosts to show their support. The virtual items sold by us comprise of either consumable items, such as gifts and items that create special visual effects, or time-based items, such as privileges and titles. Under the arrangements with hosts of our live broadcasting program, we share with them a portion of the revenues derived from the sales of virtual items. Meanwhile, we also generate revenues from VAS including premium membership subscription, paid content and virtual items on our video, audio and comic platforms. Our premium membership program allows paying members to enjoy exclusive or view licensed content as well as original content in advance. We expect revenues from live broadcasting and VAS to continue to grow.

Advertising. We generate advertising revenues primarily from display advertising arrangements and performance-based advertisements, and we expect to increase in-program advertisements. Display advertising arrangements allow advertisers to place advertisements on particular areas of our platform, in particular formats and over particular periods. Performance-based advertisements allow advertisers to connect with users who are likely to have demand for the advertisers’ products and services based on users’ activity and demographic data collected on our platform. We have also worked with our content creators and licensed content providers to offer advertisers in-program advertisements. We launched performance-based feed advertising services in December 2017. We expect our advertising revenues to increase in the foreseeable future as we will continue to introduce new advertising and marketing solutions and attract more advertisers.

E-commerce and others. Our e-commerce and others revenues primarily consist of sales of products on our e-commerce platform, and also include revenues from holding certain offline performance activities. We expect an increase in e-commerce and others in the foreseeable future considering the growing demand for ACG-related products from our users.
**Cost of revenues**

The following table sets forth the components of our cost of revenues by amounts and percentages of cost of revenues for the periods presented:

<table>
<thead>
<tr>
<th></th>
<th>2017 RMB</th>
<th>%</th>
<th>2018 RMB</th>
<th>%</th>
<th>2019 RMB</th>
<th>%</th>
<th>US$</th>
<th>%</th>
</tr>
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<tbody>
<tr>
<td>Cost of revenues:</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Revenue-sharing costs</td>
<td>926,315</td>
<td>48.3%</td>
<td>1,630,881</td>
<td>49.8%</td>
<td>2,494,416</td>
<td>35.8%</td>
<td>358,300</td>
<td>44.6%</td>
</tr>
<tr>
<td>Content costs</td>
<td>261,534</td>
<td>13.6%</td>
<td>543,009</td>
<td>16.6%</td>
<td>1,001,600</td>
<td>17.9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff costs</td>
<td>128,268</td>
<td>6.7%</td>
<td>238,793</td>
<td>7.3%</td>
<td>356,688</td>
<td>5.1%</td>
<td>51,235</td>
<td>6.4%</td>
</tr>
<tr>
<td>Server and bandwidth costs</td>
<td>469,903</td>
<td>24.4%</td>
<td>618,737</td>
<td>18.9%</td>
<td>919,753</td>
<td>14.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>134,221</td>
<td>7.0%</td>
<td>242,073</td>
<td>7.4%</td>
<td>815,216</td>
<td>12.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total cost of revenues</td>
<td>1,919,241</td>
<td>100%</td>
<td>3,273,493</td>
<td>100%</td>
<td>5,587,673</td>
<td>100%</td>
<td>802,619</td>
<td>100%</td>
</tr>
</tbody>
</table>

Revenue-sharing costs consist of fees paid to game developers, distribution channels (app stores) and payment channels, as well as fees we pay to hosts of our live broadcasting program and content creators in accordance with our revenue-sharing arrangements. Content costs consist of amortized costs of purchased licensed content from copyright owners or content distributors. Staff costs consist of salaries and benefits for our employees involved in the operation of our app/websites, mobile game services and live broadcasting program. Server and bandwidth costs are the fees we pay to telecommunication carriers and other service providers for telecommunication services, hosting our servers at their internet data centers, and providing content delivery network and application services.

**Operating expenses**

The following table sets forth the components of our operating expenses by amounts and percentages of operating expenses for the periods presented:

<table>
<thead>
<tr>
<th></th>
<th>2017 RMB</th>
<th>%</th>
<th>2018 RMB</th>
<th>%</th>
<th>2019 RMB</th>
<th>%</th>
<th>US$</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales and marketing expenses</td>
<td>232,489</td>
<td>30.1%</td>
<td>585,758</td>
<td>37.0%</td>
<td>1,198,516</td>
<td>37.1%</td>
<td>172,156</td>
<td>44.6%</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>260,898</td>
<td>33.7%</td>
<td>461,165</td>
<td>29.1%</td>
<td>592,497</td>
<td>22.1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>280,093</td>
<td>36.2%</td>
<td>537,488</td>
<td>33.9%</td>
<td>894,411</td>
<td>32.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>773,480</td>
<td>100%</td>
<td>1,584,411</td>
<td>100%</td>
<td>2,685,424</td>
<td>100%</td>
<td>385,737</td>
<td>100%</td>
</tr>
</tbody>
</table>

Sales and marketing expenses. Sales and marketing expenses consist primarily of general marketing and promotional expenses, as well as salaries and benefits, including share-based compensation expenses, for our sales and marketing personnel. We expect our sales and marketing expenses to increase in absolute amounts in the foreseeable future due to increasing investment to maintain our brand awareness and leadership.

General and administrative expenses. General and administrative expenses consist primarily of salaries and expenses, including share-based compensation expenses, professional fees and rental expenses. We expect our general and administrative expenses to increase in absolute amounts in the foreseeable future due to the anticipated growth of our business as well as accounting, insurance, investor relations and other public company costs.

Research and development expenses. Research and development expenses consist primarily of salaries and benefits, including share-based compensation expenses, for research and development personnel dedicated to the development and enhancement of our app/websites and development of online games. We expect our research and development expenses to increase as we expand our research and development team, to enhance our artificial intelligence technology, big data analytics capabilities and cloud technology and develop new features and functionalities on our platform.

**Results of Operations**

The following table sets forth a summary of our consolidated results of operations for the periods presented, both in absolute amount and as a percentage of our revenues for the periods presented. 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 our future trends.
For the Year Ended December 31,

<table>
<thead>
<tr>
<th></th>
<th>RMB</th>
<th>2018</th>
<th>RMB</th>
<th>2019</th>
<th>US$</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net revenues</td>
<td>2,468,449</td>
<td>100.0%</td>
<td>4,128,931</td>
<td>100.0%</td>
<td>6,777,922</td>
<td>973,588</td>
</tr>
<tr>
<td>Cost of revenues(1)</td>
<td>(1,919,241)</td>
<td>(77.8)%</td>
<td>(3,273,493)</td>
<td>(79.3)%</td>
<td>(5,587,673)</td>
<td>(802,619)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>549,208</td>
<td>22.2%</td>
<td>855,438</td>
<td>20.7%</td>
<td>1,190,249</td>
<td>170,969</td>
</tr>
</tbody>
</table>

Operating expenses:

<table>
<thead>
<tr>
<th></th>
<th>RMB</th>
<th>2018</th>
<th>RMB</th>
<th>2019</th>
<th>US$</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and marketing expenses(1)</td>
<td>(222,489)</td>
<td>(9.4)%</td>
<td>(585,758)</td>
<td>(14.2)%</td>
<td>(1,198,516)</td>
<td>(172,156)</td>
</tr>
<tr>
<td>General and administrative expenses(1)</td>
<td>(260,898)</td>
<td>(10.6)%</td>
<td>(461,165)</td>
<td>(11.2)%</td>
<td>(592,497)</td>
<td>(85,107)</td>
</tr>
<tr>
<td>Research and development expenses(1)</td>
<td>(280,093)</td>
<td>(11.3)%</td>
<td>(537,488)</td>
<td>(13.0)%</td>
<td>(894,411)</td>
<td>(128,474)</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>(773,480)</td>
<td>(31.3)%</td>
<td>(1,584,411)</td>
<td>(38.4)%</td>
<td>(2,685,424)</td>
<td>(385,737)</td>
</tr>
</tbody>
</table>

Loss from operations: (224,272) (9.1)% (728,973) (17.7)% (1,495,175) (214,768) (22.0)%

Other income/(expenses):

<table>
<thead>
<tr>
<th></th>
<th>RMB</th>
<th>2018</th>
<th>RMB</th>
<th>2019</th>
<th>US$</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment income, net (including impairments)</td>
<td>22,957</td>
<td>0.9%</td>
<td>96,440</td>
<td>2.3%</td>
<td>96,610</td>
<td>1.4%</td>
</tr>
<tr>
<td>Interest income</td>
<td>1,483</td>
<td>0.1%</td>
<td>68,706</td>
<td>1.7%</td>
<td>162,782</td>
<td>23.8%</td>
</tr>
<tr>
<td>Interest expense</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(46,543)</td>
<td>(6,685)</td>
</tr>
<tr>
<td>Exchange gains/(losses)</td>
<td>6,445</td>
<td>0.3%</td>
<td>(1,661)</td>
<td>0.0%</td>
<td>(11,789)</td>
<td>(1,693)</td>
</tr>
<tr>
<td>Others, net</td>
<td>18,518</td>
<td>0.7%</td>
<td>26,455</td>
<td>0.6%</td>
<td>26,412</td>
<td>3.79%</td>
</tr>
<tr>
<td>Loss before tax</td>
<td>(174,869)</td>
<td>(7.1)%</td>
<td>(539,833)</td>
<td>(13.1)%</td>
<td>(1,267,763)</td>
<td>(182,093)</td>
</tr>
<tr>
<td>Income tax</td>
<td>(8,881)</td>
<td>(0.4)%</td>
<td>(25,988)</td>
<td>(0.6)%</td>
<td>(25,867)</td>
<td>(5,152)</td>
</tr>
<tr>
<td>Net loss</td>
<td>(183,750)</td>
<td>(7.5)%</td>
<td>(565,821)</td>
<td>(13.7)%</td>
<td>(1,303,630)</td>
<td>(187,245)</td>
</tr>
</tbody>
</table>

Note:

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

<table>
<thead>
<tr>
<th></th>
<th>RMB</th>
<th>2018</th>
<th>RMB</th>
<th>2019</th>
<th>US$</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of revenues</td>
<td>7,936</td>
<td>28,173</td>
<td>23,281</td>
<td>3,344</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales and marketing expenses</td>
<td>3,423</td>
<td>11,499</td>
<td>14,269</td>
<td>2,050</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>56,746</td>
<td>102,544</td>
<td>68,497</td>
<td>9,839</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>11,849</td>
<td>38,977</td>
<td>66,503</td>
<td>9,553</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>79,554</td>
<td>181,193</td>
<td>172,550</td>
<td>24,786</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Year ended December 31, 2019 compared to year ended December 31, 2018

Net revenues

Our net revenues increased by 64.2% from RMB4,128.9 million in 2018 to RMB6,777.9 million (US$973.6 million) in 2019. The increase was across all revenue streams, consisting of revenues from mobile games, live broadcasting and VAS, advertising, and e-commerce and others. Across our platform, our average monthly paying users increased by 114.8% from approximately 3.3 million in 2018 to approximately 7.2 million in 2019.

Mobile games. Our net revenues from mobile games increased by 22.5% from RMB2,936.3 million in 2018 to RMB3,597.8 million (US$516.8 million) in 2019, primarily attributable to a 36.9% increase in average monthly paying users from approximately 0.9 million in 2018 to approximately 1.2 million in 2019. The increase was primarily due to the launch of new mobile games, as well as the continuous popularity of our existing mobile games, particularly the success of Fate/Grand Order, which was launched in September 2016. Over 80% of the increase in net revenues from mobile games is attributable to the new mobile games launched during 2019.
Live broadcasting and VAS. Our net revenues from live broadcasting and VAS increased by 180.2% from RMB585.6 million in 2018 to RMB1,641.0 million (US$ 235.7 million) in 2019, mainly attributable to the increase in the number of paying users for our live broadcasting services and our premium membership program and other VAS.

Advertising. Our net revenues from advertising increased by 76.3% from RMB463.5 million in 2018 to RMB817.0 million (US$117.4 million) in 2019. This increase was driven by revenue from our brand advertising and performance-based advertising.

E-commerce and Others. We had RMB143.5 million and RMB722.1 million (US$103.7 million) of e-commerce and other net revenues in 2018 and 2019, respectively. The increase was primarily attributable to the increase in sales of products on our e-commerce platform.

Cost of revenues
Our cost of revenues increased by 70.7% from RMB3,273.5 million in 2018 to RMB5,587.7 million (US$ 802.6 million) in 2019 as all components of cost of revenues increased due to our business growth and the expansion of our user base.

Server and bandwidth costs increased by 48.7% from RMB618.7 million in 2018 to RMB919.8 million (US$ 132.1 million) in 2019, primarily due to an increase in server and bandwidth capacity to keep pace with the expansion of our user base and the increase in active users.

Revenue-sharing costs, which primarily consisted of the portion of revenues shared with game developers, certain popular live broadcasting hosts and content creators, increased by 52.9% from RMB1,630.9 million in 2018 to RMB2,494.4 million (US$358.3 million) in 2019, primarily due to an increase in payments made to developers of exclusively distributed games, in particular Fate/Grand Order and Azur Lane, an increase in payments made to distribution channels and an increase in payments made to hosts of live broadcasting programs and content creators on our platform.

Content costs increased by 84.5% from RMB543.0 million in 2018 to RMB1,001.6 million (US$143.9 million) in 2019 as we continued to acquire licensed content to expand and diversify our content offerings.

Staff costs increased by 49.4% from RMB238.8 million in 2018 to RMB356.7 million (US$51.2 million) in 2019, primarily due to an increase in headcount for employees dedicated to the operations of our app/websites, mobile game services, live broadcasting and other VAS programs to maintain our service quality and keep pace with the growth of our user base.

Gross profit
As a result of the foregoing, we had gross profit of RMB1.2 billion (US$171.0 million) in 2019, compared to gross profit of RMB855.4 million in 2018.

Operating expenses
Our total operating expenses increased by 69.5% from RMB1,584.4 million in 2018 to RMB2,685.4 million (US$385.7 million) in 2019, as sales and marketing expenses and research and development expenses increased due to our business growth and the expansion of our user base.

Sales and marketing expenses. Our sales and marketing expenses increased by 104.6% from RMB585.8 million in 2018 to RMB1,198.5 million (US$172.2 million) in 2019, primarily attributable to increased channel and marketing expenses associated with our app and brand, including promotional activities for offline events, promotional expenses for mobile games, and an increase in headcount in sales and marketing personnel. Our promotional expense increased by 114.1% from RMB436.5 million in 2018 to RMB934.7 million (US$134.3 million) in 2019, primarily attributable to increased expenses associated with the promotion of our brand image and other marketing activities.

General and administrative expenses. Our general and administrative expenses increased by 28.5% from RMB461.2 million in 2018 to RMB592.5 million (US$85.1 million) in 2019. The increase was primarily attributable to increased general and administrative personnel-related expenses, increased amortization expense related to intangible assets acquired through business acquisitions and increased other miscellaneous expenses associated with our business expansion.
Research and development expenses. Our research and development expenses increased by 66.4% from RMB537.5 million in 2018 to RMB894.4 million (US$128.5 million) in 2019, primarily due to increased headcount in research and development personnel and increased share-based compensation expenses.

Loss from operations

As a result of the foregoing, we incurred loss from operations of RMB1,495.2 million (US$214.8 million) in 2019, compared to loss from operations of RMB729.0 million in 2018.

Other income/(expenses)

Investment income, net. Net investment income primarily includes return earned on financial products issued by banks and other financial institutions, return from investments in money market funds, gain from disposal of long-term investments, and the fair value change of investments in publicly traded companies. We had net investment income of RMB96.6 million (US$13.9 million) in 2019, compared to RMB96.4 million in 2018.

Interest income. Interest income represents interest earned on cash and cash equivalents and time deposits. We had interest income of RMB68.7 million and RMB162.8 million (US$23.4 million) in 2018 and 2019, respectively.

Interest expense. Interest expense primarily represents interest payment and amortized issuance costs related to long-term debt. We had interest expense of RMB46.5 million (US$6.7 million) in 2019, primarily attributable to interest expense related to our 2026 Notes issued in 2019, whereas we did not incur such interest expense in 2018.

Income tax

We recorded income tax of RMB35.9 million (US$5.2 million) in 2019, compared to RMB26.0 million in 2018.

Net loss

As a result of the foregoing, we incurred net loss of RMB1,303.6 million (US$187.2 million) in 2019, compared to net loss of RMB565.0 million in 2018.

Year ended December 31, 2018 compared to year ended December 31, 2017

Net revenues

Our net revenues, which consisted of revenues from mobile games, live broadcasting and VAS, advertising, and e-commerce and others, increased by 67.3% from RMB2,468.4 million in 2017 to RMB4,128.9 million in 2018. This increase was primarily due to increases in revenues from mobile games, and partially due to increase in revenues from live broadcasting and VAS. Across our platform, our average monthly paying users increased by 218% from approximately 1.1 million in 2017 to approximately 3.3 million in 2018.

Mobile games. Our net revenues from mobile games increased by 42.7% from RMB2,058.2 million in 2017 to RMB2,936.3 million in 2018, primarily attributable to a 41.2% increase in average monthly paying users from approximately 0.6 million in 2017 to approximately 0.9 million in 2018. The increase was primarily due to the increasing popularity of our existing mobile games, particularly the success of Fate/Grand Order, which was launched in September 2016, as well as the launch of new mobile games, such as the launch of Ark Order in September 2018 and Song of Time in November 2018. Over 80% of the increase in net revenues from mobile games is attributable to the existing mobile games that were launched prior to 2018.

Live broadcasting and VAS. Our net revenues from live broadcasting and VAS increased by 231.9% from RMB176.4 million in 2017 to RMB585.6 million in 2018, mainly attributable to the increase in the number of paying users for live broadcasting services and our premium membership program.
Advertising. Our net revenues from advertising increased by 191.2% from RMB159.2 million in 2017 to RMB463.5 million in 2018. This increase was driven by revenue from our performance-based advertising launched in the fourth quarter of 2017 and brand advertising.

E-commerce and Others. We had RMB74.6 million and RMB143.5 million of e-commerce and other net revenues in 2017 and 2018, respectively. The increase was primarily attributable to the increase in sales of products on our e-commerce platform.

Cost of revenues
Our cost of revenues increased by 70.6% from RMB1,919.2 million in 2017 to RMB3,273.5 million in 2018 as all components of cost of revenues increased due to our business growth and the expansion of our user base.

Server and bandwidth costs increased by 31.9% from RMB468.9 million in 2017 to RMB618.7 million in 2018, primarily due to an increase in server and bandwidth capacity to keep pace with the expansion of our user base and the increase in active users.

Revenue-sharing costs, which primarily consisted of the portion of revenues shared with game developers, certain popular live broadcasting hosts and content creators, increased by 76.1% from RMB926.3 million in 2017 to RMB1,630.9 million in 2018, primarily due to an increase in payments made to developers of exclusively distributed games, in particular Fate/Grand Order and Azur Lane, and an increase in payments made to hosts of live broadcasting programs and content creators on our platform.

Content costs increased by 107.6% from RMB261.5 million in 2017 to RMB543.0 million in 2018 as we continued to acquire licensed content to expand and diversify our content offerings.

Staff costs increased by 86.2% from RMB128.3 million in 2017 to RMB238.8 million in 2018, primarily due to an increase in headcount for employees dedicated to the operations of our app/websites, mobile game services and live broadcasting programs to maintain our service quality and keep pace with the growth of our user base.

Gross profit
As a result of the foregoing, we had gross profit of RMB855.4 million in 2018, compared to gross profit of RMB549.2 million in 2017.

Operating expenses
Our total operating expenses increased by 104.8% from RMB773.5 million in 2017 to RMB1,584.4 million in 2018, as sales and marketing expenses and research and development expenses increased due to our business growth and the expansion of our user base.

Sales and marketing expenses. Our sales and marketing expenses increased by 152.0% from RMB232.5 million in 2017 to RMB585.8 million in 2018, primarily attributable to increased channel and marketing expenses associated with our app and brand, including promotional activities for offline events, distribution expenses for mobile games, and an increase in headcount in sales and marketing personnel.

General and administrative expenses. Our general and administrative expenses increased by 76.8% from RMB260.9 million in 2017 to RMB461.2 million in 2018. The increase was primarily attributable to an increase in general and administrative personnel-related expenses, an increase in share-based compensation expenses and an increase in other miscellaneous expenses.

Research and development expenses. Our research and development expenses increased by 91.9% from RMB280.1 million in 2017 to RMB537.5 million in 2018, primarily due to increased headcount in research and development personnel and increased share-based compensation expenses.
Loss from operations

As a result of the foregoing, we incurred loss from operations of RMB729.0 million in 2018, compared to loss from operations of RMB224.3 million in 2017.

Other income/(expenses)

Investment income, net. Net investment income primarily includes return earned on financial products issued by banks and investments in money market funds and gains from revaluation of our long-term investments. We had net investment income of RMB96.4 million in 2018, compared to RMB23.0 million in 2017. The increase was primarily due to the gains from the revaluation of previously held equity interest in certain investments when obtaining control over these companies in 2018, partially offset by the impairment loss charge for other investments.

Interest income. Interest income represents interest earned on bank deposits. We had interest income of RMB1.5 million and RMB68.7 million in 2017 and 2018, respectively.

Exchange (losses)/gains. We had exchange losses of RMB1.7 million in 2018, compared to exchange gains of RMB6.4 million in 2017, primarily due to the depreciation of Renminbi against the U.S. dollar.

Others, net. Others, net primarily consists of non-operating expenses, bank charges, interest expenses and government subsidies. We had other net gain of RMB26.5 million in 2018, compared to other net gain of RMB18.5 million in 2017. The increase was primarily attributable to government subsidies income we recorded in 2018.

Income tax

We recorded income tax of RMB26.0 million in 2018, compared to RMB8.9 million in 2017.

Net loss

As a result of the foregoing, we incurred net loss of RMB565.0 million in 2018, compared to net loss of RMB183.8 million in 2017.

Seasonality

Our results of operations are also subject to seasonal fluctuations. For example, the growth of active users tends to accelerate during school holidays, such as summer and winter breaks, and slow down at the beginning and during certain parts of the school year, as well as the holiday season starting in the fourth quarter and ending with the Chinese New Year holidays, which typically fall in the first half of the first quarter. We conduct marketing campaigns and promotional activities from time to time, which may result in fluctuations in the number of and/or spending by our paying users. Seasonal fluctuations have not thus far posed material operational and financial challenges to us, as such periods tend to be brief and predictable, allowing us to re-allocate resources and improve efficiency ahead of time.

Taxation

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 brought within the jurisdiction of the Cayman Islands. In addition, the Cayman Islands does not impose withholding tax on dividend payments. No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands. The Cayman Islands is not a 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 ADSs or ordinary 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 ADSs or ordinary shares, nor will gains derived from the disposal of the ADSs or ordinary shares be subject to Cayman Islands income or corporation tax.
Hong Kong

Majority of our subsidiaries incorporated in Hong Kong, such as Hode HK and Bilibili HK Limited, are subject to 16.5% Hong Kong profit tax on their taxable income generated from operations in Hong Kong. Commencing from the year of assessment of 2018 and 2019, the first HK$2 million of profits earned by our subsidiaries incorporated in Hong Kong will be taxed at half the current tax rate (i.e. 8.25%) while the remaining profits will continue to be taxed at the existing 16.5% tax rate. Under the Hong Kong tax laws, we are exempted from the Hong Kong income tax on our foreign-derived income. In addition, payments of dividends from our Hong Kong subsidiaries to us are not subject to any Hong Kong withholding tax.

PRC

Our PRC subsidiaries are subject to PRC EIT on their taxable income in accordance with the relevant PRC income tax laws. Effective from January 1, 2008, the statutory corporate income tax rate is 25%, except for certain entities eligible for preferential tax rates.

In 2017, Shanghai Hode qualified as a HNTE and is eligible for a 15% preferential tax rate effective for three years starting from 2017 to 2019.

In 2018, Shanghai Bilibili Technology Co., Ltd. qualified as a HNTE and is eligible for a 15% preferential tax rate effective for three years starting from 2018 to 2020.

Our other PRC subsidiaries, VIEs and their subsidiaries are subject to enterprise income tax on their taxable income in China at a statutory rate of 25%. The enterprise income tax is calculated based on the entity’s global income as determined under PRC tax laws and accounting standards.

We are subject to value-added tax at a rate of 16% or 13% for goods sold and 6% on the services (research and development services, technology services, information technology services and/or culture and creativity services), in each case less any deductible value-added tax we have already paid or borne. We are also subject to surcharges on value-added tax payments in accordance with PRC law.

Dividends paid by our wholly foreign-owned subsidiaries in China to our intermediary holding company in Hong Kong will be subject to a withholding tax rate of 10%, unless the relevant Hong Kong entity satisfies all the requirements under the Arrangement between China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income and Capital and receives approval from the relevant tax authority. If our Hong Kong subsidiary satisfies all the requirements under the tax arrangement and receives approval from the relevant tax authority, then the dividends paid to the Hong Kong subsidiary would be subject to withholding tax at the standard rate of 5%. Effective from November 1, 2015, the above mentioned approval requirement has been abolished, but a Hong Kong entity is still required to file application package with the relevant tax authority, and settle the overdue taxes if the preferential 5% tax rate is denied based on the subsequent review of the application package by the relevant tax authority. On October 14, 2019, SAT Announcement [2019] No. 35, Measures for the Administration of Non-Resident Taxpayers’ Enjoyment of Treaty Benefits was issued to simplify the procedures for claiming China tax treaty benefits by non-resident taxpayers. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—We may rely on dividends paid by our PRC subsidiaries to fund cash and financing requirements. Any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business and to pay dividends to holders of the ADSs and our ordinary shares.”

If our holding company in the Cayman Islands or any of our subsidiaries outside of China were deemed to be a “resident enterprise” under the PRC Enterprise Income Tax Law, it would be subject to enterprise income tax on its worldwide income at a rate of 25%. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Under the PRC Enterprise Income Tax Law, we may be classified as a PRC resident enterprise, which could result in unfavorable tax consequences to us and our shareholders and have a material adverse effect on our results of operations and the value of your investment.”
Critical Accounting Policies

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

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors that should be considered when reviewing our financial statements. We believe the following accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements. You should read the following description of critical accounting policies, judgments and estimates in conjunction with our consolidated financial statements and other disclosures included in this annual report.

Basis of presentation and use of estimates

Subsidiaries are those entities in which we, directly or indirectly, (i) control more than one half of the voting power, (ii) have the power to appoint or remove the majority of the members of the board of directors, or to cast a majority of votes at the meeting of the board of directors, or (iii) have the power to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

A consolidated variable interest entity is an entity in which we, through contractual arrangements, have the power to direct the activities that most significantly impact the entity’s economic performance, bear the risks of and enjoy the rewards normally associated with ownership of the entity, and therefore we are the primary beneficiary of the entity.

We consolidate our subsidiaries and the variable interest entities of which we are the primary beneficiary. On a periodic basis, we reconsider the initial determination of whether a legal entity is a consolidated entity upon the occurrence of certain events listed in ASC 810-10-35-4. We also continually reconsider whether we are the primary beneficiary of our affiliated entities as facts and circumstances change.

All transactions and balances among us, our subsidiaries and VIEs have been eliminated upon consolidation.

In July 2019, we entered into a series of agreements to acquire a controlling interest in Chaodian. At that time, both we and Chaodian were controlled by Mr. Rui Chen (the “Controlling Shareholder”).

ASC 805-50 provides that the consolidated financial statements include the results of each of the combined entities from the earliest date presented or, if more recent, from the date when the combined entities first became under common control, regardless of the date of the combination. As a result, our consolidated financial statements as of and for the year ended December 31, 2019 reflected the results of us and Chaodian as if we and Chaodian had been combined since July 1, 2019, the date when we became under the control of the Controlling Shareholder. Assets and liabilities of Chaodian were combined using the existing book values from the perspective of the Controlling Shareholder.

Revenue recognition

On January 1, 2018, we adopted ASC 606, Revenue from Contracts with Customers using the modified retrospective method for all contracts not completed as of the date of adoption. Under ASC 606, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. We identify our contracts with customers and all performance obligations within those contracts. We then determine the transaction price and allocate the transaction price to the performance obligations within our contracts with customers, recognizing revenue when, or as, we satisfy our performance obligations.
The adoption of ASC 606 did not significantly change (i) the timing and pattern of revenue recognition for all of our revenue streams, and (ii) the presentation of revenue as gross versus net. Therefore, the adoption of ASC 606 did not have a significant impact on our financial position, results of operations, equity or cash flows as of the adoption date and for the years ended December 31, 2018 and 2019.

Our revenue recognition policies effective upon the adoption of ASC 606 are as follows:

**Mobile game services**

- **Exclusively distributed mobile games**

For the years ended December 31, 2017, 2018 and 2019, we primarily generate revenues from the sale of in-game virtual items, including characters, warships, characters or camouflage for warships or other accessories to enhance the game-playing experience, within the games.

In accordance with ASC 606, we evaluate the contracts with our customers and determine that we have a single combined performance obligation which is to make the game and the ongoing game related services available to the paying players. The transaction price, which is the amount paid for in-game virtual items by the paying player, is allocated entirely to this single combined performance obligation. We recognize revenue from in-game virtual items over the estimated average playing period of paying players, starting from the point-in-time when related in-game virtual items are delivered to the paying players’ accounts.

We have estimated the average playing period of the paying players for each game, usually between three to seven months. We consider the average period that players typically play the games and other game player behavior patterns, as well as various other factors to arrive at the best estimates for the estimated playing period of the paying players. To compute the estimated average playing period for paying players, we consider the initial purchase date as the starting point of a player’s lifespan. We track populations of paying players who made their initial purchases during the interval period (the “Cohort”) and track each Cohort to understand the subsequent churn rate of the paying players of each Cohort, i.e. the number of players from each Cohort who left subsequent to their initial purchases. To determine the ending point of a paying player’s lifespan beyond the date for which observable data are available, we extrapolate the actual observed churn rate to arrive at an estimated weighted average playing lifespan for paying players of the selected games. If a new game is launched and only a limited period of paying player data is available, then we consider other qualitative factors, such as the playing patterns for paying players for other games with similar characteristics with the new game including paying player type and purchasing frequency. While we believe our estimates to be reasonable based on available game player information, we may revise such estimates based on new information indicating a change in the game player behavior patterns and any adjustments are applied prospectively.

In accordance with ASC 606-10-55-39, we assess whether we act as the principal or as an agent in the arrangement with each party respectively. We record revenue generated from exclusively distributed mobile games on a gross basis as we are acting as the principal to fulfill all obligations related to the mobile game operations. We are responsible for the launch of the games, hosting and maintenance of game servers, and determination of when and how to operate the in-game promotions and customer services. We are also determining the pricing of in-game virtual items and making a localized version for overseas licensed games.

Proceeds earned from selling in-game virtual items are shared between us and the third-party game developers, with the amount paid to the third-party game developers generally calculated based on amounts paid by paying players, after deducting the fees paid to the payment channels and the distribution channels. Fees paid to third-party game developers, distribution channels and payment channels are recorded as “cost of revenues” on our consolidated financial statements.

- **Jointly operated mobile game distribution services**

We are also offering distribution services for mobile games developed by the third-party game developers. In accordance with ASC 606, we evaluate our contracts with the third-party game developers and identify the performance obligations as distributing games and providing payment solution and market promotion service to the third-party game developers. Accordingly, we earn service revenue by distributing them to the game players.
In accordance with ASC 606-10-55-39, we assess whether we act as the principal or as an agent in the arrangement with each party respectively. With respect to the jointly operated licensed arrangements between the third-party game developers and us, we considered we do not have the primary responsibility for fulfillment and acceptability of the game services. Our responsibilities are publishing, providing payment solution and market promotion service, and thus we view the third-party game developers to be our customers. Accordingly, we record the game distribution service revenue from these games, on a net basis based on the ratios pre-determined with the third-party game developers when the performance obligations are satisfied, which is generally when the paying players purchase virtual currencies issued by the third-party game developers.

**Advertising services**

- **Display advertisements**

  We provide display-based online advertising services to our customers by integrating different formats of advertisements, including but not limited to banners, text-links, videos, logos, buttons and rich media, as well as in-program advertisements. We determine each format of advertisements is a distinct performance obligation. Consideration is allocated to each performance obligation based on its standalone selling price. We recognize revenue on a pro-rata basis for each performance obligation commencing on the date the advertisements are displayed on our platform.

- **Performance-based advertisements**

  Our auction-based pay-for-performance (P4P) platform enables our customers to place a short commercial video, a landing page with related description or download link on our platform. The P4P platform enables our customers to reach target users related to their products or services. Revenue is recognized when the performance obligations are satisfied, which is generally at the point-in-time when a user clicks on one of the customer-sponsored links or in-feed marketing, or downloads the customer’s mobile applications.

- **Sales incentives to customers**

  We provide various sales incentives to our customers, including cash incentives in the form of commissions to certain third-party advertising agencies and noncash incentives such as discounts and advertising services provided free of charge in certain bundled arrangements, which are negotiated on a contract by contract basis with our customers. We account for these incentives granted to customers as variable consideration in accordance with ASC 606. The amount of variable consideration is measured based on the most likely amount of incentive to be provided to customers.

**Live broadcasting and VAS**

We operate and maintain live broadcasting channel whereby users can enjoy live performances provided by the hosts and interact with the hosts. Most of the hosts host the performance on their own. We create and sell virtual items to users so that the users present them simultaneously to hosts to show their support. The virtual items sold by us comprise of either (i) consumable items or (ii) time-based items, such as privilege titles etc. Revenues derived from the sale of virtual items are recorded on a gross basis as we act as the principal to fulfill all obligations related to the sale of virtual items in accordance with ASC 606-10-55-39. Accordingly, revenue is recognized at point-in-time when the virtual item is delivered and consumed if the virtual item is a consumable item or, in the case of time-based virtual item, recognized ratably over the period each virtual item is made available to the user, which generally does not exceed one year. Proceeds received from the sales of virtual items before they are consumed are recorded as “Deferred revenue”.

Under our arrangements with the hosts, we share with them a portion of the revenues derived from the sales of virtual items. The portion paid to hosts is recognized as “Cost of revenues” on our consolidated financial statements.
The other VAS mainly includes premium membership subscription and sales of virtual items for video, audio and comic content. We offer premium membership subscription services which provide subscribing members access to streaming of premium content in exchange for a non-refundable upfront premium membership fee. When the receipt of premium membership fees is for services to be delivered over a period of time, generally from one month to twelve months, the receipt is initially recorded as “deferred revenue” and revenue is recognized ratably over the membership period as services are rendered. Revenue from sales of virtual items is recognized on item basis, which is consistent with the revenue recognition of live broadcasting.

**E-commerce and others**

E-commerce and others are mainly from the sales of products through our e-commerce platform and also include revenues from holding certain offline performance activities. E-commerce and other revenues are recognized when control of promised goods or services is transferred to the customers, which generally occurs upon the acceptance of the goods or services by the customers. Pursuant to ASC 606-10-55-39, for arrangements where we are primarily responsible for fulfilling the promise to provide the goods or services, are subject to inventory risk, and have latitude in establishing prices and selecting suppliers, revenues are recorded on a gross basis. Otherwise, revenues are recorded on a net basis. Cash coupons, granted to the customers for free at our discretion, are recorded as a reduction of the arrangement’s transaction price thereby reducing the amount of revenue recognized as the payment is not for a distinct good or service received from the customer in accordance with ASC 606-10-32-25.

Net revenues presented on our consolidated financial statements are net of sales discount and sales tax.

**Other Estimates and Judgments**

We estimate revenue of mobile game, live broadcasting and other VAS from the third-party payment processors in the current period when reasonable estimates of these amounts can be made. The processors provide reliable interim preliminary reporting within a reasonable time frame following the end of each month and we maintain records of sales data, both of which allow us to make reasonable estimates of revenue and therefore to recognize revenue during the reporting period. Determination of the appropriate amount of revenue recognized involves judgments and estimates that we believe are reasonable, but actual results may differ from our estimates. When we receive the final reports, to the extent not received within a reasonable time frame following the end of each month, we record any differences between estimated revenue and actual revenue in the reporting period when we determine the actual amounts. The revenue on the final revenue report have not differed significantly from the reported revenue for the periods presented.

**Contract balances**

Timing of revenue recognition may differ from the timing of invoicing to customers. Accounts receivable represent amounts we invoiced, and revenue recognized prior to invoicing when we have satisfied our performance obligations and have the unconditional right to consideration.

Deferred revenue relates to our unsatisfied performance obligations at the end of each reporting period and consists of cash payment received in advance from game players in mobile games, from customers in advertising services, live broadcasting services and other VAS, and e-commerce platforms. Due to the generally short-term duration of the relevant contracts, the majority of the performance obligations are satisfied within one year.

**Practical expedients**

We have used the following practical expedients as allowed under ASC 606:

The transaction price allocated to the performance obligations that are unsatisfied, or partially unsatisfied, has not been disclosed, as substantially all of our contracts have an original expected duration of one year or less.

We expense the costs to obtain a contract as incurred when the amortization period is one year or less.
**Income taxes**

Current income taxes are provided on the basis of income or loss for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions. Deferred income taxes are provided using the assets and liabilities method. Under this method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. The effect on deferred taxes of a change in tax rates is recognized in the consolidated statement of operations and comprehensive loss in the period of change. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more-likely-than-not that some portion of, or all of the deferred tax assets will not be realized.

In order to assess uncertain tax positions, we apply a more-likely-than-not threshold and a two-step approach for the tax position measurement and financial statement recognition. Under the two-step approach, the first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more-likely-than-not that the position will be sustained, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likelihood of being realized upon settlement. We recognize interest and penalties, if any, under accrued expenses and other current liabilities on our consolidated balance sheets and under income tax expenses on our consolidated statements of operations and comprehensive loss. We did not have any significant unrecognized uncertain tax positions as of and for the years ended December 31, 2017, 2018 and 2019. We also did not expect any significant increase or decrease in unrecognized tax liability within 12 months following the reporting date.

**Business combinations**

We account for our business combinations using the acquisition method of accounting in accordance with ASC 805, *Business Combinations*. The cost of an acquisition is measured as the aggregate of the acquisition date fair values of the assets transferred and liabilities incurred by us to the sellers and equity instruments issued. Transaction costs directly attributable to the acquisition are expensed as incurred. Identifiable assets and liabilities acquired or assumed are measured separately at their fair values as of the acquisition date, irrespective of the extent of any noncontrolling interests. The excess of (i) the total costs of acquisition, fair value of the noncontrolling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statements of operations and comprehensive loss. During the measurement period, which can be up to one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded on the consolidated statements of operations and comprehensive loss.

In a business combination achieved in stages, we re-measure the previously held equity interests in the acquiree when obtaining control at the acquisition date fair value and the re-measurement gain or loss, if any, is recognized on the consolidated statements of operations and comprehensive loss.

For our majority-owned subsidiaries and consolidated VIEs, noncontrolling interests are recognized to reflect the portion of their equity which is not attributable, directly or indirectly, to us.

If a business combination is under common control, the acquired assets and liabilities are recognized at their historical book value. Our consolidated financial statements include the results of the acquired entities from the earliest date presented or, if more recent, from the date when the entities first came under common control, regardless of the date of the combination. Consolidated financial statements for prior years would also be retrospectively adjusted for periods during which the entities were under common control.
**Intangible assets**

Intangible assets acquired through business acquisitions are recognized as assets separate from goodwill if they satisfy either the "contractual-legal" or "separability" criterion. Purchased intangible assets are initially recognized and measured at fair value.

If expectations of the usefulness of the content are revised downward, the unamortized cost is written down to the estimated net realizable value. A write-down from unamortized cost to a lower estimated net realizable value establishes a new cost basis.

**Short-term investments**

Our short-term investments primarily include money market funds, financial products with variable interest rates referenced to performance of underlying assets issued by commercial banks or other financial institutions and publicly traded companies with the intention to be sold within twelve months.

In accordance with ASC 825, *Financial Instruments*, for financial products with variable interest rates referenced to performance of underlying assets, we elect the fair value method at the date of initial recognition and carry these investments at fair value. Changes in the fair value of these investments are reflected on our consolidated financial statements as “Investment income, net”. Fair value is estimated based on quoted prices of similar products provided by financial institutions at the end of each reporting period.

For equity investments in publicly traded companies, we carry the investments at fair value at the end of each reporting period.

**Long-term investments, net**

Our long-term investments primarily consist of equity investments accounted for using the measurement alternative, equity investments accounted for using the equity method and other investments accounted for at fair value.

- **Equity investments accounted for using the measurement alternative**

  For those investments over which we do not have significant influence and without readily determinable fair value, we elect to record these investments at cost, less impairment, and plus or minus subsequent adjustments for observable price changes, in accordance with ASU 2016-01, *Financial Instruments—Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. Under this measurement alternative, changes in the carrying value of the equity investments are required to be made whenever there are observable price changes in orderly transactions for the identical or similar investment of the same issuer.

  We regularly evaluate the impairment of these investments based on performance and financial position of the investee as well as other evidence of market value. Such evaluation includes, but is not limited to, reviewing the investee’s cash position, recent financing, projected and historical financial performance, cash flow forecasts and financing needs. An impairment loss recognized equals to the excess of the investment cost 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.

- **Equity investments accounted for using the equity method**

  We apply the equity method of accounting to account for equity investments and limited partnership in a private equity fund, according to ASC 323 *Investment—Equity Method and Joint Ventures*, over which we have significant influence but do not own a majority equity interest or otherwise control. Under the equity method, we initially record the investments at cost and the difference between the cost of the equity investee and the fair value of the underlying equity in the net assets of the equity investee is recognized as equity method goodwill, which is included in the equity method investments on our consolidated balance sheets. We subsequently adjust the carrying amount of the investments to recognize our proportionate share of each equity investee’s net income or loss into earnings and cash distributions from investees, after the date of investment. We evaluate the equity method investments for impairment under ASC 323. An impairment loss on the equity method investments is recognized in earnings when the decline in value is determined to be other-than-temporary.
• Investments accounted for at fair value

In accordance with ASC 825, Financial Instruments, for financial products with variable interest rates referenced to performance of underlying assets and with original maturities greater than one year, we elect the fair value method at the date of initial recognition and carry these investments at fair value. Changes in the fair value of these investments are reflected on our consolidated financial statements as “Investment income, net”. Fair value is estimated based on quoted prices of similar products provided by financial institutions at the end of each reporting period.

Recent Accounting Pronouncements

A list of recently issued accounting pronouncements that are relevant to us is included in “2 cc” of our audited consolidated financial statements included elsewhere in this annual report.

Inflation

To date, inflation in China has not materially impacted our results of operations. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2017, 2018 and 2019 were increases of 1.8%, 1.9% and 4.5%, respectively. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected by higher rates of inflation in China in the future.

B. Liquidity and Capital Resources

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

<table>
<thead>
<tr>
<th>Selected Consolidated Cash Flows Data:</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>(in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash provided by operating activities</td>
<td>464,550</td>
<td>737,286</td>
<td>194,551</td>
<td>27,946</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(716,254)</td>
<td>(3,196,394)</td>
<td>(3,958,277)</td>
<td>(568,570)</td>
</tr>
<tr>
<td>Net cash provided by financing activities</td>
<td>675,533</td>
<td>4,974,810</td>
<td>5,078,842</td>
<td>729,530</td>
</tr>
<tr>
<td>Effect of exchange rate changes on cash and cash equivalents and restricted cash held in foreign currencies</td>
<td>(48,145)</td>
<td>261,447</td>
<td>107,513</td>
<td>15,442</td>
</tr>
<tr>
<td>Net increase in cash and cash equivalents and restricted cash</td>
<td>375,682</td>
<td>2,777,149</td>
<td>1,422,629</td>
<td>204,348</td>
</tr>
<tr>
<td>Cash and cash equivalents and restricted cash at beginning of the year</td>
<td>387,198</td>
<td>762,882</td>
<td>3,540,031</td>
<td>508,494</td>
</tr>
<tr>
<td>Cash and cash equivalents and restricted cash at end of the year</td>
<td>762,882</td>
<td>3,540,031</td>
<td>4,962,660</td>
<td>712,842</td>
</tr>
</tbody>
</table>

As of December 31, 2017, 2018 and 2019, respectively, our cash and cash equivalents and restricted cash were RMB762.9 million, RMB3,540.0 million and RMB4,962.7 million (US$712.8 million). Our cash and cash equivalents primarily consist of cash at banks and cash held in accounts with third-party online payment platforms.

As of December 31, 2019, our principal sources of liquidity have been cash generated from operating activities, as well as the proceeds we received from our public offerings of ordinary shares and our offerings of convertible senior notes. Our financing activities primarily consist of issuance and sale of our shares and convertible senior notes to investors. In April 2019, we issued US$500 million in an aggregate principal amount of convertible senior notes due 2026. Concurrently with the issuance of 2026 Notes, we also completed a registered offering of ADSs, where we offered 14,173,813 ADSs. We have no other outstanding bank loans or financial guarantees or similar commitments to guarantee the payment obligations of third parties.
We believe that our current cash and cash equivalents and our anticipated cash flows from operations will be sufficient to meet our anticipated working capital requirements and capital expenditures for at least the next 12 months. However, we may enhance our liquidity position or increase our cash reserve for future investments through additional capital and finance funding. The issuance and sale of additional equity would result in further dilution to our shareholders. The incurrence of indebtedness would result in increased fixed obligations and could result in operating covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

As of December 31, 2019, 32.0% of our cash and cash equivalents were held in China, and 3.6% were held by our VIEs and denominated in Renminbi. Although we consolidate the results of our VIEs and their subsidiaries, we only have access to the assets or earnings of our VIEs and their subsidiaries through our contractual arrangements with our VIEs and their shareholders. See “Item 4. Information on the Company—C. Organizational Structure.” For restrictions and limitations on liquidity and capital resources as a result of our corporate structure, see “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Holding Company Structure.”

In utilizing the proceeds we received from our initial public offering, we may make additional capital contributions to our PRC subsidiaries, establish new PRC subsidiaries and make capital contributions to these new PRC subsidiaries, make loans to our PRC subsidiaries, or acquire offshore entities with operations in China in offshore transactions. However, most of these uses are subject to PRC regulations.

A majority of our future revenues are likely to continue to be in the form of Renminbi. Under existing PRC foreign exchange regulations, Renminbi may be converted into foreign exchange for current account items, including profit distributions, interest payments and trade-and service-related foreign exchange transactions.

We expect that a substantial majority of our future revenues will be denominated in Renminbi. 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 as long as certain routine procedural requirements are fulfilled. Therefore, our PRC subsidiaries are allowed to pay dividends in foreign currencies to us without prior SAFE approval by following certain routine procedural requirements. However, approval from or registration with competent 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. The PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future.

**Operating activities**

Net cash provided by operating activities in 2019 was RMB194.6 million (US$27.9 million), as compared to net loss of RMB1,303.6 million (US$187.2 million) in the same period. The difference was primarily due to an increase of RMB586.9 million (US$84.3 million) in accounts payable, an increase of RMB354.0 million (US$50.8 million) in deferred revenue and an increase of RMB277.9 million (US$39.9 million) in accrued liabilities and other payables, partially offset by an increase of RMB508.5 million (US$73.0 million) in prepayments and other assets, and an increase of RMB399.0 million (US$57.3 million) in accounts receivable. The changes in working capital were attributable to our business expansion, particularly, the expansion of our mobile games operations and live broadcasting and other value-added services offerings, and the increase in channel and marketing promotional expenses. The principal non-cash items affecting the difference between our net loss and our net cash provided by operating activities in 2019 were RMB1,097.4 million (US$157.6 million) in depreciation and amortization, RMB172.6 million (US$24.8 million) in share-based compensation expenses, and RMB148.8 (US$21.4 million) million in disposal gain of long-term investments and subsidiaries. The intangible assets being amortized consist of licensed copyrights of content, licensed rights of mobile games, and domain names.
Net cash provided by operating activities in 2018 was RMB737.3 million, as compared to net loss of RMB565.0 million in the same period. The difference was primarily due to an increase of RMB398.6 million in deferred revenue and an increase of RMB345.9 million in accounts payable, partially offset by an increase in prepayments and other assets of RMB540.6 million. The increases in deferred revenue, accounts payable and prepayments and other assets were attributable to our business expansion, particularly, the expansion of our mobile games operations and live broadcasting and other value-added services offerings. The principal non-cash items affecting the difference between our net loss and our net cash provided by operating activities in 2018 were RMB642.4 million in depreciation and amortization, RMB181.2 million in share-based compensation expenses, gains of RMB144.4 million in revaluation of previously held equity interests, RMB46.4 million in impairment charge of long-term investments, and losses of RMB2.1 million in fair value changes and re-measurement of long-term investments.

Net cash provided by operating activities in 2017 was RMB464.6 million, as compared to net loss of RMB183.8 million in the same period. The difference was primarily due to an increase of RMB356.4 million in deferred revenue and an increase of RMB271.9 million in accounts payable, partially offset by an increase in prepayments and other assets of RMB247.5 million and an increase in accounts receivable of RMB283.2 million. The increases in deferred revenue, accounts payable, prepayments and other assets and accounts receivable were attributable to our business expansion. The principal non-cash items affecting the difference between our net loss and our net cash provided by operating activities in 2017 were RMB304.4 million in depreciation and amortization, RMB80.0 million in share-based compensation expenses and RMB16.0 million in impairments of long-term investments.

Investing activities

Net cash used in investing activities in 2019 was RMB4.0 billion (US$568.6 million), primarily due to purchase of short-term investments, including money market funds, financial products with variable interest rates referenced to performance of underlying assets issued by commercial banks or other financial institutions and publicly traded companies of RMB10.0 billion (US$1.4 billion), and placement of time deposits of RMB4.9 billion (US$706.7 million), purchase of intangible assets of RMB1.3 billion (US$182.3 million), and cash paid for long-term investments including loans of RMB1.2 billion (US$176.2 million), partially offset by proceeds from maturities of short-term investments of RMB10.0 billion (US$1.4 billion) and maturity of time deposits of RMB3.9 billion (US$556.9 million).

Net cash used in investing activities in 2018 was RMB3.2 billion, primarily due to purchase of short-term investments, including money market funds and investments in financial instruments with variable interest rates referenced to performance of underlying assets, of RMB6.7 billion, purchase of time deposits of RMB750.5 million, purchase of intangible assets of RMB1.0 billion, purchase of property and equipment of RMB293.6 million, cash paid on long-term investments of RMB565.1 million and cash paid on acquisition of subsidiaries of RMB135.8 million, partially offset by proceeds from maturities of short-term investments of RMB63.2 billion.

Net cash used in investing activities in 2017 was RMB716.3 million, primarily due to purchase of short-term investments of RMB4,708.5 million, purchase of intangible assets of RMB485.9 million, purchase of property and equipment of RMB144.9 million, and cash paid on long-term investments of RMB320.1 million, partially offset by proceeds from maturities of short-term investments of RMB4,932.4 million.

Financing activities

Net cash provided by financing activities in 2019 was RMB5.1 billion (US$729.5 million), primarily attributable to the proceeds we received from our offerings of convertible senior notes of RMB3.4 billion (US$482.1 million) and the proceeds we received from our public offerings of ordinary shares of RMB1.6 billion (US$236.7 million).

Net cash provided by financing activities in 2018 was RMB5.0 billion, primarily attributable to net proceeds from our initial public offering and Tencent's investment.

Net cash provided by financing activities in 2017 was RMB675.5 million, primarily attributable to proceeds from our issuance of Series D2 preferred shares to investors.
Capital expenditures

Our capital expenditures are primarily incurred for purchases of intangible assets and property and equipment. Our capital expenditures were RMB630.8 million in 2017, RMB1.3 billion in 2018 and RMB1.6 billion (US$224.8 million) in 2019. Purchases of intangible assets, which primarily consist of licensed copyrights of content, accounted for 77.0%, 78.0% and 81.1% of our total capital expenditures in 2017, 2018 and 2019, respectively. We intend to fund our future capital expenditures with our existing cash balance and proceeds from our initial public offering and other financing alternatives. We will continue to make capital expenditures to meet the expected growth of our business.

Holding Company Structure

Bilibili Inc. is a holding company with no material operations of its own. We conduct our operations primarily through our PRC subsidiaries, our VIEs and their subsidiaries in China. As a result, Bilibili Inc.'s ability to pay dividends depends upon dividends paid by our PRC subsidiaries. If our existing PRC subsidiaries or any newly formed ones incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our wholly foreign-owned subsidiaries in China are permitted to pay dividends to us only out of its retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, each of our subsidiaries and our VIEs in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund certain statutory reserve funds until such reserve funds reach 50% of their registered capital. In addition, our wholly foreign-owned subsidiaries in China may allocate a portion of their after-tax profits based on PRC accounting standards to enterprise expansion funds and staff bonus and welfare funds at their discretion, and our VIEs may allocate a portion of its after-tax profits based on PRC accounting standards to a surplus fund at their discretion. The statutory reserve funds and the discretionary funds are not distributable as cash dividends. Remittance of dividends by a wholly foreign-owned company out of China is subject to examination by the banks designated by SAFE. Our PRC subsidiaries have not paid dividends and will not be able to pay dividends until they generate accumulated profits and meet the requirements for statutory reserve funds.

C. Research and Development, Patents and Licenses, Etc.

Technology, Research and Development

Our technology platform has been designed for reliability, scalability and flexibility and is administered by our in-house technology department. We have access to a network of approximately 12,000 self-owned and more than 4,000 leased servers across China with power supply and power generator backup. This structure, along with other features described below, contributes to the reliability, scalability and efficiency of our network.

Artificial intelligence. Artificial intelligence, or AI, is particularly suitable for reviewing and screening content by recognizing and analyzing patterns and connections. The massive volume of data collected on our platform every day also enables us to enhance our AI technology and increase its accuracy. As the varieties and quantity of content and user interactions continue to increase, AI capabilities are critical for us to control our operating costs and enhance user experience.

Big data analytics. We utilize big data analytics to create an interest profile for each user account based on user’s actions such as post, bullet chatting, comment, like and follow, and demographic data such as age, gender and geography. Combined with our AI capabilities, our interest profile allows us to personalize user interface and push content to our users that they are more likely to find interesting and relevant.

Cloud. Due to the nature of the products and services we offer, we have a high demand for storage and computing capacities to enhance the functionalities of our web video player, store and support massive volume of data being generated every day on our platform, and run algorithms to produce content recommendations. We have developed an advanced cloud system that meets the operational needs of our platform while reducing operating costs.

Content distribution network. Our web server technology focuses on reducing bandwidth use while enhancing user experience through utilizing our content distribution network, or CDN, system. A copy of data is being placed at various points in our CDN to maximize bandwidth for access to the data from users throughout the network. Our CDN components are strategically deployed in the cities where our users concentrate, enabling users to access a copy of the data closest to them so that content loading time is minimized. Our proprietary CDN system enhances network efficiency by managing and optimizing the workload of the servers through real-time optimization and distribution. This technology allows users to upload content without compression and enables viewing of content in higher definition.
Real-time monitoring and support. Our internet data center and regional data center servers automatically report any detected malfunction on a real-time basis to our network control center. This allows us to quickly respond to and resolve network and other malfunction issues. We have a network operation support team responsible for stability and security of our network on a 24-hour, seven-days-a-week basis. The primary responsibilities of the team members consist of monitoring system performance, troubleshooting, detecting system error, random sample testing on servers, maintaining equipment, and testing, evaluating and installing hardware and software.

Data back-up technology. Different servers share and back up the data of one another, which increases the security of our network by allowing us to provide backup to failed servers and prevent system-wide failures caused by area network failures.

We are passionate about developing new and innovative products and services that will create more exciting experience for our users. As of December 31, 2019, our products and technology team consisted of 2,043 members, including software engineers, designers, and product managers. They are responsible for developing, operating and maintaining our products, including mobile games, live broadcasting and value-added services, and our communities.

Intellectual Property

We seek to protect our technology, including our proprietary technology infrastructure and core software system, through a combination of patents, copyrights, trademarks, trade secrets and confidentiality agreements. As of December 31, 2019, we have registered approximately 240 patents, 120 registered copyrights, 210 registered domain names, including www.bilibili.com, and 1,460 registered trademarks, including “bilibili”. In addition, we had submitted approximately 570 additional patent applications and 1,340 trademark applications.

We intend to protect our technology and proprietary rights vigorously, but there can be no assurance that our efforts will be successful. Even if our efforts are successful, we may incur significant costs in defending our rights. From time to time, third parties may initiate litigation against us alleging infringement of their proprietary rights or declaring their non-infringement of our intellectual property rights. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—We may be subject to intellectual property infringement claims or other allegations, which could result in material damage to our reputation and brand image, payment of substantial damages, penalties and fines, removal of relevant content from our platform or seeking license arrangements which may not be available on commercially reasonable terms” and “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—We may not be able to prevent others from unauthorized use of our intellectual property, unfair competition, defamation or other violations of our rights, which could harm our business and competitive position.”

Strategic Investments and Acquisitions

We have acquired, and may in the future acquire, companies that are complementary to our business. From time to time, we may also make alternative investments and enter into strategic partnerships or alliances as we see fit.

In September 2018, we increased the shareholding and acquired majority equity interests in Zenith Group Holdings Co., Limited (“Zenith”), the owner of a series of famous virtual singers, such as Luo Tianyi. After the transaction in September 2018, we held 71.9% of the equity interests in Zenith at a total consideration of RMB296.8 million. In the fourth quarter of 2019, we acquired the remaining 28.1% of the equity interests in Zenith at a total consideration of US$22.4 million (RMB156.5 million).

In December 2018, we entered into an agreement with certain affiliates of NetEase, Inc. to acquire NetEase Comics business, including copyrights of a large number of storylines from leading publishers and comic artists. In December 2018, we entered into an agreement to increase our shareholdings and to acquire majority equity interests in Maoer Inc., an audio platform offering audio drama.
In July 2019, we entered into a series of agreements to acquire a controlling interest in Chaodian. The consideration of this acquisition consisted of RMB288.6 million paid to the existing third party shareholders and a direct capital injection amounting to RMB909.6 million. Chaodian runs various off-line events such as flagship concerts and exhibitions, and operates an industry-related talent agency. For accounting treatment of this transaction, please refer to "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Critical Accounting Policies.”

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events since January 1, 2019 to December 31, 2019 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results 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 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. 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 product development services with us.

F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2019:

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>After</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating lease commitments(^{(1)})</td>
<td>312,249</td>
<td>93,741</td>
<td>100,109</td>
<td>89,399</td>
<td>28,643</td>
<td>357</td>
</tr>
<tr>
<td>Long-term debt obligations(^{(2)})</td>
<td>3,799,847</td>
<td>47,961</td>
<td>47,961</td>
<td>47,961</td>
<td>47,961</td>
<td>3,608,003</td>
</tr>
<tr>
<td>Purchase obligation(^{(3)})</td>
<td>800,000</td>
<td>320,000</td>
<td>240,000</td>
<td>240,000</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>4,912,096</td>
<td>461,702</td>
<td>388,070</td>
<td>377,360</td>
<td>76,604</td>
<td>3,608,360</td>
</tr>
</tbody>
</table>

Notes:

(1) Operating lease commitments consist of the commitments under the lease agreements for our office premises.

(2) Long-term debt obligations consist of the principal amount and cash interests in connection with the 2026 Notes.

(3) Purchase obligation consists of the commitment under the a letter of intent signed in December 2019 to purchase the three-year license for live broadcasting the League of Legends World Championship in China starting from 2020 at an aggregate purchase price of RMB800 million (US$114.9 million).

Other than as shown above, we did not have any significant capital and other commitments, long-term obligations or guarantees as of December 31, 2019.

G. Safe Harbor

This annual report on Form 20-F contains forward-looking statements. These statements are made under the “safe harbor” provisions of Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements can be identified by terminology such as “will,” “expects,” “anticipates,” “future,” “intends,” “plans,” “believes,” “estimates,” “may,” “intend,” “is currently reviewing,” “it is possible,” “subject to” and similar statements. Among other things, the sections titled “Item 3. Key Information—D. Risk Factors,” “Item 4. Information on the Company,” and “Item 5. Operating and Financial Review and Prospects” in this annual report on Form 20-F, as well as our strategic and operational plans, contain forward-looking statements. We may also make written or oral forward-looking statements in our filings with the SEC, in our annual report to shareholders, in press releases and other written materials and in oral statements made by our officers, directors or employees to third parties. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements and are subject to change, and such change may be material and may have a material and adverse effect on our financial condition and results of operations for one or more prior periods. Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results to differ materially from those contained, either expressly or impliedly, in any of the forward-looking statements in this annual report on Form 20-F. All information provided in this annual report on Form 20-F and in the exhibits is as of the date of this annual report on Form 20-F, and we do not undertake any obligation to update any such information, except as required under applicable law.
ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table sets forth information regarding our directors and executive officers as of the date of this annual report.

<table>
<thead>
<tr>
<th>Directors and Executive Officers</th>
<th>Age</th>
<th>Position/Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rui Chen</td>
<td>42</td>
<td>Chairman of the Board of Directors and Chief Executive Officer</td>
</tr>
<tr>
<td>Yi Xu</td>
<td>30</td>
<td>Founder, Director and President</td>
</tr>
<tr>
<td>Ni Li</td>
<td>34</td>
<td>Vice Chairman of the Board of Directors and Chief Operating Officer</td>
</tr>
<tr>
<td>Wenji Jin</td>
<td>47</td>
<td>Independent Director</td>
</tr>
<tr>
<td>JP Gan</td>
<td>48</td>
<td>Independent Director</td>
</tr>
<tr>
<td>Eric He</td>
<td>59</td>
<td>Independent Director</td>
</tr>
<tr>
<td>Feng Li</td>
<td>46</td>
<td>Independent Director</td>
</tr>
<tr>
<td>Xin Fan</td>
<td>41</td>
<td>Chief Financial Officer</td>
</tr>
</tbody>
</table>

Rui Chen has served as chairman of our board of directors and our chief executive officer since November 2014. Mr. Chen is a serial entrepreneur and has over 15 years of experience in the internet and technology-related industries in China. Prior to joining us, he co-founded Cheetah Mobile (NYSE: CMCM), a leading mobile internet company in China. In 2008, Mr. Chen founded Beike Internet Security Co., Ltd. and served as its chief executive officer from 2008 to 2010. Prior to that, Mr. Chen served as general manager of internet security research and development at Kingsoft (HK: 3888), a leading software and internet service company in China, from 2001 to 2008. In 2016, Mr. Chen was named by Fortune as one of China’s “40 Under 40,” a list of the most influential people in business under the age of 40 in China. Mr. Chen received his bachelor’s degree from Chengdu University of Information Technology in 2001.

Yi Xu founded our website in 2009 and has served as our director and president since December 2013. Mr. Xu has been an opinion leader in our communities since the inception of our company and led the prosperity of our community culture among users. Mr. Xu received his associate degree from Beijing University of Posts and Telecommunications in 2010.

Ni Li has served as our chief operating officer since November 2014 and vice chairman of our board of directors since January 2015. Ms. Li oversees our platform operations, sales and commercial cooperation, content ecosystem partnership, and strategic planning and investments. Prior to joining our company, Ms. Li was in charge of human resources operations at Cheetah Mobile from 2012 to 2014. Prior to that, Ms. Li founded Goalcareer, a provider of consulting services to companies in the technology, media and telecommunication sector, and served as its chief executive officer from 2008 to 2012. Ms. Li received her bachelor’s degree in law from Lingnan Normal University in 2008.

Wenji Jin previously served as our director from May 2016 to April 2018, and started to serve as our director again since February 2019. Mr. Jin has been a managing director at Sequoia Capital from August 2019. From 2017 to March 2019, Mr. Jin served as a managing director at Legend Capital. Legend Capital is an investment company focusing on innovation and growth enterprises in the technology, media and telecommunication sector in China. Mr. Jin held various positions in Legend Capital since 2007. Prior to joining Legend Capital, Mr. Jin served as a senior manager in the software development department at Synopsys (NASDAQ: SNPS). Mr. Jin received his bachelor’s degree from University of Science and Technology of China, his master’s degree from Louisiana State University and his EMBA degree from China Europe International Business School.
JP Gan has served as our director since January 2015. Mr. Gan has been a founding partner of INCE Capital Limited since 2019. From 2006 to 2019, Mr. Gan was a managing partner of Qiming Venture Partners. From 2005 to 2006, Mr. Gan was the chief financial officer of KongZhong Corporation. Prior to joining KongZhong Corporation, a wireless internet Company, Mr. Gan was a director of The Carlyle Group responsible for venture capital investments in the Greater China region from 2000 to 2005. Mr. Gan is also an independent director of Trip.com Group Ltd. (Nasdaq: TCOM). Mr. Gan received his bachelor’s degree in business administration from the University of Iowa in 1994 and his MBA degree from the University of Chicago Booth School of Business in 1999.

Eric He has served as our director since March 2018. He currently also serves as an independent director of 51job (Nasdaq: JOBS). Mr. He had served as chief financial officer of YY Inc. (Nasdaq: YY) from August 2011 to April 2017. Prior to that, Mr. He served as chief financial officer of Giant Interactive Group, Inc. from March 2007 to August 2011. He served as chief strategy officer of Ninetowns Internet Technology Group from 2004 to 2007. From 2002 to 2004, he served as a private equity investment director for AIG Global Investment Corp (Asia) Ltd. Mr. He received a bachelor’s degree in accounting from National Taipei University and an MBA degree from the Wharton School of Business at the University of Pennsylvania. Mr. He is a Certified Public Accountant and Chartered Financial Analyst in the United States.

Feng Li previously served as our director from November 2014 to May 2016, and started to serve as our director again in February 2019. Mr. Li is the founder and CEO of Shanghai Ziyou Investment Management Limited, also known as FreeS Fund, a venture capital firm that primarily invests in early and growth stage startups in China and overseas, and focuses on the industries of upgraded consuming, key sensors and ic, A.I. and biotech. Prior to founding FreeS Fund, Mr. Li worked as a partner in the China TMT investment department in IDG Capital, a global network of private equity and venture capital firms. Prior to that, Mr. Li served as deputy vice president of New Oriental School, a leading English teaching and learning school in China. Mr. Li currently serves as a board member of several private internet and technology companies based in China. Mr. Li received his bachelor’s degree in Chemistry from Peking University in 1996 and his master’s degree in Chemistry from the University of Rochester in 1998.

Xin Fan has served as our chief financial officer since September 2017. Mr. Fan currently also serves as an independent director of UP Fintech Holding Limited (Nasdaq: TIGR) and GSX Techedu Inc. (NYSE: GSX). Prior to that, Mr. Fan served as our vice president of finance since April 2016. Before joining our company, Mr. Fan served as a finance director at NetEase (Nasdaq: NTES) from 2011 to 2016. Prior to 2011, Mr. Fan held various positions at KPMG Huazhen for an aggregate of eight years and served as a senior manager there from 2008 to 2011. Mr. Fan received his bachelor’s degree in international accounting from Shanghai University of Finance and Economics in 2001. Mr. Fan is a regular member of the American Institute of Certified Public Accountants and a certified public accountant in China. He also holds licenses as chartered global management accountant and chartered certified accountant in the United Kingdom.

B. Compensation

For the fiscal year ended December 31, 2019, we paid an aggregate of approximately RMB7.2 million (US$1.0 million) in cash to our executive officers, and approximately US$0.24 million in cash to our non-executive directors. We have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our executive officers and directors. Our PRC subsidiaries and VIEs are required by law to make contributions equal to certain percentages of each employee’s salary for his or her pension insurance, medical insurance, unemployment insurance and other statutory benefits and a housing provident fund.

Global Share Incentive Plan

In November 2014, our board of directors approved a global share incentive plan, which we refer to as the Global Share Plan, to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of our business. As of February 28, 2020, the maximum aggregate number of ordinary shares which may be issued pursuant to all awards under the Global Share Plan is 19,880,315 ordinary shares, subject to amendment. As of February 28, 2020, awards to purchase 6,766,402 ordinary shares under the Global Share Plan have been granted and outstanding, excluding awards that were forfeited or cancelled after the relevant grant dates.
The following paragraphs describe the principal terms of the Global Share Plan.

Types of awards. The Global Share Plan permits the awards of options, restricted shares, restricted share units or any other type of awards approved by the plan administrator.

Plan administration. Our chairman of the board of directors or a committee of one or more members of the board of directors will administer the Global Share Plan. The chairman or the committee, as applicable, will determine the participants to receive awards, the type and number of awards to be granted to each participant, and the terms and conditions of each award. The full board of directors will conduct the general administration of the Global Share Plan if required by applicable laws and with respect to awards granted to the chairman of the board of directors, the committee members (if applicable), independent directors and executive officers of our company.

Award agreement. Awards granted under the Global Share Plan are evidenced by an award agreement that sets forth terms, conditions and limitations for each award, which may include the term of the award, the provisions applicable in the event that the grantee's employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind the award.

Eligibility. We may grant awards to our employees, directors and consultants of our company.

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

Exercise of options. The plan administrator determines the exercise price for each award, which is stated in the award agreement. The vested portion of option will expire if not exercised prior to the time as the plan administrator determines at the time of its grant. However, the maximum exercisable term is ten years from the date of a grant.

Transfer restrictions. Awards may not be transferred in any manner by the participant other than in accordance with the exceptions provided in the Global Share Plan or the relevant award agreement or otherwise determined by the plan administrator, such as transfers by will or the laws of descent and distribution.

Termination and amendment of the Global Share Plan. Unless terminated earlier, the Global Share Plan has a term of ten years. The plan administrator has the authority to terminate, amend or modify the plan. Except with respect to amendments made by the plan administrator, no termination, amendment or modification may adversely affect in any material way any awards previously granted pursuant to the Global Share Plan unless agreed by the participant.

2018 Share Incentive Plan

In February 2018, our shareholders and board of directors adopted the 2018 Share Incentive Plan, which we refer to as the 2018 Plan in this annual report, to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of our business. We subsequently amended our 2018 Plan in March 2020 by unanimous written approval of our board of directors. The maximum aggregate number of shares which may be issued pursuant to all awards under the 2018 Plan (the “Award Pool”) is initially 6,962,069, provided that, in the event that the aggregate number of shares which may be issued pursuant to all granted awards (including incentive share options) reaches 6,962,069, thereafter the Award Pool of the 2018 Plan shall be increased automatically if and whenever the unissued shares reserved accounts for less than 0.5% of the total number of shares of our company issued and outstanding on the last day of the immediately preceding fiscal year (excluding issued shares reserved for future option exercise and restricted share unit vesting), as a result of which increase the shares unissued and reserved in the Award Pool immediately after each such increase shall equal to 2.5% of the total number of shares of our company issued and outstanding on the last day of the immediately preceding fiscal year (excluding issued shares reserved for future option exercise and restricted share unit vesting). As of February 28, 2020, awards to purchase 5,378,000 ordinary shares under the 2018 Plan have been granted and outstanding, excluding awards that were forfeited or cancelled after the relevant grant dates.
The following paragraphs describe the principal terms of the 2018 Plan.

**Types of Awards.** The 2018 Plan permits the awards of options, restricted shares, restricted share units or any other type of awards approved by the plan administrator.

**Plan Administration.** Our board of directors or a committee of one or more members of the board of directors will administer the 2018 Plan. The committee or the full board of directors, as applicable, will determine the participants to receive awards, the type and number of awards to be granted to each participant, and the terms and conditions of each award.

**Award Agreement.** Awards granted under the 2018 Plan are evidenced by an award agreement that sets forth terms, conditions and limitations for each award, which may include the term of the award, the provisions applicable in the event that the grantee’s employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind the award.

**Eligibility.** We may grant awards to our employees, directors and consultants of our company. However, we may grant options that are intended to qualify as incentive share options only to our employees and employees of our parent companies and subsidiaries.

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

**Exercise of Options.** The plan administrator determines the exercise price for each award, which is stated in the award agreement. The vested portion of option will expire if not exercised prior to the time as the plan administrator determines at the time of its grant. However, the maximum exercisable term is ten years from the date of a grant.

**Transfer Restrictions.** Awards may not be transferred in any manner by the recipient other than in accordance with the exceptions provided in the 2018 Plan, such as transfers by will or the laws of descent and distribution.

**Termination and Amendment of the 2018 Plan.** Unless terminated earlier, the 2018 Plan has a term of ten years. Our board of directors has the authority to amend or terminate the plan. However, no such action may adversely affect in any material way any awards previously granted unless agreed by the recipient.

The following table summarizes, as of February 28, 2020, the number of ordinary shares underlying outstanding options granted to several of our directors and executive officers and to other individuals as a group under the Global Share Plan and 2018 Plan, excluding awards that were forfeited or cancelled after the relevant grant dates.

<table>
<thead>
<tr>
<th>Name</th>
<th>Ordinary Shares Underlying Options Awarded</th>
<th>Exercise Price (US$/Share)</th>
<th>Date of Grant</th>
<th>Date of Expiration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rui Chen</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yi Xu</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ni Li</td>
<td>*</td>
<td>Nominal</td>
<td>September 1, 2016</td>
<td>September 1, 2022</td>
</tr>
<tr>
<td>Xin Fan</td>
<td>*</td>
<td>Nominal</td>
<td>Various dates from April 18, 2016 to June 15, 2019</td>
<td>Various dates from April 18, 2022 to June 15, 2025</td>
</tr>
<tr>
<td>Other grantees</td>
<td>11,369,402</td>
<td>Nominal</td>
<td>July 28, 2014 to December 4, 2019</td>
<td>July 28, 2020 to December 4, 2025</td>
</tr>
<tr>
<td>Total</td>
<td>12,144,402</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note:
- * Less than 1% of our total outstanding shares.
Equity Incentive Trusts

Bilibili Inc. Global Share Incentive Trust and Bilibili Inc. Special Share Incentive Trust, which we collectively refer to as the Equity Incentive Trusts, were established under their respective trust deeds, each dated November 28, 2017, between us and Ark Trust (Hong Kong) Limited, or Ark Trust, as trustee of each of the Equity Incentive Trusts. Through the Equity Incentive Trusts, our ordinary shares and other rights and interests under awards granted pursuant to our Global Share Plan may be provided to certain of recipients of equity awards. The participants in the Equity Incentive Trusts include our employees and certain of our executive officers.

Participants in the Equity Incentive Trusts transfer their equity awards to Ark Trust to be held for their benefit. Upon satisfaction of vesting conditions and request by grant recipients, Ark Trust will exercise the equity awards and transfer the relevant ordinary shares and other rights and interest under the equity awards to the relevant grant recipients with the consent of the trust administrator. Each of the trust deeds provides that Ark Trust shall not exercise the voting rights attached to such ordinary shares unless otherwise directed by the trust administrator, which is an authorized representative of our company.

C. Board Practices

Board of Directors

Our board of directors consists of seven directors. A director is not required to hold any shares in our company by way of qualification. Subject to the Nasdaq Stock Market rules, a director may vote with respect to any contract, proposed contract or arrangement in which he is materially interested provided (a) such director, if his interest in such contract or arrangement is material, has declared the nature of his interest at the earliest meeting of the board at which it is practicable for him to do so, either specifically or by way of a general notice and (b) if such contract or arrangement is a transaction with a related party, such transaction has been approved by the audit committee. The directors may exercise all the powers of the company to borrow money, mortgage its undertaking, property and uncalled capital, and issue debentures or other securities whenever money is borrowed or as security for any obligation of the company or of any third party. None of our non-executive directors has a service contract with us that provides for benefits upon termination of service.

Committees of the Board of Directors

We have established three committees under the board of directors: an audit committee, a compensation committee and a nominating and corporate governance committee. 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 Eric He, JP Gan and Wenji Jin. Eric He is the chairman of our audit committee. We have determined that Eric He, JP Gan and Wenji Jin each satisfies the “independence” requirements of Rule 5605(c)(2) of the Nasdaq Stock Market Rules and meet the independence standards under Rule 10A-3 under the Exchange Act, as amended. We have determined that Eric He qualifies as an “audit committee financial expert.” The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- appointing the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management’s response;
- discussing the annual audited financial statements with management and the independent auditors;
- reviewing the adequacy and effectiveness of our accounting and internal control policies and procedures and any steps taken to monitor and control major financial risk exposures;
- reviewing and approving all proposed related party transactions;
- meeting separately and periodically with management and the independent auditors; and
monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

Compensation Committee. Our compensation committee consists of JP Gan, Eric He and Wenji Jin. JP Gan is the chairman of our compensation committee. We have determined that JP Gan, Eric He and Wenji Jin each satisfies the “independence” requirements of Rule 5605(a)(2) of the Nasdaq Stock Market 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. The compensation committee is responsible for, among other things:

- reviewing and approving, or recommending to the board for its approval, the compensation for our chief executive officer and other executive officers;
- reviewing and recommending to the board for determination with respect to the compensation of our non-employee directors;
- reviewing periodically and approving any incentive compensation or equity plans, programs or similar arrangements; and
- selecting compensation consultant, legal counsel or other adviser only after taking into consideration all factors relevant to that person’s independence from management.

Nominating and Corporate Governance Committee. Our nominating and corporate governance committee consists of JP Gan, Eric He and Wenji Jin. JP Gan is the chairman of our nominating and corporate governance committee. JP Gan, Eric He and Wenji Jin each satisfies the “independence” requirements of Rule 5605(a)(2) of the Nasdaq Stock Market Rules. The nominating and corporate governance committee assists the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The nominating and corporate governance committee is responsible for, among other things:

- selecting and recommending to the board nominees for election by the shareholders or appointment by the board;
- reviewing annually with the board the current composition of the board with regards to characteristics such as independence, knowledge, skills, experience and diversity;
- making recommendations on the frequency and structure of board meetings and monitoring the functioning of the committees of the board; and
- 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.

Duties of Directors

Under Cayman Islands law, our directors have a duty to act honestly, in good faith and with a view to our best interests. Our directors also have a duty to exercise the care, diligence and skills that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association and the class rights vested thereunder in the holders of the shares. A shareholder may in certain circumstances have rights to damages if a duty owed by the directors is breached.

Our board of directors has all the powers necessary for managing, and for directing and supervising, our business affairs. The functions and powers of our board of directors include, among others:

- convening shareholders’ annual general meetings and reporting its work to shareholders at such meetings;
- declaring dividends and distributions;
appointing officers and determining the term of office of the officers;
• exercising the borrowing powers of our company and mortgaging the property of our company; and
• approving the transfer of shares in our company, including the registration of such shares in our share register.

Terms of Directors and Officers
Our officers are elected by and serve at the discretion of the board of directors. Our directors are not subject to a term of office and hold office until such time as they are removed from office by ordinary resolution of the shareholders or by the board. A director will be removed from office automatically if, among other things, the director (i) becomes bankrupt or makes any arrangement or composition with his creditors; or (ii) is found by our company to be or becomes of unsound mind.

D. Employees
We had 1,903, 3,033 and 4,791 employees as of December 31, 2017, 2018 and 2019, respectively. The following table sets forth the numbers of our employees categorized by function as of December 31, 2019 by function:

<table>
<thead>
<tr>
<th>Function</th>
<th>As of December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Platform operations</td>
<td>439</td>
</tr>
<tr>
<td>Products and technology</td>
<td>2,043</td>
</tr>
<tr>
<td>Content operations</td>
<td>745</td>
</tr>
<tr>
<td>Content audit</td>
<td>1,220</td>
</tr>
<tr>
<td>Management, sales, finance and admin</td>
<td>344</td>
</tr>
<tr>
<td>Total</td>
<td>4,791</td>
</tr>
</tbody>
</table>

As of December 31, 2019, we had 3,607 employees in Shanghai, 449 employees in Wuhan, 199 employees in Beijing and 536 employees in other locations.

As required under PRC regulations, we participate in housing funds and various employee social security plans that are organized by applicable local municipal and provincial governments, including housing, pension, medical, work-related injury and unemployment benefit plans, under which we make contributions at specified percentages of the salaries of our employees. We also purchase commercial health and accidental insurance for our employees. Bonuses are generally discretionary and based in part on employee performance and in part on the overall performance of our business. We have granted and plan to continue to grant share-based incentive awards to our employees in the future to incentivize their contributions to our growth and development.

We enter into standard confidentiality and employment agreements with our key employees. The contracts with our key personnel typically include a standard non-compete agreement that prohibits the employee from competing with us, directly or indirectly, during his or her employment and for at least one year after the termination of his or her employment.

E. Share Ownership
The following table sets forth information with respect to the beneficial ownership of our ordinary shares as of February 28, 2020 by:
• each of our directors and executive officers; and
• each person known to us to own beneficially more than 5% of our ordinary shares.

The calculations in the table below are based on 85,364,814 Class Y ordinary shares and 242,751,341 Class Z ordinary shares outstanding as of February 28, 2020 (excluding 5,978,893 Class Z ordinary shares issued and reserved for future issuance upon the exercising or vesting of awards granted under our share incentive plans).
Beneficial ownership is determined in accordance with the rules and regulations of the SEC. 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 after February 28, 2020, including through the exercise of any option, warrant or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.

### Ordinary Shares Beneficially Owned

<table>
<thead>
<tr>
<th>Directors and Executive Officers**:</th>
<th>Ordinary Shares Beneficially Owned</th>
<th>% of Beneficial Ownership</th>
<th>% of Aggregate Voting Power</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rui Chen(1)</td>
<td>49,299,006</td>
<td>15.1%</td>
<td>45.0%***</td>
</tr>
<tr>
<td>Yi Xu(2)</td>
<td>28,865,808</td>
<td>8.8%</td>
<td>26.3%***</td>
</tr>
<tr>
<td>Ni Li(3)</td>
<td>7,200,000</td>
<td>2.4%</td>
<td>6.6%***</td>
</tr>
<tr>
<td>Wenji Jin(4)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JP Gan(5)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eric He(6)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Feng Li(7)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Xin Fan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All Directors and Executive Officers as a Group</td>
<td>85,364,814</td>
<td>26.7%</td>
<td>78.0%</td>
</tr>
</tbody>
</table>

### Principal Shareholders:

<table>
<thead>
<tr>
<th>Entities affiliated with Rui Chen(8)</th>
<th>49,299,006</th>
<th>15.1%</th>
<th>45.0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tencent entities(9)</td>
<td>43,749,518</td>
<td>13.3%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Kami Sama Limited(10)</td>
<td>28,865,808</td>
<td>8.8%</td>
<td>26.3%</td>
</tr>
<tr>
<td>Taobao China Holding Limited(11)</td>
<td>23,645,657</td>
<td>7.2%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Loyal Valley Capital(12)</td>
<td>19,353,524</td>
<td>5.9%</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

Notes:

† For each person and group included in this column, percentage of voting power is calculated by dividing the voting power beneficially owned by such person or group by the voting power of all of our Class Y and Class Z ordinary shares as a single class. Each holder of Class Z ordinary shares is entitled to one vote per share and each holder of our Class Y ordinary shares is entitled to ten votes per share on all matters submitted to them for a vote. Our Class Y ordinary shares and Class Z ordinary shares vote together as a single class on all matters submitted to a vote of our shareholders, except as may otherwise be required by law. Our Class Y ordinary shares are convertible at any time by the holder thereof into Class Z ordinary shares on a one-for-one basis.

* Less than 1% of our total outstanding shares.

** Except as otherwise indicated below, the business address of our directors and executive officers is c/o Shanghai Hode Information Technology Co., Ltd., Building 3, Guozheng Center, No. 485 Zhengli Road, Yangpu District, Shanghai, People’s Republic of China.

*** In July 2019, Yi Xu executed an irrevocable power of attorney, pursuant to which Yi Xu has appointed Rui Chen as his attorney to, among other things, attend on his behalf our company’s shareholders meeting and to exercise all voting rights associated with Yi Xu’s shares in our company. In the same month, Ni Li executed an irrevocable power of attorney, pursuant to which Ni Li has appointed Rui Chen as her attorney to, among other things, attend on her behalf our company’s shareholders meeting and to exercise all voting rights associated with her shares in our company.

(1) Represents (i) 49,299,006 Class Y ordinary shares directly held by Vanship Limited, a business company limited by shares incorporated in British Virgin Islands, and (ii) 133,945 Class Z ordinary shares directly held by Windforce Limited, a business company limited by shares incorporated in British Virgin Islands. Vanship Limited is controlled by The Le Petit Princ Trust, a trust established under the laws of Cayman Islands and managed by TMF (Cayman) Ltd. as the trustee. Mr. Chen is the settlor of The Le Petit Prince Trust, and Mr. Chen and his family members are the trust’s beneficiaries. Under the terms of this trust, Mr. Chen has the power to direct the trustee with respect to the retention or disposal of, and the exercise of any voting and other rights attached to, the shares held by Vanship Limited in our company. Windforce Limited is controlled by Diamond Dust Limited, a Cayman Islands exempted company, which in turn is controlled by Mr. Chen. Mr. Chen is a director of Diamond Dust Limited, and indirectly holds 100% equity interests in Diamond Dust Limited through Vanship Limited.

(2) Represents (i) 28,865,808 Class Y ordinary shares directly held by Kami Sama Limited, a business company limited by shares incorporated in British Virgin Islands, and (ii) 25,000 Class Z ordinary shares in the form of ADSs held by Mr. Xu. Kami Sama Limited is controlled by The Homur Trust, and Mr. Xu and his family members are the trust’s beneficiaries. Under the terms of this trust, Mr. Xu has the power to direct the trustee with respect to the retention or disposal of, and the exercise of any voting and other rights attached to, the shares held by Kami Sama Limited in our company.

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ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

Please refer to “Item 6. Directors, Senior Management and Employees—E. Share Ownership.”

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B. Related Party Transactions

Contractual Arrangements with Our VIEs and Their Respective Shareholders

See “Item 4. Information on the Company—C. Organizational Structure.”

Shareholders Agreement and Investor Rights Agreement

We entered into our shareholders agreement on April 1, 2017 with our shareholders, which consist of holders of ordinary shares and preferred shares. Pursuant to this shareholders agreement, we have granted certain registration rights to our shareholders. Set forth below is a description of the registration rights granted under the agreement.

Demand Registration Rights. Holders holding at least 10% or more of the issued and outstanding registrable securities (on an as converted basis) held by the preferred shareholders, the Class D ordinary shareholders, Class C ordinary shareholders or Class B ordinary shareholders have the right to demand in writing that we file a registration statement covering the registration of at least 25% of their registrable securities. We have the right to defer filing of a registration statement for a period of not more than 90 days if our board of directors determines in good faith that filing of a registration statement in the near future will be materially detrimental to us or our shareholders, but we cannot exercise the deferral right more than once for more than once during any twelve-month period and cannot register any other securities during such period. We are not obligated to effect more than three demand registrations. Further, if the registrable securities are offered by means of an underwritten offering, and the managing underwriter advises us that marketing factors require a limitation of the number of securities to be underwritten, the underwriters may decide to exclude (i) all of the registrable securities in our initial public offering, or (ii) up to 75% of the registrable securities and the number of the registrable securities will be allocated among the holders on a pro rata basis according to the number of registrable securities then outstanding held by each holder requesting registration, provided that all other equity securities are first excluded.

Registration on Form F-3 or Form S-3. Any holder may request us to file a registration statement on Form F-3 or Form S-3 if we qualify for registration on Form F-3 or Form S-3 so long as such registration offerings are in excess of US$500,000. We, however, are not obligated to consummate a registration if we have consummated two registrations within any twelve month period. We have the right to defer filing of a registration statement for a period of not more than 90 days if our board of directors determines in good faith that filing of a registration statement in the near future will be materially detrimental to us or our shareholders, but we cannot exercise the deferral right more than once for more than once during any twelve-month period and cannot register any other securities during such period.

Piggyback Registration Rights. If we propose to register for a public offering or our securities other than relating to any share incentive plan or a corporate reorganization, we must offer holders of our registrable securities an opportunity to be included in such registration. If the underwriters advise in writing that market factors require a limitation of the number of registrable securities to be underwritten, the underwriters may decide to exclude (i) all of the registrable securities in our initial public offering, or (ii) up to 75% of the registrable securities and the number of the registrable securities will be allocated among the holders on a pro rata basis according to the number of registrable securities then outstanding held by each holder requesting registration, provided that all other equity securities are first excluded (except for securities sold for the account of our company).

Expenses of Registration. We will bear all registration expenses, other than the underwriting discounts and selling commissions applicable to the sale of registrable securities, incurred in connection with registrations, filings or qualification pursuant to the shareholders agreement.

Termination of Obligations. We have no obligation to effect any demand, piggyback or Form F-3 or Form S-3 registration upon the later of (i) the fifth anniversary from the date of closing of a QIPO as defined in the shareholders agreement, and (ii) with respect to any holder, the date following a QIPO on which such holder holds less than 1% of the equity securities of our company and all registrable securities may be sold under Rule 144 of the Securities Act in any 90-day period.
Pursuant to the share purchase and investor rights agreement by and between us and Tencent Mobility Limited dated October 3, 2018, we have granted certain registration rights to Tencent Mobility Limited or its affiliates. Accordingly, Tencent Mobility Limited or its affiliates are entitled one registration on Form F-3, after the expiration of a lock-up period, covering such Class Z ordinary shares issued and sold to Tencent Mobility Limited pursuant to the aforesaid share purchase and investor rights agreement.

**Employment Agreements and Indemnification Agreements**

We have entered into employment agreements with each of our executive officers. Under these agreements, each of our executive officers is employed for a specified time period. We may terminate employment for cause, at any time, without advance notice or remuneration, for certain acts of the executive officer, such as conviction or plea of guilty to a felony or any crime involving moral turpitude, negligent or dishonest acts to our detriment, or misconduct or a failure to perform agreed duties. We may also terminate an executive officer’s employment without cause upon three-month advance written notice. In such case of termination by us, we will provide severance payments to the executive officer as expressly required by applicable law of the jurisdiction where the executive officer is based. The executive officer may resign at any time with a three-month advance written notice.

Each executive officer has agreed to hold, both during and after the termination or expiry of his or her employment agreement, in strict confidence and not to use, except as required in the performance of his or her duties in connection with the employment or pursuant to applicable law, any of our confidential information or trade secrets, any confidential information or trade secrets of our clients or prospective clients, or the confidential or proprietary information of any third party received by us and for which we have confidential obligations. The executive officers have also agreed to disclose in confidence to us all inventions, designs and trade secrets which they conceive, develop or reduce to practice during the executive officer’s employment with us and to assign all right, title and interest in them to us, and assist us in obtaining and enforcing patents, copyrights and other legal rights for these inventions, designs and trade secrets.

In addition, each executive officer has agreed to be bound by non-competition and non-solicitation restrictions during the term of his or her employment and typically for one year following the last date of employment. Specifically, each executive officer has agreed not to (i) approach our suppliers, clients, customers or contacts or other persons or entities introduced to the executive officer in his or her capacity as a representative of us for the purpose of doing business with such persons or entities that will harm our business relationships with these persons or entities; (ii) assume employment with or provide services to any of our competitors, or engage, whether as principal, partner, licensor or otherwise, any of our competitors, without our express consent; or (iii) seek directly or indirectly, to solicit the services of any of our employees who is employed by us on or after the date of the executive officer’s termination, or in the year preceding such termination, without our express consent.

We have also entered into indemnification agreements with each of our directors and executive officers. Under these agreements, we agree to indemnify our directors and executive officers against certain liabilities and expenses incurred by such persons in connection with claims made by reason of their being a director or officer of our company.

**Share Incentive Plan**

See “Management—Global Share Incentive Plan” and “Management—2018 Share Incentive Plan.”

**Other Related Party Transactions**

In June 2019, we transferred several equity investments to an investment fund, and one of our subsidiaries was its limited partner. The cost of the equity investments transfer was RMB465.8 million (US$66.9 million). The consideration was RMB539.6 million (US$77.5 million), which was determined based on the estimated fair value of the investments. The difference between the consideration and cost of the investments was recognized as investment income. As of December 31, 2019, the consideration receivable was RMB143.7 million (US$20.6 million). We transferred several long-term investments to an entity controlled by our major shareholders amounting to RMB12.8 million and RMB3.3 million for the years ended December 31, 2017 and 2018, respectively.
For the years ended December 31, 2017, 2018 and 2019, we purchased promotional and other services amounting to RMB3.7 million, RMB163.0 million and RMB87.6 (US$12.6 million), respectively. As of December 31, 2018 and 2019, we had a total amount of RMB50.3 million due to Chaodian, and RMB195.3 (US$28.1 million) due from the investment fund and other related parties, respectively.

In December 2017, we granted interest-free loans of RMB15.2 million and RMB7.6 million to Mr. Rui Chen and Mr. Yi Xu, respectively. The loans were repaid by Mr. Yi Xu in January 2018 and by Mr. Rui Chen in March 2018, respectively.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

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

Legal Proceedings

We are currently not a party to any material legal or administrative proceedings. We may from time to time be subject to various legal or administrative claims and proceedings arising in the ordinary course of business. Litigation or any other legal or administrative proceeding, regardless of the outcome, is likely to result in substantial cost and diversion of our resources, including our management’s time and attention.

Dividend Policy

Our board of directors has complete discretion on whether to distribute dividends, subject to certain requirements of Cayman Islands law. 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.

We do not have any present plan to pay any cash dividends on our ordinary shares in the foreseeable future after our initial public offering. 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 may rely 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—Regulations Related to Dividend Distributions.”

If we pay any dividends on our ordinary shares, we will pay those dividends which are payable in respect of the Class Z ordinary shares underlying our ADSs to the depositary, as the registered holder of such Class Z ordinary shares, and the depositary then will pay such amounts to our ADS holders in proportion to Class Z ordinary shares underlying the ADSs held by such ADS holders, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

B. Significant Changes

We have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.
ITEM 9. THE OFFER AND LISTING
A. Offering and Listing Details

See “C. Markets” for our host market and trading symbol. We have a dual-class common share structure in which Class Y ordinary shares have different voting rights from Class Z ordinary shares. Class Y ordinary shares are each entitled to ten votes, whereas Class Z ordinary shares are each entitled to one vote. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our ADSs—Our dual-class share structure with different voting rights will limit your ability to influence corporate matters and could discourage others from pursuing any change of control transactions that holders of our Class Z ordinary shares and ADSs may view as beneficial.”

B. Plan of Distribution
Not applicable.

C. Markets
Our ADSs, each representing one Class Z ordinary shares, have been listed on Nasdaq Global Select Market since March 28, 2018. Our ADSs trade under the symbol “BILI”.

D. Selling Shareholders
Not applicable.

E. Dilution
Not applicable.

F. Expenses of the Issue
Not applicable.

ITEM 10. ADDITIONAL INFORMATION
A. Share Capital
Not applicable.

B. Memorandum and Articles of Association

The following are summaries of material provisions of our sixth amended and restated memorandum and articles of association that we have adopted and of the Companies Law, insofar as they relate to the material terms of our ordinary shares.

Objects of Our Company. Under our amended and restated memorandum and articles of association, the objects of our company are unrestricted and we have the full power and authority to carry out any object not prohibited by the law of the Cayman Islands.

Ordinary Shares. Our ordinary shares are divided into Class Y ordinary shares and Class Z ordinary shares. Holders of our Class Y ordinary shares and Class Z ordinary shares will have the same rights except for voting and conversion rights. Each Class Z Ordinary Share shall entitle the holder thereof to one (1) vote on all matters subject to vote at our general meetings, and each Class Y ordinary share shall entitle the holder thereof to ten (10) votes on all matters subject to vote at our general meetings. Our ordinary shares are issued in registered form and are issued when registered in our register of members.

Conversion. Each Class Y ordinary share is convertible into one Class Z ordinary share at any time by the holder thereof. Class Z ordinary shares are not convertible into Class Y ordinary shares under any circumstances. Upon any sale, transfer, assignment or disposition of Class Y ordinary shares by a holder thereof to any person other than Rui Chen, Yi Xu and Ni Li or any entity which is not ultimately controlled by any of Rui Chen, Yi Xu or Ni Li, such Class Y ordinary shares shall be automatically and immediately converted into the same number of Class Z ordinary shares.
Dividends. The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors. Our amended and restated articles of association provide that dividends may be declared and paid out of our profits, realized or unrealized, or from any reserve set aside from profits which our board of directors determine is no longer needed. Dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law. Under the laws of the Cayman Islands, our company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business.

Voting Rights. Holders of our ordinary shares have the right to receive notice of, attend, speak and vote at general meetings of our company. Each holder of Class Z ordinary shares is entitled to one vote per share and each holder of our Class Y ordinary shares is entitled to ten votes per share on all matters submitted to them for a vote. Our Class Y ordinary shares and Class Z ordinary shares vote together as a single class on all matters submitted to a vote of our shareholders, except as may otherwise be required by law. At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands, unless a poll is (before or on the declaration of the result of the show of hands) demanded by the chairman or any shareholder present in person or by proxy.

A quorum required for a meeting of shareholders consists of one or more shareholders holding in aggregate not less than one-third of all votes attaching to all shares of our company in issue and entitled to vote at such general meeting, present in person or by proxy or, if a corporation or other non-natural person, by its duly authorized representative. Advance notice of at least ten calendar days is required for the convening of our annual general meeting and other shareholders meetings.

An ordinary resolution to be passed at a meeting by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast at a meeting. A special resolution requires the affirmative vote of no less than two-thirds of the votes cast attaching to the issued and outstanding shares at a 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 amended and restated memorandum and articles of association. A special resolution will be required for important matters such as a change of name or making changes that will affect the rights, preferences, privileges or powers of the preferred shareholders.

General Meetings of 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.

Shareholders’ general meetings may be convened by the chairman or a majority of our board of directors. Advance notice of at least ten (10) calendar days is required for the convening of our annual general shareholders’ meeting (if any) and any other general meeting of our shareholders. A quorum required for any general meeting of shareholders consists of at least one shareholder present or by proxy, representing not less than one-third of all votes attaching to all of our shares in issue and entitled to vote.

The Companies 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 do not provide shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders.

Transfer of Ordinary Shares. Subject to the restrictions set out below, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in writing, and shall be executed by or on behalf of the transferor, and if the directors so requires, signed by the transferee.
Our board of directors may, in its absolute discretion, decline to register any transfer of any ordinary share which is not fully paid up or on which we have a lien. Our board of directors may also decline to register any transfer of any ordinary share unless:

- the instrument of transfer is lodged with us, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of ordinary shares;
- the instrument of transfer is properly stamped, if required;
- in the case of a transfer to joint holders, the number of joint holders to whom the ordinary share is to be transferred does not exceed four; and
- a fee of such maximum sum as the Nasdaq Stock Market may determine to be payable or such lesser sum as our directors may from time to time require is paid to us in respect thereof.

If our directors refuse to register a transfer they shall, within three 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, after compliance with any notice required of the Nasdaq Stock Market, be suspended and the register closed at such times and for such periods as our board of directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 days in any year as our board may determine.

**Liquidation.** On the winding up of our company, if the assets available for distribution amongst our shareholders shall be more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus shall be distributed amongst our shareholders in proportion to the par value of the shares held by them at the commencement of the winding up, subject to a deduction from those shares in respect of which there are monies due, of all monies payable to our company for unpaid calls or otherwise. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders in proportion to the par value of the shares held by them.

**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 days prior to the specified time of payment. The shares that have been called upon and remain unpaid 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 of these shares, on such terms and in such manner as may be determined by our board of directors, or by the shareholders by special resolutions. Our Company may also repurchase any of our shares on such terms and in such manner as have been approved by our board of directors or by an ordinary resolution of our shareholders. 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 new 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 our 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, or (b) if such redemption or repurchase would result in there being no shareholders of the company holding shares, 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 of shares, the rights attached to any class of shares (unless otherwise provided by the terms of issue of the shares of that class), whether or not our company is being wound-up, may only be materially adversely varied with the consent in writing of the holders of two-thirds of the issued shares of that class or with the sanction of a resolution passed at a separate meeting of the holders of the shares of the class by the holders of two-thirds of the issued shares of that class. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be materially adversely varied by the creation or issue of further shares ranking pari passu with such existing class of shares or with enhanced or weighted voting rights or subsequent to such creation or issue, the redemption or repurchase of such shares.
Issuance of Additional Shares. Our amended and restated memorandum of association authorizes our board of directors to issue additional ordinary shares from time to time as our board of directors shall determine, to the extent of available authorized but unissued shares.

Our amended and restated memorandum of association also authorizes our board of directors to establish by ordinary resolutions from time to time one or more series of preference shares and to determine, with respect to any series of preference shares, the terms and rights of that series, including:

- the designation of the series;
- the number of shares of the series;
- the dividend rights, dividend rates, conversion rights, voting rights; and
- the rights and terms of redemption and liquidation preferences.

Our board of directors may issue preference shares without action by our shareholders to the extent authorized but unissued. Issuance of these shares may dilute the voting power of holders of ordinary shares.

Inspection of Books and Records. Holders of our ordinary shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records. However, we will provide our shareholders with annual audited financial statements.

Anti-Takeover Provisions. Some provisions of our memorandum and articles of association may discourage, delay or prevent a change of control of our company or management that shareholders may consider favorable, including provisions that:

- authorize our board of directors to issue preference shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preference shares without any further vote or action by our shareholders; and
- limit the ability of shareholders to requisition and convene general meetings of shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our memorandum and articles of association for a proper purpose and for what they believe in good faith to be in the best interests of our company.

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 that an exempted company:

- does not have to file an annual return of its shareholders with the Registrar of Companies;
- is not required to open its register of members for inspection;
- does not have to hold an annual general meeting;
- may issue shares with no par value;
- may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
• may register as an exempted limited duration company; and
• may register as a segregated portfolio company.

“Limited liability” means that the liability of each shareholder is limited to the amount unpaid by the shareholder on the shares of the company.

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,” “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions,” in this “Item 10. Additional Information—C. Material Contracts” or elsewhere in this annual report on Form 20-F.

D. Exchange Controls

See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Related to Foreign Exchange Control and Administration.”

E. Taxation

The following summary of the material Cayman Islands, PRC and U.S. federal income tax consequences of an investment in our ADSs or ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this registration statement, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in our ADSs or ordinary shares, such as the tax consequences under U.S. state and local tax laws or under the tax laws of jurisdictions other than the Cayman Islands, China and the United States.

Cayman Islands Taxation

According to Walkers (Hong Kong), our Cayman 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 brought within the jurisdiction of the Cayman Islands. No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in 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 ADSs or ordinary 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 ADSs or ordinary shares, nor will gains derived from the disposal of the ADSs or ordinary shares be subject to Cayman Islands income or corporation tax.

Our company has been incorporated under the laws of the Cayman Islands as an exempted company with limited liability and, as such, has obtained an undertaking from the Government of the Cayman Islands as to tax concessions under the Tax Concessions Law (as amended). In accordance with the provision of Section 6 of The Tax Concessions Law (as amended), the Governor in Cabinet undertakes with our company:

• that no law which is hereafter enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to our company or its operations; and
• in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
• on or in respect of the shares, debentures or other obligations of our company; or

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by way of the withholding, in whole or part, of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (as amended).

These concessions shall be for a period of 20 years from March 14, 2018.

PRC Taxation

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside China with “de facto management body” within China is considered a resident enterprise. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control and overall management over the business, productions, personnel, accounts and properties of an enterprise. In April 2009, the State Administration of Taxation issued a circular, known as 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. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in the circular may reflect the State Administration of Taxation’s general position on how the “de facto management body” text should be applied in determining the tax resident status of all offshore enterprises. According to 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 only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in China; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in China; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in China; and (iv) at least 50% of voting board members or senior executives habitually reside in China.

We believe that Bilibili Inc. is not a PRC resident enterprise for PRC tax purposes. Bilibili Inc. is not controlled by a PRC enterprise or PRC enterprise group and we do not believe that Bilibili Inc. meets all of the conditions above. Bilibili Inc. is a company incorporated outside China. As a holding company, its key assets are its ownership interests in its subsidiaries, and its key assets are located, and its records (including the resolutions of its board of directors and the resolutions of its shareholders) are maintained, outside China. In addition, we are not aware of any offshore holding companies with a similar corporate structure as ours ever having been deemed a PRC “resident enterprise” by the PRC tax authorities. However, 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.”

If the PRC tax authorities determine that Bilibili Inc. is 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 shareholders that are non-resident enterprises, including the holders of our ADSs. In addition, non-resident enterprise shareholders (including our ADS holders) may be subject to a 10% PRC tax on gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is treated as sourced from within China. It is unclear whether our non-PRC individual shareholders (including our ADS holders) would be subject to any PRC tax on dividends or gains obtained by such non-PRC individual shareholders 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. However, it is also unclear whether non-PRC shareholders of Bilibili Inc. would be able to claim the benefits of any tax treaties between their country of tax residence and China in the event that Bilibili Inc. is treated as a PRC resident enterprise. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Under the PRC Enterprise Income Tax Law, we may be classified as a PRC resident enterprise, which could result in unfavorable tax consequences to us and our shareholders and have a material adverse effect on our results of operations and the value of your investment.”

U.S. Federal Income Tax Considerations

The following discussion is a summary of U.S. federal income tax considerations relating to the ownership and disposition of our ADSs or ordinary shares by a U.S. Holder (as defined below) that holds our ADSs as “capital assets” (generally, property held for investment) under the Internal Revenue Code of 1986, as amended, or the Code. This discussion is based upon existing U.S. federal tax law, which is subject to differing interpretations or change, possibly with retroactive effect. No ruling has been sought from the Internal Revenue Service, or the IRS, with respect to any U.S. federal income tax consequences described below, and there can be no assurance that the IRS or a court will not take a contrary position. This discussion does not discuss all aspects of U.S. federal income taxation that may be important to particular investors in light of their individual investment circumstances, including investors subject to special tax rules (including for example, financial institutions, insurance companies, regulated investment companies, real estate investment trusts, broker-dealers, traders in securities that elect mark-to-market treatment, tax-exempt organizations (including private foundations), holders who are not U.S. Holders, holders who own (directly, indirectly or constructively) 10% or more of our stock (by vote or value), holders who acquire their ADSs or ordinary shares pursuant to any employee share option or otherwise as compensation, investors that will hold their ADSs or ordinary shares as part of a straddle, hedge, conversion, constructive sale or other integrated transaction for U.S. federal income tax purposes, investors required to accelerate the recognition of any item of gross income with respect to our ADSs or ordinary shares as a result of such income being recognized on an applicable financial statement or investors that have a functional currency other than the U.S. dollar, all of whom may be subject to tax rules that differ significantly from those discussed below). This discussion, moreover, does not address the U.S. federal estate and gift tax or alternative minimum tax consequences of the ownership or disposition of our ADSs or ordinary shares or the Medicare tax on net investment income. Each U.S. Holder is urged to consult its tax advisor regarding the U.S. federal, state, local and non-U.S. income and other tax considerations of an investment in our ADSs or ordinary shares.
For purposes of this discussion, a “U.S. Holder” is a beneficial owner of our ADSs or ordinary shares that is, for U.S. 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 U.S. federal income tax purposes) created in, or organized under the law 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 U.S. 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 U.S. court and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust or (B) that has otherwise validly elected to be treated as a U.S. person under the Code.

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of our ADSs or ordinary shares, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Partnerships holding our ADSs or ordinary shares and their partners are urged to consult their tax advisors regarding an investment in our ADSs or ordinary shares.

For U.S. federal income tax purposes, a U.S. Holder of ADSs will generally be treated as the beneficial owner of the underlying shares represented by the ADSs. The remainder of this discussion assumes that a U.S. Holder of the ADSs will be treated in this manner. Accordingly, deposits or withdrawals of Class Z ordinary shares for ADSs will generally not be subject to U.S. federal income tax.

Passive Foreign Investment Company Considerations

A non-U.S. corporation, such as our company, will be classified as a PFIC, for U.S. federal income tax purposes for any taxable year, if 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 and assets readily convertible into cash are categorized as a passive asset and the company’s goodwill and other unbooked intangibles are taken into account. 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.

Although the law in this regard is not entirely clear, we treat our VIEs as being owned by us for U.S. federal income tax purposes, because we control their management decisions and we are entitled to substantially all of the economic benefits associated with these entities, and, as a result, we consolidate their results of operations in our consolidated U.S. GAAP financial statements. If it were determined, however, that we do not own the stock of our VIEs for U.S. federal income tax purposes, we may be treated as a PFIC for the current taxable year and any subsequent taxable year.
Assuming that we are the owner of our VIEs for U.S. federal income tax purposes, and based upon our current income and assets, we do not believe we were a PFIC for the taxable year ended December 31, 2019 and we do not presently expect to be a PFIC for the current taxable year or in the foreseeable future. While we do not expect to be or become a PFIC in the current or future taxable years, no assurance can be given that we are not or will not become classified as a PFIC because the determination of PFIC status is a fact-intensive inquiry made on an annual basis and will depend, in part, upon the composition of our assets and income, and the continued existence of our goodwill at that time. Fluctuations in the market price of our ADSs may cause us to become a PFIC for the current or subsequent taxable years because the value of assets for the purpose of the asset test, including the value of our goodwill and other unbooked intangibles, may be determined by reference to the market value of our ADSs from time to time (which may be volatile). In addition, the composition of our income and our assets will be affected by how, and how quickly, we spend our liquid assets. Under circumstances where we determine not to deploy significant amounts of cash for capital expenditures and other general corporate purposes, our risk of becoming classified as a PFIC may substantially increase.

Our special U.S counsel expresses no opinion with respect to our PFIC status and also expresses no opinion with respect to our expectations regarding our PFIC status. If we are classified as a PFIC for any year during which a U.S. Holder holds our ADSs or ordinary 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 ordinary shares.

The discussion below under “Dividends” and “Sale or Other Disposition of ADSs or Ordinary Shares” is written on the basis that we will not be classified as a PFIC for U.S. federal income tax purposes. The U.S. federal income tax rules that apply if we are treated as a PFIC 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 tax withheld) paid on our ADSs or ordinary shares out of our current or accumulated earnings and profits, as determined under U.S. 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. Because we do not intend to determine our earnings and profits on the basis of U.S. federal income tax principles, any distribution we pay will generally be treated as a “dividend” for U.S. federal income tax purposes.

A non-corporate U.S. Holder 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-U.S. 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) will generally 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. We expect our ADSs will be considered to be readily tradable on the Nasdaq Global Select Market, which is an established securities market in the United States. Since we do not expect that our ordinary shares will be listed on an established securities market, we do not believe that dividends that we pay on our ordinary shares that are not represented by ADSs will 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.

In the event that we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law, we may be eligible for the benefits of the U.S.-PRC income tax treaty (which the U.S. Treasury Department has determined is satisfactory for this purpose) and in that case we would be treated as a qualified foreign corporation with respect to dividends paid on our ordinary shares, or ADSs. Each non-corporate U.S. Holder is advised to consult its tax advisors regarding the availability of the reduced tax rate applicable to qualified dividend income for any dividends we pay with respect to our ADSs or ordinary shares. Dividends received on our ADSs or ordinary shares will not be eligible for the dividends received deduction allowed to corporations.

Dividends will generally be treated as income from foreign sources for U.S. foreign tax credit purposes and will generally constitute passive category income. In the event that we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law, a U.S. Holder may be subject to PRC withholding taxes on dividends paid on our ADSs or ordinary shares. See “Item 10. Additional Information—E. Taxation—PRC Taxation.” In that case, depending on the U.S. Holder’s individual facts and circumstances, a U.S. Holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit not in excess of any applicable treaty rate in respect of any foreign withholding taxes imposed on dividends received on our ADSs or ordinary shares. A U.S. Holder who does not elect to claim a foreign tax credit for foreign tax withheld may instead claim a deduction, for U.S. 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. The rules governing the foreign tax credit are complex and their outcome depends in large part on the U.S. Holder’s individual facts and circumstances. Accordingly, U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.
Sale or Other Disposition of ADSs or Ordinary Shares

Subject to the 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 ordinary 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 ordinary shares. Any capital gain or loss will be long-term if the ADSs or ordinary shares have been held for more than one year and will generally be U.S. source gain or loss for U.S. foreign tax credit purposes. Long-term capital gain of non-corporate U.S. Holders is generally eligible for a reduced rate of taxation. The deductibility of a capital loss may be subject to limitations. In the event that we are treated as a PRC “resident enterprise” under the Enterprise Income Tax Law and gain from the disposition of the ADSs or ordinary shares is subject to tax in the PRC, a U.S. Holder that is eligible for the benefits of the income tax treaty between the United States and the PRC may elect to treat the gain as PRC source income. If you are not eligible for the benefits of the income tax treaty or you fail to make the election to treat any gain as foreign source, then you may not be able to use the foreign tax credit arising from any PRC tax imposed on the disposition of the ADSs or ordinary shares unless such credit can be applied (subject to applicable limitations) against U.S. federal income tax due on other income derived from foreign sources in the same income category (generally, the passive category). U.S. Holders are urged to consult their tax advisors regarding the tax consequences if a foreign tax is imposed on a disposition of our ADSs or ordinary shares, including the availability of the foreign tax credit under their particular circumstances and the election to treat any gain as PRC source.

Passive Foreign Investment Company Rules

If we are classified as a PFIC for any taxable year during which a U.S. Holder holds our ADSs or ordinary shares, and unless the U.S. Holder makes a mark-to-market election (as described below), the U.S. Holder will generally be subject to special tax rules that have a penalizing effect, regardless of whether we remain a PFIC, 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 ordinary shares), and (ii) any gain realized on the sale or other disposition, including a pledge, of ADSs or ordinary shares. Under the PFIC rules:

- the excess distribution or gain will be allocated ratably over the U.S. Holder’s holding period for the ADSs or ordinary 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 (each, 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 for individuals or corporations, as appropriate, for that year; and
- the 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 ordinary shares and any of our subsidiaries is also a PFIC, such U.S. Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. U.S. Holders are urged to consult their tax advisors regarding the application of the PFIC rules to any of our subsidiaries.
As an alternative to the foregoing rules, a U.S. Holder of “marketable stock” in a PFIC may make a mark-to-market election with respect to such stock. The mark-to-market election is available only for stock that is 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. Consequently, if our ADSs continue to be listed on the Nasdaq Global Select Market and are regularly traded, we expect that the mark-to-market election would be available to a U.S. Holder that holds our ADSs were we to be or become a PFIC. Our ADSs are expected to qualify as being regularly traded, but no assurances may be given in this regard. If a U.S. Holder makes this election, the 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 such deduction will only be allowed to the extent of the 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 a mark-to-market election, any gain such U.S. Holder recognizes upon the sale or other disposition of our ADSs in a year when we are a PFIC will be treated as ordinary income and any loss will be treated as ordinary loss, but such loss will only be treated as ordinary loss 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 generally will 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 cannot be made for any lower-tier PFICs that we may own, a U.S. Holder may continue to be subject to the 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 U.S. 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 the general tax treatment for PFICs described above.

As discussed above under “Dividends,” dividends that we pay on our ADSs or ordinary shares will not be eligible for the reduced tax rate that applies to qualified dividend income if we are a PFIC for the taxable year in which the dividend is paid or the preceding taxable year. In addition, if a U.S. Holder owns our ADSs or ordinary shares during any taxable year that we are a PFIC, the holder must generally file an annual IRS Form 8621. Each U.S. Holder is urged to consult its tax advisor concerning the U.S. federal income tax consequences of purchasing, holding and disposing ADSs or ordinary shares if we are or become treated as a PFIC, including the possibility of making a mark-to-market election.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We previously filed with the SEC our registration statement on Form F-1 (Registration No. 333-223405), as amended, including the prospectus contained therein, to register the issuance and sale of our ordinary shares represented by ADSs in relation to our initial public offering. We have also filed with the SEC our registration statement on Form F-6 (Registration No. 333-223711) to register our ADSs.
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 no later than four months after the close of each fiscal year, which is December 31. All information filed with the SEC can be obtained over the internet at the SEC’s website at www.sec.gov or inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You can request copies of documents, upon payment of a duplicating fee, by writing to the SEC. 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 Deutsche Bank Trust Company Americas, 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.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign exchange risk

Substantially all of our revenues and expenses 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 exposure to such risk. Although our exposure to foreign exchange risks should be limited in general, the value of your investment in our ADSs will be affected by the exchange rate between U.S. dollar and Renminbi because the value of our business is effectively denominated in RMB, while our ADSs will be traded in U.S. dollars.

To the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of Renminbi against the U.S. dollar would reduce the Renminbi amount we receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs, servicing our outstanding debt, or for other business purposes, appreciation of the U.S. dollar against the Renminbi would reduce the U.S. dollar amounts available to us.

As of December 31, 2019, we had Renminbi-denominated cash and cash equivalents and restricted cash of RMB243.3 million. If Renminbi had appreciated by 10% against the U.S. dollar, we would have had an increase of approximately US$3.9 million of cash and cash equivalent and restricted cash.

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. Interest-earning instruments carry a degree of interest rate risk. We have not been exposed to material risks due to changes in interest rates, and we have not used any derivative financial instruments to manage our interest rate exposure. 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 Expenses

As an ADS holder, you will be required to pay the following service fees to the depositary bank and certain taxes and governmental charges (in addition to any applicable fees, expenses, taxes and other governmental charges payable on the deposited securities represented by any of your ADSs):

<table>
<thead>
<tr>
<th>Service</th>
<th>Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>To any person to which ADSs are issued or to any person to which a distribution is made in respect of ADS distributions pursuant to stock dividends or other free distributions of stock, bonus distributions, stock splits or other distributions (except where converted to cash)</td>
<td>Up to US$0.05 per ADS issued</td>
</tr>
<tr>
<td>Cancellation of ADSs, including the case of termination of the deposit agreement</td>
<td>Up to US$0.05 per ADS cancelled</td>
</tr>
<tr>
<td>Distribution of cash dividends</td>
<td>Up to US$0.05 per ADS held</td>
</tr>
<tr>
<td>Distribution of cash entitlements (other than cash dividends) and/or cash proceeds from the sale of rights, securities and other entitlements</td>
<td>Up to US$0.05 per ADS held</td>
</tr>
<tr>
<td>Distribution of ADSs pursuant to exercise of rights</td>
<td>Up to US$0.05 per ADS held</td>
</tr>
<tr>
<td>Distribution of securities other than ADSs or rights to purchase additional ADSs</td>
<td>Up to US$0.05 per ADS held</td>
</tr>
<tr>
<td>Depositary services</td>
<td>Up to US$0.05 per ADS held on the applicable record date(s) established by the depositary bank</td>
</tr>
</tbody>
</table>

As an ADS holder, you will also be responsible to pay certain fees and expenses incurred by the depositary bank and certain taxes and governmental charges (in addition to any applicable fees, expenses, taxes and other governmental charges payable on the deposited securities represented by any of your ADSs) such as:

- Fees for the transfer and registration of Class Z ordinary shares charged by the registrar and transfer agent for the Class Z ordinary shares in the Cayman Islands (i.e., upon deposit and withdrawal of Class Z ordinary shares).
- Expenses incurred for converting foreign currency into U.S. dollars.
- Expenses for cable, telex and fax transmissions and for delivery of securities.
- Taxes and duties upon the transfer of securities, including any applicable stamp duties, any stock transfer charges or withholding taxes (i.e., when Class Z ordinary shares are deposited or withdrawn from deposit).
- Fees and expenses incurred in connection with the delivery or servicing of Class Z ordinary shares on deposit.
- Fees and expenses incurred in connection with complying with exchange control regulations and other regulatory requirements applicable to Class Z ordinary shares, deposited securities, ADSs and ADRs.
- Any applicable fees and penalties thereon.

The depositary fees payable upon the issuance and cancellation of ADSs are typically paid to the depositary bank by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depositary bank and by the brokers (on behalf of their clients) delivering the ADSs to the depositary bank for cancellation. The brokers in turn charge these fees to their clients. Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary services fee are charged by the depositary bank to the holders of record of ADSs as of the applicable ADS record date.
The depositary fees payable for cash distributions are generally deducted from the cash being distributed or by selling a portion of distributable property to pay the fees. In the case of distributions other than cash (i.e., share dividends, rights), the depositary bank charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or uncertificated in direct registration), the depositary bank sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via DTC), the depositary bank generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients’ ADSs in DTC accounts in turn charge their clients’ accounts the amount of the fees paid to the depositary banks.

In the event of refusal to pay the depositary fees, the depositary bank may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depositary fees from any distribution to be made to the ADS holder.

The depositary may make payments to us or reimburse us for certain costs and expenses, by making available a portion of the ADS fees collected in respect of the ADR program or otherwise, upon such terms and conditions as we and the depositary bank agree from time to time.
ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Material Modifications to the Rights of Security Holders

See “Item 10. Additional Information—B. Memorandum and Articles of Association—Ordinary Shares” for a description of the rights of securities holders, which remain unchanged.

Use of Proceeds

The following “Use of Proceeds” information relates to the registration statement on Form F-1, as amended (File Number 333-223405) (the “F-1 Registration Statement”) in relation to our initial public offering of 42,000,000 ADSs representing 42,000,000 Class Z ordinary shares, at an initial offering price of US$11.50 per ADS. Morgan Stanley & Co. International plc, Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities LLC were the representatives of the underwriters for our IPO.

The F-1 Registration Statement became effective on March 27, 2018. For the period from the effective date of the F-1 Registration Statement to December 31, 2018, the total expenses incurred for our company’s account in connection with our IPO was approximately US$39.7 million, which included US$33.8 million in underwriting discounts and commissions for the IPO and approximately US$5.9 million in other costs and expenses for our IPO. We received net proceeds of approximately US$443.3 million from our initial public offering. None of the transaction expenses included payments to directors or officers of our company or their associates, persons owning more than 10% or more of our equity securities or our affiliates. None of the net proceeds from the initial public offering were paid, directly or indirectly, to any of our directors or officers or their associates, persons owning 10% or more of our equity securities or our affiliates.

For the period from March 27, 2018, the date that the Form F-1 was declared effective by the SEC, to December 31, 2019, we used approximately US$170.2 million of the net proceeds from our initial public offering for research and development, sales and marketing, general corporate purposes and working capital, including strategic investments and acquisitions.

We still intend to use the remainder of the proceeds from our initial public offering, as disclosed in our registration statements on Form F-1.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we carried out an evaluation of the effectiveness of our disclosure controls and procedures, which is defined in Rules 13a-15(e) of the Exchange Act, as of December 31, 2019. Based upon that evaluation, our management, with the participation of our chief executive officer and chief financial officer, has concluded that, our disclosure controls and procedures were effective in ensuring that the information required to be disclosed by us in the reports that we file or submit 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 was 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 defined in Rules 13a-15 (f) under the Exchange Act. Our management, with the participation of our chief executive officer and our chief financial officer, evaluated the effectiveness of our internal control over financial reporting based on criteria established in the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2019.

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 and procedures may deteriorate.

Remediation of the Material Weakness in Internal Control over Financial Reporting Reported in 2017 and 2018

As of December 31, 2019, based on an assessment performed by our management on the performance of certain remediation measures (specified below), we determined that the material weakness in our internal control over financial reporting previously identified by us and our independent registered public accounting firm in connection with the audits of our consolidated financial statements for the years ended December 31, 2017 and 2018 had been remediated.

The material weakness identified related to our lack of sufficient resources regarding financial reporting and accounting personnel with understanding of U.S. GAAP, in particular, to address complex U.S. GAAP technical accounting issues, related disclosures in accordance with U.S. GAAP and financial reporting requirements set forth by the SEC.

We have implemented a number of measures to address the material weakness that was identified. We hired additional qualified financial and accounting staff with working experience of U.S. GAAP and SEC reporting requirements. We have also established clear roles and responsibilities for accounting and financial reporting staff to address accounting and financial reporting issues. Furthermore, we have formalized the procedures and controls regarding the financial reporting process and have established an ongoing program to provide sufficient and appropriate training for financial reporting and accounting personnel.

Attestation Report of the Independent Registered Public Accounting Firm

PricewaterhouseCoopers Zhong Tian LLP has audited the effectiveness of our internal control over financial reporting as of December 31, 2019 as stated in its report, which appears on page F-2 of this annual report on Form 20-F.

Changes in Internal Control over Financial Reporting

Other than as described above, there were no other changes in our internal controls over financial reporting that occurred during the period covered by this annual report on Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Eric He, a member of our audit committee and independent director (under the standards set forth in Rule 5605(c)(2) of the Nasdaq Stock Market Rules and Rule 10A-3 under the Securities Exchange Act of 1934), is an audit committee financial expert.
ITEM 16B. CODE OF ETHICS

Our board of directors adopted a code of business conduct and ethics that applies to our directors, officers and employees in February 2018. We have posted a copy of our code of business conduct and ethics on our website at http://ir.bilibili.com/.

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.

<table>
<thead>
<tr>
<th>Fees Category</th>
<th>For the Year Ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
</tr>
<tr>
<td>Audit fees(1)</td>
<td>7,450</td>
</tr>
<tr>
<td>Audit-related fees(2)</td>
<td>—</td>
</tr>
<tr>
<td>Tax fees(3)</td>
<td>1,090</td>
</tr>
<tr>
<td>Other fees(4)</td>
<td>180</td>
</tr>
</tbody>
</table>

(1) “Audit fees” means the aggregate fees incurred for each of the fiscal years listed for professional services rendered by our principal auditors for the audit or review of our annual financial statements or quarterly financial information and review of documents filed with the SEC. In 2018, the audit refers to financial statement audit and assurance services rendered in connection with our IPO in 2018. In 2019, the audit refers to financial statement audit and audit pursuant to Section 404 of the Sarbanes-Oxley Act of 2002.

(2) “Audit-related fees” means the aggregate fees incurred for the issuance of comfort letters in connection with the offering of the convertible senior notes and concurrent offering of additional ADSs in April 2019, and permissible services to review and comment on the design of internal control over financial reporting rendered by our principal auditors in 2019.

(3) “Tax fees” means the aggregate fees incurred in each of the fiscal years listed for the professional tax services rendered by our principal auditors.

(4) “Other fees” means the aggregate fees incurred in each of the fiscal years listed for services rendered by our principal auditors other than services reported under “Audit fees,” “Audit-related fees” and “Tax fees”.

The policy of our audit committee is to pre-approve all audit and non-audit services provided by PricewaterhouseCoopers Zhong Tian LLP as described above.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

None.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

None.

ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

Rule 5635(c) of the Nasdaq Rules requires a Nasdaq-listed company to obtain its shareholders’ approval of all equity compensation plans, including stock plans, and any material amendments to such plans. Rule 5615 of the Nasdaq Rules permits a foreign private issuer like our company to follow home country practice in certain corporate governance matters. We currently follow our home country practice that (i) does not require us to hold an annual meeting of shareholders no later than one year after the end of its fiscal year and (ii) does not require us to seek shareholder approval for amending share incentive plans. Therefore, our shareholders are afforded less protection than they otherwise would under the Nasdaq Global Market corporate governance listing standards applicable to U.S. domestic issuers. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our ADSs—As a company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the Nasdaq corporate governance listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with the Nasdaq corporate governance listing standards.” In the future, we may rely on other exemptions provided by Nasdaq.
ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.
ITEM 17. FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to Item 18.

ITEM 18. FINANCIAL STATEMENTS

The consolidated financial statements of Bilibili Inc. are included at the end of this annual report.

ITEM 19. EXHIBITS

<table>
<thead>
<tr>
<th>Exhibit Number</th>
<th>Description of Document</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Sixth Amended and Restated Memorandum and Articles of Association of the Registrant of the Registrant, effective April 2, 2018 (incorporated herein by reference to Exhibit 3.1 to the Form F-1, as amended, initially filed on March 2, 2018 (File No.333-223405))</td>
</tr>
<tr>
<td>2.1</td>
<td>Registrant’s Specimen American Depositary Receipt (incorporated herein by reference to Exhibit 4.3) (incorporated herein by reference to Exhibit 4.3 to the Form F-1, as amended, initially filed on March 2, 2018 (File No.333-223405))</td>
</tr>
<tr>
<td>2.2</td>
<td>Registrant’s Specimen Certificate for Class Z Ordinary Shares (incorporated herein by reference to Exhibit 4.2 to the Form F-1, as amended, initially filed on March 2, 2018 (File No.333-223405))</td>
</tr>
<tr>
<td>2.3</td>
<td>Form of Deposit Agreement among the Registrant, the depositary and the holders and beneficial owners of the American Depositary Receipts (incorporated herein by reference to Exhibit 4.3 to the Form F-1, as amended, initially filed on March 2, 2018 (File No.333-223405))</td>
</tr>
<tr>
<td>2.4</td>
<td>Fourth Amended and Restated Shareholders’ Agreement between the Registrant and other parties thereto dated April 1, 2017 (incorporated herein by reference to Exhibit 4.4 to the Form F-1, as amended, initially filed on March 2, 2018 (File No.333-223405))</td>
</tr>
<tr>
<td>2.5*</td>
<td>Indenture, dated April 5, 2019 constituting US$500 million 1.375% Convertible Senior Notes Due 2026</td>
</tr>
<tr>
<td>2.6</td>
<td>Description of American Depositary Shares and Description of Class Z Ordinary Shares of the Registrant (incorporated herein by reference to (i) the sections titled “Description of American Depositary Shares” and “Description of Share Capital” in the Registrant’s registration statement on Form F-3 (File No. 333-230660), initially filed with the Commission on April 1, 2019, as amended, including any form of prospectus contained therein pursuant to Rule 424(b) under the Securities Act of 1933 and (ii) the Registrant’s registration statement on Form S-A (File No. 000-364299), filed with the Securities and Exchange Commission on March 16, 2018)</td>
</tr>
<tr>
<td>4.1</td>
<td>Global Share Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Form F-1, as amended, initially filed on March 2, 2018 (File No.333-223405))</td>
</tr>
<tr>
<td>4.2*</td>
<td>Amended and Restated 2018 Share Incentive Plan</td>
</tr>
<tr>
<td>4.3</td>
<td>Form of Indemnification Agreement between the Registrant and its directors and executive officers (incorporated herein by reference to Exhibit 10.2 to the Form F-1, as amended, initially filed on March 2, 2018 (File No.333-223405))</td>
</tr>
<tr>
<td>4.4</td>
<td>Form of Employment Agreement between the Registrant and its executive officers (incorporated herein by reference to Exhibit 10.4 to the Form F-1, as amended, initially filed on March 2, 2018 (File No.333-223405))</td>
</tr>
<tr>
<td>4.5*</td>
<td>English translation of Power of Attorney granted by Mr. Rui Chen, the sole shareholder of Shanghai Kuanyu, dated April 24, 2019</td>
</tr>
<tr>
<td>4.6*</td>
<td>English translation of the Equity Pledge Agreement among Hode Technology, Shanghai Kuanyu and Mr. Rui Chen, the sole shareholder of Shanghai Kuanyu, dated April 24, 2019</td>
</tr>
<tr>
<td>4.7*</td>
<td>English translation of the Exclusive Technology Consulting and Services Agreement between Hode Technology and Shanghai Kuanyu, dated April 24, 2019</td>
</tr>
<tr>
<td>4.8*</td>
<td>English translation of the Exclusive Call Option Agreement among Hode Technology, Shanghai Kuanyu and Mr. Rui Chen, the sole shareholder of Shanghai Kuanyu, dated April 24, 2019</td>
</tr>
<tr>
<td>Exhibit Number</td>
<td>Description of Document</td>
</tr>
<tr>
<td>----------------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>4.9*</td>
<td>English translation of Spousal Consent Letter granted by Qitao Yang</td>
</tr>
<tr>
<td>4.10</td>
<td>English translation of Power of Attorney granted by the shareholders of Shanghai Hode, dated October 10, 2017 (incorporated herein by reference to Exhibit 10.10 to the Form F-1, as amended, initially filed on March 2, 2018 (File No.333-223405))</td>
</tr>
<tr>
<td>4.11</td>
<td>English translation of the Equity Pledge Agreement among Hode Technology, Shanghai Hode and the shareholders of Shanghai Hode, dated October 10, 2017 (incorporated herein by reference to Exhibit 10.11 to the Form F-1, as amended, initially filed on March 2, 2018 (File No.333-223405))</td>
</tr>
<tr>
<td>4.12</td>
<td>English translation of the Exclusive Technology Consulting and Services Agreement between Hode Technology and Shanghai Hode, dated October 10, 2017 (incorporated herein by reference to Exhibit 10.12 to the Form F-1, as amended, initially filed on March 2, 2018 (File No.333-223405))</td>
</tr>
<tr>
<td>4.13</td>
<td>English translation of the Exclusive Call Option Agreement among Hode Technology, Shanghai Hode and the shareholders of Shanghai Hode, dated October 10, 2017 (incorporated herein by reference to Exhibit 10.13 to the Form F-1, as amended, initially filed on March 2, 2018 (File No.333-223405))</td>
</tr>
<tr>
<td>4.14</td>
<td>English translation of Spousal Consent Letters granted by Weixiong Lin, Qingyu Li and Qitao Yang (incorporated herein by reference to Exhibit 10.14 to the Form F-1, as amended, initially filed on March 2, 2018 (File No.333-223405))</td>
</tr>
<tr>
<td>4.15</td>
<td>Share Purchase Agreement between the Registrant and other parties thereto, dated April 1, 2017 (incorporated herein by reference to Exhibit 10.15 to the Form F-1, as amended, initially filed on March 2, 2018 (File No.333-223405))</td>
</tr>
<tr>
<td>4.16</td>
<td>Share Purchase and Investor Rights Agreement entered between Bilibili Inc. and Tencent Mobility Limited dated as of October 3, 2018 (incorporated herein by reference to Exhibit 4.16 to the Form 20-F, as amended, initially filed on March 29, 2019 (File No. 001-38429))</td>
</tr>
</tbody>
</table>

8.1* Significant subsidiaries and consolidated affiliated entities of the Registrant

11.1 Code of Business Conduct and Ethics of the Registrant (incorporated herein by reference to Exhibit 99.1 to the Form F-1, as amended, initially filed on March 2, 2018 (File No.333-223405))

12.1* CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

12.2* CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

13.1** CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

13.2** CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

15.1* Consent of Walkers (Hong Kong)

15.2* Consent of AnJie Law Firm

15.3* Consent of PricewaterhouseCoopers Zhong Tian LLP, an independent registered public accounting firm

101.INS** Inline XBRL Instance Document—this instance document does not appear in the Interactive Data File because its XBRL tags are not embedded within the Inline XBRL document

101.SCH** Inline XBRL Taxonomy Extension Scheme 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 with this Annual Report on Form 20-F.
** Furnished with this Annual Report on Form 20-F.

(1) Schedules and exhibits have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The Company hereby undertakes to furnish copies of any of the omitted schedules and exhibits upon request by the Securities and Exchange Commission.
SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Bilibili Inc.

By: /s/ Rui Chen
Name: Rui Chen
Title: Chairman of the Board of Directors and Chief Executive Officer

Date: March 27, 2020
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| Consolidated statements of operations and comprehensive loss for the years ended December 31, 2017, 2018 and 2019 | F-7 |
| Consolidated statements of changes in shareholders' (deficit)/equity for the years ended December 31, 2017, 2018 and 2019 | F-8 |
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| Notes to the consolidated financial statements | F-13 |

F-1
Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Bilibili Inc. and its subsidiaries (the “Company”) as of December 31, 2019 and 2018, and the related consolidated statements of operations and comprehensive loss, of changes in shareholders' (deficit)/equity and of cash flows for each of the three years in the period ended December 31, 2019, 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, 2019, 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, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 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, 2019, 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 the accompanying 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.

Revenue recognition for in-games virtual items

As described in Note 2(t) to the consolidated financial statements, revenues from mobile game services were RMB3,598 million for the year ended December 31, 2019. The Company recognizes revenue from the sale of in-game virtual items in exclusively distributed mobile games over the estimated average playing period of paying players, starting from the point-in-time when related in-game virtual items are delivered to the paying players’ accounts. The Company has estimated the average playing period of paying players for each game, usually between three to seven months. Management applied significant judgment in determining average playing period of paying players, which involved the use of significant assumptions, including the churn rates and the similarities between newly-launched games and existing games.
The principal considerations for our determination that performing procedures relating to revenue recognition for in-games virtual items is a critical audit matter are there was significant judgment by management in estimating the average playing period of paying players. This in turn led to significant auditor judgment and effort in performing procedures and in evaluating management’s significant assumptions used in developing these estimates, including the churn rates and the similarities between newly-launched games and existing games.

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 over the revenue recognition process, which included estimating the average playing period of paying players. These procedures also included, among others, testing management’s process to estimate the average playing period of paying players by (i) testing the data integrity and the calculation of the churn rates; (ii) evaluating management’s considerations in determining the underlying assumption of churn rates with reference to historical operating data; and (iii) assessing the reasonableness of the underlying assumption of the similarities between newly-launched games and existing games based on the characteristics of mobile games and playing patterns of paying players, including paying player type and purchasing frequency.

/s/ PricewaterhouseCoopers Zhong Tian LLP
PricewaterhouseCoopers Zhong Tian LLP
Beijing, the People’s Republic of China
March 27, 2020

We have served as the Company’s auditor since 2017.
### BILIBILI INC.

#### CONSOLIDATED BALANCE SHEETS

(All amounts in thousands, except for share and per share data)

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2018</th>
<th>December 31, 2019</th>
<th>December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RMB</td>
<td>RMB</td>
<td>US$ Note 2(e)</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>3,540,031</td>
<td>4,962,660</td>
<td>712,842</td>
</tr>
<tr>
<td>Time deposits</td>
<td>749,385</td>
<td>1,844,558</td>
<td>264,954</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>324,392</td>
<td>744,845</td>
<td>106,990</td>
</tr>
<tr>
<td>Receivables due from related parties</td>
<td>—</td>
<td>195,290</td>
<td>28,052</td>
</tr>
<tr>
<td>Prepayments and other current assets</td>
<td>990,851</td>
<td>1,315,901</td>
<td>189,017</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>945,338</td>
<td>1,260,810</td>
<td>181,104</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>6,549,997</strong></td>
<td><strong>10,324,064</strong></td>
<td><strong>1,482,959</strong></td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>394,898</td>
<td>516,087</td>
<td>74,131</td>
</tr>
<tr>
<td>Production cost, net</td>
<td>204,231</td>
<td>443,533</td>
<td>63,710</td>
</tr>
<tr>
<td>Intangible assets, net</td>
<td>1,419,435</td>
<td>1,657,333</td>
<td>238,061</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>—</td>
<td>1,012,026</td>
<td>145,368</td>
</tr>
<tr>
<td>Goodwill</td>
<td>941,488</td>
<td>1,251,129</td>
<td>179,713</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td><strong>3,940,039</strong></td>
<td><strong>5,192,503</strong></td>
<td><strong>745,856</strong></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>10,490,036</strong></td>
<td><strong>15,516,567</strong></td>
<td><strong>2,228,815</strong></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable (including amounts of the consolidated VIEs without recourse to the primary beneficiary of RMB1,078.1 million and RMB1,454.9 million as of December 31, 2018 and 2019, respectively)</td>
<td>1,307,598</td>
<td>1,904,042</td>
<td>273,499</td>
</tr>
<tr>
<td>Salary and welfare payable (including amounts of the consolidated VIEs without recourse to the primary beneficiary of RMB94.7 million and RMB128.3 million as of December 31, 2018 and 2019, respectively)</td>
<td>246,815</td>
<td>355,936</td>
<td>51,127</td>
</tr>
<tr>
<td>Taxes payable (including amounts of the consolidated VIEs without recourse to the primary beneficiary of RMB27.2 million and RMB33.6 million as of December 31, 2018 and 2019, respectively)</td>
<td>38,505</td>
<td>67,856</td>
<td>9,747</td>
</tr>
<tr>
<td>Deferred revenue (including amounts of the consolidated VIEs without recourse to the primary beneficiary of RMB937.1 million and RMB1,234.5 million as of December 31, 2018 and 2019, respectively)</td>
<td>985,143</td>
<td>1,369,000</td>
<td>196,645</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>3,298,834</strong></td>
<td><strong>4,272,597</strong></td>
<td><strong>613,720</strong></td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>—</td>
<td>3,414,628</td>
<td>490,481</td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td>—</td>
<td><strong>3,607,510</strong></td>
<td><strong>518,185</strong></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>3,298,834</strong></td>
<td><strong>7,880,107</strong></td>
<td><strong>1,131,905</strong></td>
</tr>
</tbody>
</table>

**Commitments and contingencies (Note 21)**

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

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### Shareholders’ equity

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2018</th>
<th>December 31, 2019</th>
<th>December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RMB</td>
<td>RMB</td>
<td>US$</td>
</tr>
<tr>
<td>Class Y Ordinary Shares</td>
<td>53</td>
<td>53</td>
<td>8</td>
</tr>
<tr>
<td>(US$0.0001 par value; 100,000,000 shares authorized, 85,364,814 shares issued and outstanding as of December 31, 2018 and 2019)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Class Z Ordinary Shares</td>
<td>144</td>
<td>155</td>
<td>22</td>
</tr>
<tr>
<td>(US$0.0001 par value; 9,800,000,000 shares authorized, 229,056,421 shares issued and 226,323,075 shares outstanding as of December 31, 2018; 9,800,000,000 shares authorized, 247,230,234 shares issued, 242,751,341 shares outstanding as of December 31, 2019)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>9,459,546</td>
<td>10,718,190</td>
<td>1,539,572</td>
</tr>
<tr>
<td>Statutory reserves</td>
<td>7,666</td>
<td>13,463</td>
<td>1,934</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>326,077</td>
<td>466,229</td>
<td>66,970</td>
</tr>
<tr>
<td>Accumulated deficit</td>
<td>(2,842,690)</td>
<td>(4,145,606)</td>
<td>(595,479)</td>
</tr>
<tr>
<td>Total Bilibili Inc.’s shareholders’ equity</td>
<td>6,950,796</td>
<td>7,052,484</td>
<td>1,013,027</td>
</tr>
<tr>
<td>Noncontrolling interests</td>
<td>240,406</td>
<td>583,976</td>
<td>83,883</td>
</tr>
<tr>
<td><strong>Total shareholders’ equity</strong></td>
<td><strong>7,191,202</strong></td>
<td><strong>7,636,460</strong></td>
<td><strong>1,096,910</strong></td>
</tr>
<tr>
<td><strong>Total liabilities and shareholders’ equity</strong></td>
<td><strong>10,490,036</strong></td>
<td><strong>15,516,567</strong></td>
<td><strong>2,228,815</strong></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
## Bilibili Inc.
### Consolidated Statements of Operations and Comprehensive Loss

(All amounts in thousands, except for share and per share data)

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RMB</td>
<td>RMB</td>
<td>RMB</td>
<td>US$</td>
</tr>
<tr>
<td><strong>Net revenues</strong></td>
<td>2,468,449</td>
<td>4,128,931</td>
<td>6,777,922</td>
<td>973,588</td>
</tr>
<tr>
<td><strong>Cost of revenues</strong></td>
<td>(1,919,241)</td>
<td>(3,273,493)</td>
<td>(5,587,673)</td>
<td>(802,619)</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>549,208</td>
<td>855,438</td>
<td>1,190,249</td>
<td>170,969</td>
</tr>
<tr>
<td><strong>Operating expenses:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales and marketing expenses</td>
<td>(232,489)</td>
<td>(585,758)</td>
<td>(1,198,516)</td>
<td>(172,156)</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>(260,898)</td>
<td>(461,165)</td>
<td>(592,497)</td>
<td>(85,107)</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>(280,093)</td>
<td>(537,488)</td>
<td>(894,411)</td>
<td>(128,474)</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>(773,480)</td>
<td>(1,584,411)</td>
<td>(2,685,424)</td>
<td>(385,737)</td>
</tr>
<tr>
<td><strong>Loss from operations</strong></td>
<td>(224,272)</td>
<td>(728,973)</td>
<td>(1,495,175)</td>
<td>(214,768)</td>
</tr>
<tr>
<td><strong>Other income/(expenses):</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income, net (including impairments)</td>
<td>22,957</td>
<td>96,440</td>
<td>96,610</td>
<td>13,877</td>
</tr>
<tr>
<td>Interest income</td>
<td>1,483</td>
<td>68,706</td>
<td>162,782</td>
<td>23,382</td>
</tr>
<tr>
<td>Interest expense</td>
<td>—</td>
<td>—</td>
<td>(46,543)</td>
<td>(6,685)</td>
</tr>
<tr>
<td>Exchange gains/(losses)</td>
<td>6,445</td>
<td>(1,661)</td>
<td>(11,789)</td>
<td>(1,963)</td>
</tr>
<tr>
<td>Others, net</td>
<td>18,518</td>
<td>26,455</td>
<td>26,412</td>
<td>3,794</td>
</tr>
<tr>
<td><strong>Loss before tax</strong></td>
<td>(174,869)</td>
<td>(539,033)</td>
<td>(1,267,703)</td>
<td>(182,093)</td>
</tr>
<tr>
<td>Income tax</td>
<td>(8,881)</td>
<td>(25,988)</td>
<td>(35,867)</td>
<td>(5,152)</td>
</tr>
<tr>
<td><strong>Net loss</strong></td>
<td>(183,750)</td>
<td>(565,021)</td>
<td>(1,303,570)</td>
<td>(187,245)</td>
</tr>
<tr>
<td><strong>Accretion to Pre-IPO Preferred Shares redemption value</strong></td>
<td>(258,554)</td>
<td>(64,605)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Deemed dividend in connection with repurchase of Pre-IPO Preferred Shares</strong></td>
<td>(129,244)</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Net loss attributable to noncontrolling interests</strong></td>
<td>—</td>
<td>13,301</td>
<td>14,597</td>
<td>2,097</td>
</tr>
<tr>
<td><strong>Net loss attributable to the Bilibili Inc.’s shareholders</strong></td>
<td>(571,548)</td>
<td>(616,325)</td>
<td>(1,288,973)</td>
<td>(185,148)</td>
</tr>
<tr>
<td><strong>Net loss</strong></td>
<td>(183,750)</td>
<td>(565,021)</td>
<td>(1,303,570)</td>
<td>(187,245)</td>
</tr>
<tr>
<td><strong>Other comprehensive (loss)/income:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td>(75,695)</td>
<td>296,030</td>
<td>140,152</td>
<td>20,132</td>
</tr>
<tr>
<td><strong>Total other comprehensive (loss)/income</strong></td>
<td>(75,695)</td>
<td>296,030</td>
<td>140,152</td>
<td>20,132</td>
</tr>
<tr>
<td><strong>Total comprehensive loss</strong></td>
<td>(259,445)</td>
<td>(266,991)</td>
<td>(1,163,418)</td>
<td>(187,113)</td>
</tr>
<tr>
<td><strong>Accretion to Pre-IPO Preferred Shares redemption value</strong></td>
<td>(258,554)</td>
<td>(64,605)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Deemed dividend in connection with repurchase of Pre-IPO Preferred Shares</strong></td>
<td>(129,244)</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Net loss attributable to noncontrolling interests</strong></td>
<td>—</td>
<td>13,301</td>
<td>14,597</td>
<td>2,097</td>
</tr>
<tr>
<td><strong>Comprehensive loss attributable to the Bilibili Inc.’s shareholders</strong></td>
<td>(647,243)</td>
<td>(320,295)</td>
<td>(1,148,821)</td>
<td>(165,016)</td>
</tr>
<tr>
<td><strong>Net loss per share, basic</strong></td>
<td>(8.17)</td>
<td>(2.64)</td>
<td>(3.99)</td>
<td>(0.57)</td>
</tr>
<tr>
<td><strong>Net loss per share, diluted</strong></td>
<td>(8.17)</td>
<td>(2.64)</td>
<td>(3.99)</td>
<td>(0.57)</td>
</tr>
<tr>
<td><strong>Net loss per ADS, basic</strong></td>
<td>—</td>
<td>(2.64)</td>
<td>(3.99)</td>
<td>(0.57)</td>
</tr>
<tr>
<td><strong>Net loss per ADS, diluted</strong></td>
<td>—</td>
<td>(2.64)</td>
<td>(3.99)</td>
<td>(0.57)</td>
</tr>
<tr>
<td><strong>Weighted average number of ordinary shares, basic</strong></td>
<td>69,938,570</td>
<td>233,047,703</td>
<td>323,161,680</td>
<td>323,161,680</td>
</tr>
<tr>
<td><strong>Weighted average number of ordinary shares, diluted</strong></td>
<td>69,938,570</td>
<td>233,047,703</td>
<td>323,161,680</td>
<td>323,161,680</td>
</tr>
<tr>
<td><strong>Weighted average number of ADS, basic</strong></td>
<td>—</td>
<td>233,047,703</td>
<td>323,161,680</td>
<td>323,161,680</td>
</tr>
<tr>
<td><strong>Weighted average number of ADS, diluted</strong></td>
<td>—</td>
<td>233,047,703</td>
<td>323,161,680</td>
<td>323,161,680</td>
</tr>
</tbody>
</table>

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

### BILIBILI INC.

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' (DEFICIT)/EQUITY**

(All amounts in thousands, except for share and per share data)

<table>
<thead>
<tr>
<th>Ordinary shares</th>
<th>Other permanent equities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class Y Ordinary Shares</td>
<td>Pre-IPO Class A Ordinary Shares</td>
</tr>
<tr>
<td>Shares</td>
<td>Amount</td>
</tr>
<tr>
<td>-------</td>
<td>-------</td>
</tr>
<tr>
<td>Balance at December 31, 2016</td>
<td>—</td>
</tr>
<tr>
<td>Net loss</td>
<td>—</td>
</tr>
<tr>
<td>Share-based compensation</td>
<td>—</td>
</tr>
<tr>
<td>Repurchase of Pre-IPO Class A Ordinary Shares</td>
<td>—</td>
</tr>
<tr>
<td>Redesignation of Pre-IPO Class A Ordinary Shares to Pre-IPO Series D1 Preferred Shares</td>
<td>—</td>
</tr>
<tr>
<td>Redesignation of Pre-IPO Series C Preferred Shares to Pre-IPO Series D1 Preferred Shares</td>
<td>—</td>
</tr>
<tr>
<td>Pre-IPO Preferred Shares redemption value accretion</td>
<td>—</td>
</tr>
<tr>
<td>Purchase of noncontrolling interests</td>
<td>—</td>
</tr>
<tr>
<td>Spin-off transactions</td>
<td>—</td>
</tr>
<tr>
<td>Appropriation to statutory reserves</td>
<td>—</td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td>—</td>
</tr>
<tr>
<td>Balance at December 31, 2017</td>
<td>69,336,926</td>
</tr>
</tbody>
</table>

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

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## BILIBILI INC.

### CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS’ (DEFICIT)/EQUITY (Continued)

(All amounts in thousands, except for share and per share data)

<table>
<thead>
<tr>
<th>Ordinary Shares</th>
<th>Other permanent equities</th>
<th>Additional paid-in capital</th>
<th>Accumulated other comprehensive income</th>
<th>Accumulated deficit</th>
<th>Non controlling interests</th>
<th>Total shareholders (deficit)/equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Class Y Ordinary Shares</td>
<td>Class Z Ordinary Shares</td>
<td>Pre-IPO Class A Ordinary Shares</td>
<td>Pre-IPO Class B Ordinary Shares</td>
<td>Pre-IPO Class C Ordinary Shares</td>
<td>Pre-IPO Class D Ordinary Shares</td>
</tr>
<tr>
<td>Balance at December 31, 2017</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share-based compensation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share issuance upon initial public offering and follow-on offering, net of issuance costs of US$6,133</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Redelegation of Pre-IPO Ordinary Shares into Class Y and Class Z Ordinary Shares upon initial public offering</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Redelegation of Pre-IPO Preferred Shares into Class Y and Class Z Ordinary Shares upon initial public offering</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pre-IPO Preferred Shares redemption value</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pre-IPO Preferred Shares redemption value accretion</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital injection by noncontrolling interests</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisitions of subsidiaries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share issuance from exercise of share options</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appropriation to statutory reserves</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at December 31, 2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

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## Table of Contents

BILIBILI INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS’ (DEFICIT)/EQUITY (Continued)

(All amounts in thousands, except for share and per share data)

<table>
<thead>
<tr>
<th></th>
<th>Ordinary shares</th>
<th>Additional paid-in capital</th>
<th>Statutory reserves</th>
<th>Accumulated other comprehensive income</th>
<th>Accumulated deficit</th>
<th>Noncontrolling interests</th>
<th>Total shareholders’ equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Shares Amount</td>
<td>Shares Amount</td>
<td>RMB</td>
<td>RMB</td>
<td>RMB</td>
<td>RMB</td>
<td>RMB</td>
</tr>
<tr>
<td>Balance at December 31, 2018</td>
<td>85,364,814 33</td>
<td>228,323,075 144</td>
<td>9,459,546 7,666</td>
<td>—</td>
<td>(2,842,690) 240,406</td>
<td>240,406 172,590</td>
<td>7,191,202</td>
</tr>
<tr>
<td>Net loss</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Share-based compensation</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Issuance of ordinary shares, net of issuance costs of US$0.376</td>
<td>—</td>
<td>14,173,813 10</td>
<td>1,647,761 0</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>30,000</td>
</tr>
<tr>
<td>Acquisition of a subsidiary</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>1,647,711</td>
</tr>
<tr>
<td>Consolidation of an entity under common control (Note 20)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Purchase of noncontrolling interests</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Share issuance from exercise of share options</td>
<td>—</td>
<td>2,254,453 1</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Decomislation of a subsidiary</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Appropriation to statutory reserves</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Balance at December 31, 2019</td>
<td>85,364,814 53</td>
<td>242,751,341 155</td>
<td>10,718,190 13,463</td>
<td>466,229 (4,145,096)</td>
<td>583,976</td>
<td>7,636,460</td>
<td></td>
</tr>
</tbody>
</table>

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

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### Consolidated Statements of Cash Flows

(All amounts in thousands, except for share and per share data)

<table>
<thead>
<tr>
<th>Year Ended December 31</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2019 US$</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Flows from operating activities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss</td>
<td>(183,740)</td>
<td>(565,021)</td>
<td>(3,003,570)</td>
<td>(187,245)</td>
</tr>
<tr>
<td>Adjustments to reconcile net loss to net cash provided by operating activities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation of property and equipment</td>
<td>38,356</td>
<td>99,714</td>
<td>191,784</td>
<td>27,548</td>
</tr>
<tr>
<td>Amortization of intangible assets</td>
<td>266,042</td>
<td>542,731</td>
<td>905,613</td>
<td>130,083</td>
</tr>
<tr>
<td>Amortization of the right-of-use assets</td>
<td>—</td>
<td>—</td>
<td>70,712</td>
<td>10,157</td>
</tr>
<tr>
<td>Amortization of debt issuance costs</td>
<td>9,117</td>
<td>—</td>
<td>9,117</td>
<td>1,310</td>
</tr>
<tr>
<td>Share-based compensation expenses</td>
<td>79,954</td>
<td>181,193</td>
<td>172,550</td>
<td>24,786</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>2,716</td>
<td>10,904</td>
<td>9,396</td>
<td>1,350</td>
</tr>
<tr>
<td>Inventory provision</td>
<td>—</td>
<td>—</td>
<td>5,987</td>
<td>860</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>—</td>
<td>—</td>
<td>(10,479)</td>
<td>(1,505)</td>
</tr>
<tr>
<td>Unrealized exchange (gains)/losses</td>
<td>47</td>
<td>2,636</td>
<td>379</td>
<td></td>
</tr>
<tr>
<td>Unrealized fair value changes of short-term investments</td>
<td>(12,523)</td>
<td>(1,799)</td>
<td>17,939</td>
<td>2,577</td>
</tr>
<tr>
<td>Fair value changes of long-term investments</td>
<td>—</td>
<td>2,072</td>
<td>18,444</td>
<td>2,649</td>
</tr>
<tr>
<td>Gain on disposal of long-term investments and subsidiaries</td>
<td>—</td>
<td>—</td>
<td>(148,776)</td>
<td>(21,371)</td>
</tr>
<tr>
<td>Loss from equity method investments, net of dividends received</td>
<td>—</td>
<td>—</td>
<td>24,173</td>
<td>3,472</td>
</tr>
<tr>
<td>Revaluation of previously held equity interests</td>
<td>(144,434)</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Impairments of long-term investments</td>
<td>15,989</td>
<td>46,375</td>
<td>5,900</td>
<td>847</td>
</tr>
<tr>
<td>Changes in operating assets and liabilities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>283,218</td>
<td>65,612</td>
<td>(398,968)</td>
<td>(57,308)</td>
</tr>
<tr>
<td>Receivables due from related parties</td>
<td>(24,660)</td>
<td>35,118</td>
<td>7,382</td>
<td>1,060</td>
</tr>
<tr>
<td>Prepayments and other assets</td>
<td>(247,492)</td>
<td>(540,647)</td>
<td>(508,515)</td>
<td>(73,044)</td>
</tr>
<tr>
<td>Other long-term assets</td>
<td>—</td>
<td>—</td>
<td>(360,497)</td>
<td>(51,762)</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>271,893</td>
<td>345,917</td>
<td>586,864</td>
<td>84,298</td>
</tr>
<tr>
<td>Salary and welfare payable</td>
<td>91,405</td>
<td>95,452</td>
<td>101,788</td>
<td>14,621</td>
</tr>
<tr>
<td>Taxes payable</td>
<td>13,514</td>
<td>13,708</td>
<td>23,114</td>
<td>3,320</td>
</tr>
<tr>
<td>Amount due to related parties</td>
<td>5,724</td>
<td>44,607</td>
<td>(50,331)</td>
<td>(7,239)</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>356,413</td>
<td>388,623</td>
<td>353,997</td>
<td>50,848</td>
</tr>
<tr>
<td>Accrued liabilities and other payables</td>
<td>74,305</td>
<td>106,064</td>
<td>277,875</td>
<td>39,914</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>—</td>
<td>—</td>
<td>190,416</td>
<td>27,352</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>464,550</td>
<td>737,286</td>
<td>194,551</td>
<td>27,946</td>
</tr>
</tbody>
</table>

| **Cash Flows from investing activities:** | | | | |
| Purchase of property and equipment | (144,906) | (293,566) | (296,044) | (42,524) |
| Purchase of intangible assets | (485,912) | (1,040,125) | (1,268,830) | (182,256) |
| Purchase of short-term investments | (4,708,514) | (6,666,731) | (9,973,879) | (1,432,658) |
| Maturities of short-term investments | 4,932,376 | 6,252,151 | 9,993,525 | 1,435,480 |
| Cash consideration paid for purchase of subsidiaries, net of cash acquired | — | (135,822) | (719,999) | (103,408) |
| Cash paid for long-term investments including loans | (320,088) | (565,137) | (1,226,794) | (176,218) |
| Repayment of loans from investees | — | 11,000 | 1,580 | |
| Cash received from disposal of long-term investments | 12,750 | 1,250 | 566,554 | 81,380 |
| Impact to cash resulting from deconsolidation of subsidiary | — | — | (959) | (137) |
| Placements of time deposits | (1,960) | (750,473) | (4,920,099) | (708,728) |
| Maturities of time deposits | — | 2,059 | 3,877,158 | 556,919 |
| **Net cash used in investing activities** | (716,254) | (3,196,304) | (3,958,277) | (568,570) |

| **Cash Flows from financing activities:** | | | | |
| Proceeds of short-term loans | 9,000 | — | 141,857 | 20,376 |
| Repayment of short-term loans | — | — | (100,000) | (14,304) |
| Repurchase of Pre-IPO Ordinary Shares | (49,086) | — | — | — |
| Repurchase of noncontrolling interests | (2,689) | — | (121,325) | (17,427) |
| Capital injections from noncontrolling interests | — | — | 154,492 | 22,192 |
| Proceeds from exercise of employees’ share options | — | 6 | 860 | 1 |
| Proceeds from issuance of ordinary shares, net of issuance costs of US$6,333 and US$9,376, respectively | — | 4,952,606 | 1,647,711 | 236,679 |
| Proceeds from issuance of Pre-IPO Series D1 Preferred Shares, net of nil issuance costs | 49,086 | — | — | — |
| Proceeds from issuance of Pre-IPO Series D2 Preferred Shares, net of nil issuance costs | 689,069 | — | — | — |
| Cash and cash equivalents of disposed business in connection with the spin-off transaction | (19,847) | — | — | — |
| Proceeds from issuance of convertible senior notes, net of issuance costs of US$11,805 | — | 3,356,106 | 482,075 | |
| **Net cash provided by financing activities** | 675,533 | 4,974,810 | 3,076,852 | 725,230 |
## Table of Contents

### Bilibili Inc.

**Consolidated Statements of Cash Flows (Continued)**

*(All amounts in thousands, except for share and per share data)*

<table>
<thead>
<tr>
<th></th>
<th>For the Year Ended December 31,</th>
<th></th>
<th></th>
<th></th>
<th>Note 2(e)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2018</td>
<td>2019</td>
<td>2019</td>
<td></td>
</tr>
<tr>
<td></td>
<td>RMB</td>
<td>RMB</td>
<td>RMB</td>
<td>RMB</td>
<td></td>
</tr>
<tr>
<td>Effect of exchange rate changes on cash and cash equivalents and restricted cash held in foreign currencies</td>
<td>(48,145)</td>
<td>261,447</td>
<td>107,513</td>
<td>15,442</td>
<td></td>
</tr>
<tr>
<td>Net increase in cash and cash equivalents and restricted cash</td>
<td>375,684</td>
<td>2,777,149</td>
<td>1,422,629</td>
<td>204,348</td>
<td></td>
</tr>
<tr>
<td><strong>Cash and cash equivalents and restricted cash at beginning of the year</strong></td>
<td>387,198</td>
<td>762,882</td>
<td>3,540,031</td>
<td>508,494</td>
<td></td>
</tr>
<tr>
<td>Including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of the year</td>
<td>387,198</td>
<td>762,882</td>
<td>3,540,031</td>
<td>508,494</td>
<td></td>
</tr>
<tr>
<td>Restricted cash at beginning of the year</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td><strong>Cash and cash equivalents and restricted cash at end of the year</strong></td>
<td>762,882</td>
<td>3,540,031</td>
<td>4,962,660</td>
<td>712,842</td>
<td></td>
</tr>
<tr>
<td>Including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents at end of the year</td>
<td>762,882</td>
<td>3,540,031</td>
<td>4,962,660</td>
<td>712,842</td>
<td></td>
</tr>
<tr>
<td>Restricted cash at end of the year</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td></td>
</tr>
</tbody>
</table>

### Supplemental Disclosures of Cash Flows Information:

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash paid for income taxes, net of tax refund</td>
<td>6,196</td>
<td>15,765</td>
<td>33,734</td>
<td>4,846</td>
</tr>
<tr>
<td>Cash paid for interest expense</td>
<td>—</td>
<td>—</td>
<td>26,203</td>
<td>3,764</td>
</tr>
</tbody>
</table>

### Supplemental Schedule of Non-Cash Investing and Financing Activities:

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accretion to Pre-IPO Preferred Shares redemption value</td>
<td>258,554</td>
<td>64,605</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Deemed dividend in connection with repurchase of Pre-IPO Preferred Shares</td>
<td>129,244</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Fixed assets purchases financed by accounts payable</td>
<td>30,050</td>
<td>40,277</td>
<td>55,759</td>
<td>8,009</td>
</tr>
<tr>
<td>Acquisitions and investments financed by accrued liabilities and other payables</td>
<td>6,534</td>
<td>502,279</td>
<td>79,059</td>
<td>11,356</td>
</tr>
<tr>
<td>Intangible assets purchases financed by accounts payable</td>
<td>70,726</td>
<td>415,780</td>
<td>365,187</td>
<td>52,456</td>
</tr>
</tbody>
</table>

* Less than 1.

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

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BILIBILI INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Operations and Reorganization

Bilibili Inc. (the “Company” or “Bilibili”) is an online entertainment platform for young generations. The Company, through its consolidated subsidiaries, variable interest entities (“VIEs”) and subsidiaries of the VIEs (collectively referred to as the “Group”), is primarily engaged in the operation of providing online entertainment services to users in the People’s Republic of China (the “PRC” or “China”).

As of December 31, 2019, the Company’s major subsidiaries, VIEs and subsidiaries of the VIEs are as follows:

<table>
<thead>
<tr>
<th>Major Subsidiaries</th>
<th>Place and Year of Incorporation</th>
<th>Percentage of Direct or Indirect Economic Ownership</th>
<th>Principal Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bilibili HK Limited</td>
<td>Hong Kong Y2014</td>
<td>100</td>
<td>Investment holding</td>
</tr>
<tr>
<td>Hode HK Limited</td>
<td>Hong Kong Y2014</td>
<td>100</td>
<td>Investment holding</td>
</tr>
<tr>
<td>Bilibili Co., Ltd.</td>
<td>Japan Y2014</td>
<td>100</td>
<td>Business development</td>
</tr>
<tr>
<td>Hode Shanghai Limited, (“Hode Technology”)</td>
<td>PRC Y2014</td>
<td>100</td>
<td>Technology development</td>
</tr>
<tr>
<td>Shanghai Bilibili Technology Co., Ltd.</td>
<td>PRC Y2016</td>
<td>100</td>
<td>Technology development</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Major VIEs and VIEs’ subsidiaries</th>
<th>Place and Year of Incorporation Acquisition</th>
<th>Percentage of Direct or Indirect Economic Ownership</th>
<th>Principal Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shanghai Hode Information Technology Co., Ltd. (“Shanghai Hode”)</td>
<td>PRC Y2013</td>
<td>100</td>
<td>Mobile game operation</td>
</tr>
<tr>
<td>Shanghai Kuanyu Digital Technology Co., Ltd. (“Shanghai Kuanyu”)</td>
<td>PRC Y2014</td>
<td>100</td>
<td>Video distribution</td>
</tr>
<tr>
<td>Sharejoy Network Technology Co., Ltd.</td>
<td>PRC Y2014</td>
<td>100</td>
<td>Game promotion and marketing</td>
</tr>
<tr>
<td>Shanghai Hehehe Culture Communication Co., Ltd</td>
<td>PRC Y2014</td>
<td>100</td>
<td>Comics distribution</td>
</tr>
<tr>
<td>Shanghai Anime Tamashi Cultural Media Co., Ltd.</td>
<td>PRC Y2015</td>
<td>100</td>
<td>E-commerce</td>
</tr>
</tbody>
</table>

History of the Group

• Reorganization

The Group commenced operations in 2011 and established Shanghai Hode to expand the principal businesses in 2013. Shanghai Hode was founded by several PRC citizens.

The Company was incorporated as a limited liability company in the Cayman Islands in December 2013. Through a series of contemplated transactions in October and December 2014, Hode Technology was established to control Shanghai Hode through contractual arrangements (the “Reorganization”). Through these Reorganization transactions, the Group’s business continued to be carried out by Shanghai Hode without changes in control. Accordingly, pursuant to the guidance in ASC 805, Business Combinations, Hode Technology was established to consolidate Shanghai Hode, which was identified as the acquiree for accounting purposes. There was no change in financial statements preparation basis resulted from these Reorganization transactions. Further, the Group obtained control over Shanghai Kuanyu in November 2014 through contractual agreements. Shanghai Hode and Shanghai Kuanyu became the VIEs of the Group.

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Operations and Reorganization (Continued)

Initial public offering (“IPO”) and followed offerings

In April 2018, the Company completed its IPO on the NASDAQ Global Select Market. In the offering, 42,000,000 American depositary shares (“ADSs”), representing 42,000,000 Class Z Ordinary Shares, were issued and sold to the public at a price of US$11.50 per ADS. The net proceeds to the Company from the IPO, after deducting commissions and offering expenses, were approximately US$443.3 million (RMB2,781.8 million).

In October 2018, 25,063,451 ADSs, representing 25,063,451 Class Z Ordinary Shares, were issued and sold to Tencent Holdings Limited (“Tencent”). The net proceeds to the Company from the offering, after deducting offering expenses, were approximately US$317.2 million (RMB2,170.8 million).

In April 2019, the Company completed an offering of convertible senior notes due 2026 (the “2026 Notes”) in an aggregate principal amount of US$500.0 million, and a public offering of 14,173,813 ADSs, or the Primary Offering, each representing one Class Z Ordinary Share of the Company at a price of US$18.00 per ADS. The total net proceeds to the Company from the 2026 Notes and the Primary Offering, after deducting commissions and offering expenses, were approximately US$733.9 million (RMB5,003.8 million).

Contractual agreements with major VIEs

In order to comply with the PRC laws and regulations which prohibit or restrict foreign control of companies involved in provision of internet content services, the Group operates its restricted businesses in the PRC through its VIEs, whose equity interests are held by certain founders of the Group. The Company obtained control over these VIEs by entering into a series of contractual arrangements with the legal shareholders who are also referred to as nominee shareholders. These nominee shareholders are the legal owners of the VIEs. However, the rights of those nominee shareholders have been transferred to the Company through the contractual arrangements.

The contractual arrangements that are used to control the VIEs include powers of attorney, exclusive technology consulting and services agreements, equity pledge agreements and exclusive option agreements. Management concluded that the Company, through the contractual arrangements, has the power to direct the activities that most significantly impact the VIEs’ economic performance, bears the risks of and enjoys the rewards normally associated with ownership of the VIEs, and therefore the Company is the ultimate primary beneficiary of these VIEs. As such, the Company consolidates the financial statements of these VIEs. Consequently, the financial results of the VIEs were included in the Group’s consolidated financial statements in accordance with the presentation as stated in Note 2 a).

The following is a summary of the contractual agreements entered into by and among the Company’s relevant subsidiaries, the VIEs, and respective nominee shareholders of the VIEs.

Exclusive Technology Consulting and Services Agreements. Under the exclusive technology consulting and services agreement between the Company’s relevant subsidiaries and the VIEs, the Company’s relevant subsidiaries has the exclusive right to provide the VIEs consulting and services related to, among other things, research and development, system operation, advertising, internal training and technical support. The Company’s relevant subsidiaries has the exclusive ownership of intellectual property rights created as a result of the performance of this agreement. These VIEs shall pay the Company’s relevant subsidiaries an annual service fee, which is subject to the adjustment by the Company’s relevant subsidiaries at its sole discretion. This agreement will remain effective for a 10-years term and then be automatically renewed, unless the Company’s relevant subsidiaries gives the VIEs a termination notice 90 days before the term ends.
1. Operations and Reorganization (Continued)

Exclusive Option Agreements. Pursuant to the exclusive purchase option agreement, among the Company’s relevant subsidiaries, the VIEs and its nominee shareholders, each of the nominee shareholders of the VIEs irrevocably granted the Company’s relevant subsidiaries an exclusive option to purchase, or have its designated person to purchase, at its discretion, to the extent permitted under PRC law, all or part of their equity interests in the VIEs, and the purchase price shall be the lowest price permitted by applicable PRC law. In addition, the VIEs irrevocably granted the Company’s relevant subsidiaries an exclusive option to purchase, or have its designated person to purchase, at its discretion, to the extent permitted under PRC law, all or part of the VIEs’ assets at the book value of such assets, or at the lowest price permitted by applicable PRC law, whichever is higher. The nominee shareholders of the VIEs undertake that, without the prior written consent of the Company’s relevant subsidiaries, they shall not increase or decrease the registered capital, dispose of its assets, incur any debts or guarantee liabilities, enter into any material purchase agreements, conduct any merger, acquisition or investments, amend its articles of association or provide any loans to third parties. The exclusive option agreements will remain effective until all equity interests in the VIEs held by their nominee shareholders and all assets of the VIEs are transferred or assigned to the Company’s relevant subsidiaries or its designated representatives.

Powers of Attorney. Pursuant to the powers of attorney, each of the nominee shareholders of the VIEs, executed a power of attorney to irrevocably appoint the Company's relevant subsidiaries or its designated person as his attorney-in-fact to exercise all of his rights as a shareholder of the VIEs, including, but not limited to, the right to convene and attend shareholders’ meeting, vote on any resolution that requires a shareholder vote, such as the appointment or removal of directors and executive officers, and other voting rights pursuant to the then-effective articles of association of the VIEs. The powers of attorney will remain in force for so long as the nominee shareholders remain shareholders of the VIEs.

Equity Pledge Agreements. Pursuant to the equity pledge agreement, among the Company’s relevant subsidiaries, the VIEs and its nominee shareholders, the nominee shareholders of the VIEs pledged all of their equity interests in the VIEs to guarantee their and the VIEs’ performance of their obligations under the contractual arrangements. In the event of a breach by the VIEs or the VIEs’ shareholders of contractual obligations under these agreements, the Company’s relevant subsidiaries, as pledgee, will be entitled the right to dispose of the pledged equity interests in the VIEs. The nominee shareholders of the VIEs also undertake that, during the term of the equity pledge agreements, they shall not dispose of the pledged equity interests or create or allow any encumbrance on the pledged equity interests. During the term of the equity pledge agreements, the Company’s relevant subsidiaries has the right to receive all of the dividends and profits distributed on the pledged equity interests. The pledge will remain binding until the VIEs and their nominee shareholders discharge all their obligations under the contractual arrangements.

Risks in relation to the VIE structure

A significant part of the Group’s business is conducted through the VIEs of the Group, of which the Company is the ultimate primary beneficiary. In the opinion of management, the contractual arrangements with the VIEs and the nominee shareholders are in compliance with PRC laws and regulations and are legally binding and enforceable. The nominee shareholders are also shareholders of the Group and have indicated they will not act contrary to the contractual arrangements. However, there are substantial uncertainties regarding the interpretation and application of PRC laws and regulations including those that govern the contractual arrangements, which could limit the Group’s ability to enforce these contractual arrangements and if the nominee shareholders of the VIE were to reduce their interests in the Group, their interest may diverge from that of the Group and that may potentially increase the risk that they would seek to act contrary to the contractual arrangements.
1. Operations and Reorganization (Continued)

In January 2015, the Ministry of Commerce ("MOFCOM"), released for public comment a proposed PRC law, the Draft Foreign Investment Law, that appeared to include VIEs within the scope of entities that could be considered to be foreign investment enterprises ("FIEs"), that would be subject to restrictions under existing PRC law on foreign investment in certain categories of industry. The National People's Congress approved the Foreign Investment Law on March 15, 2019, effective on January 1, 2020. The Foreign Investment Law removes all references to the terms of "de facto control" or "contractual control" as defined in the draft published in 2015. However, the Foreign Investment Law has a catch-all provision under the definition of "foreign investment" which includes investments made by foreign investors in China through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. In the event that the State Council in the future promulgates laws and regulations that deem investments made by foreign investors through contractual arrangements as "foreign investment," the Group's ability to use the contractual arrangements with its VIEs and the Group's ability to conduct business through the VIEs could be severely limited.

The Company's ability to control the VIEs also depends on the powers of attorney the founders have to vote on all matters requiring shareholder approval in the VIEs. As noted above, the Company believes these powers of attorney are legally enforceable but may not be as effective as direct equity ownership.

In addition, if the Group's corporate structure or the contractual arrangements with the VIEs were found to be in violation of any existing or future PRC laws and regulations, the PRC regulatory authorities could, within their respective jurisdictions:

• revoke the Group's business and/or operating licenses;
• impose fines on the Group;
• confiscate any of the Group's income that they deem to be obtained through illegal operations;
• discontinue or place restrictions or onerous conditions on the Group's operations
• restrict the Group's right to collect revenues;
• shut down the Group's servers or block the Group's app/websites;
• require the Group to restructure the operations, re-apply for the necessary licenses or relocate the Group's businesses, staff and assets;
• 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 the Group's business.
1. Operations and Reorganization (Continued)

The imposition of any of these restrictions or actions could result in a material adverse effect on the Group’s ability to conduct its business. In such case, the Group may not be able to operate or control the VIEs, which may result in deconsolidation of the VIEs in the Group’s consolidated financial statements. In the opinion of management, the likelihood for the Group to lose such ability is remote based on current facts and circumstances. The Group believes that the contractual arrangements among each of the VIEs, their respective shareholders and relevant wholly foreign-owned enterprises are in compliance with PRC law and are legally enforceable. The Group’s operations depend on the VIEs to honor their contractual arrangements with the Group. These contractual arrangements are governed by PRC law and disputes arising out of these agreements are expected to be decided by arbitration in the PRC. Management believes that each of the contractual arrangements constitutes valid and legally binding obligations of each party to such contractual arrangements under PRC laws. However, the interpretation and implementation of the laws and regulations in the PRC and their application on the legality, binding effect and enforceability of contracts are subject to the discretion of competent PRC authorities, and therefore there is no assurance that relevant PRC authorities will take the same position as the Group herein in respect of the legality, binding effect and enforceability of each of the contractual arrangements. Meanwhile, since the PRC legal system continues to evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to the Group to enforce the contractual arrangements should the VIEs or the nominee shareholders of the VIEs fail to perform their obligations under those arrangements.

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BILIBILI INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Operations and Reorganization (Continued)

The following combined financial information of the Group’s VIEs as of December 31, 2018 and 2019 and for the years ended December 31, 2017, 2018 and 2019 included in the accompanying consolidated financial statements of the Group was as follows:

<table>
<thead>
<tr>
<th>December 31,</th>
<th>December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
</tr>
<tr>
<td></td>
<td>RMB in thousands</td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>152,295</td>
</tr>
<tr>
<td>Time deposits</td>
<td>10,265</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>130,823</td>
</tr>
<tr>
<td>Amounts due from the Company and its subsidiaries</td>
<td>165,559</td>
</tr>
<tr>
<td>Receivables due from related parties</td>
<td>—</td>
</tr>
<tr>
<td>Prepayments and other current assets</td>
<td>841,018</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>252,943</td>
</tr>
<tr>
<td>Non-current assets:</td>
<td></td>
</tr>
<tr>
<td>Long-term investments, net</td>
<td>843,149</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>943,373</td>
</tr>
<tr>
<td>Total assets</td>
<td>3,339,425</td>
</tr>
<tr>
<td>Current liabilities:</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>1,078,070</td>
</tr>
<tr>
<td>Salary and welfare payable</td>
<td>94,699</td>
</tr>
<tr>
<td>Taxes payable</td>
<td>27,152</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>937,086</td>
</tr>
<tr>
<td>Amounts due to the Company and its subsidiaries</td>
<td>1,594,527</td>
</tr>
<tr>
<td>Accrued liabilities and other payables</td>
<td>318,568</td>
</tr>
<tr>
<td>Amount due to related parties</td>
<td>23,054</td>
</tr>
<tr>
<td>Non-current liabilities:</td>
<td></td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>—</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>4,073,156</td>
</tr>
</tbody>
</table>

For the Year Ended December 31,

<table>
<thead>
<tr>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>RMB in thousands</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net revenues:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue from third parties</td>
<td>2,465,296</td>
<td>3,691,219</td>
</tr>
<tr>
<td>Revenue from the Company and its subsidiaries</td>
<td>22,751</td>
<td>443,405</td>
</tr>
<tr>
<td>Net revenues</td>
<td>2,488,047</td>
<td>4,134,624</td>
</tr>
<tr>
<td>Net loss</td>
<td>(63,088)</td>
<td>(587,932)</td>
</tr>
</tbody>
</table>

For the Year Ended December 31,

<table>
<thead>
<tr>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>RMB in thousands</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>492,063</td>
<td>636,972</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(632,549)</td>
<td>(674,483)</td>
</tr>
<tr>
<td>Net cash provided by financing activities</td>
<td>179,707</td>
<td>130,592</td>
</tr>
</tbody>
</table>
1. Operations and Reorganization (Continued)

In accordance with various contractual agreements, the Company has the power to direct the activities of the VIEs and can have assets transferred out of the VIEs. Therefore, the Company considers that there are no assets in the respective VIEs that can be used only to settle obligations of the respective VIEs, except for the registered capital of the VIEs amounting to approximately RMB12.2 million and RMB94.8 million, as of December 31, 2018 and 2019, as well as certain non-distributable statutory reserves amounting to approximately RMB7.7 million and RMB12.5 million, respectively, as of December 31, 2018 and 2019. As the respective VIEs are incorporated as limited liability companies under the PRC Company Law, creditors do not have recourse to the general credit of the Company for the liabilities of the respective VIEs. There is currently no contractual arrangement that would require the Company to provide additional financial support to the VIEs. As the Group is conducting certain businesses in the PRC through the VIEs, the Group may provide additional financial support on a discretionary basis in the future, which could expose the Group to a loss.

There is no VIE in the Group where the Company or any subsidiary has a variable interest but is not the primary beneficiary.

Liquidity

The Group incurred net losses of RMB183.8 million, RMB565.0 million and RMB1,303.6 million for the years ended December 31, 2017, 2018 and 2019, respectively. Net cash provided by operating activities was RMB464.6 million, RMB737.3 million and RMB194.6 million for the years ended December 31, 2017, 2018 and 2019, respectively. Accumulated deficit was RMB2,842.7 million and RMB4,145.6 million as of December 31, 2018 and 2019, respectively. The Group assesses its liquidity by its ability to generate cash from operating activities and attract investors’ investments. Historically, the Group has relied principally on both operational sources of cash and non-operational sources of financing from investors to fund its operations and business development. The Group’s ability to continue as a going concern is dependent on management’s ability to successfully execute its business plan, which includes increasing revenues while controlling operating expenses, as well as, generating operational cash flows and continuing to gain support from outside sources of financing. In the past, the Group has been continuously receiving financing support from outside investors through the issuance of preferred shares and public offerings of ordinary shares. In 2019, the Company has completed its offering of the 2026 Notes and the Primary Offering, raising approximately US$733.9 million (RMB5,003.8 million), after deducting commissions and offering expenses. Moreover, the Group can adjust the pace of its operation expansion and control the operating expenses. Based on the above considerations, the Group believes the cash and cash equivalents and the operating cash flows are sufficient to meet the cash requirements to fund planned operations and other commitments for at least the next twelve months from the date of the issuance of the consolidated financial statements. The Group’s consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and liquidation of liabilities in the normal course of business.
2. Significant Accounting Policies

a) Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with the 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.

b) Principles of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and VIEs for which the Company is the primary beneficiary.

Subsidiaries are those entities in which the Company, directly or indirectly, controls 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, or to cast a majority of votes at the meeting of the board of directors, or has the power to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

A consolidated VIE is an entity in which the Company’s subsidiary, through contractual arrangements, has the power to direct the activities that most significantly impact the entity’s economic performance, bears the risks of and enjoys the rewards normally associated with ownership of the entity, and therefore the Company’s subsidiary is the primary beneficiary of the entity.

All transactions and balances among the Company, its subsidiaries and VIEs have been eliminated upon consolidation.

In July 2019, the Group entered into a series of agreements to acquire a controlling interest in Chaodian Inc. (“Chaodian”). At that time, both the Company and Chaodian were controlled by Mr. Rui Chen (the “Controlling Shareholder”).

ASC 805-50 provides that the consolidated financial statements include the results of each of the combined entities from the earliest date presented or, if more recent, from the date when the combined entities first became under common control, regardless of the date of the combination. As a result, the Company’s consolidated financial statements as of and for the year ended December 31, 2019 reflected the results of the Company and Chaodian as if they had been combined from July 1, 2019, the date when the Company became under the control of the Controlling Shareholder. Assets and liabilities of Chaodian were combined using the existing book values from the perspective of the Controlling Shareholder.

c) Use of estimates

The preparation of the Group’s consolidated financial statements in conformity with the U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the balance sheet date and reported revenues and expenses during the reported periods in the consolidated financial statements and accompanying notes. Significant accounting estimates include, but are not limited to, determination of the average playing period for paying players, fair value determination and allocation of identifiable assets and liabilities acquired through business combinations, assessment for the impairment of long-lived assets, long-term investments and valuation allowance of deferred tax assets.

d) Functional currency and foreign currency translation

The Group uses Renminbi (“RMB”) as its reporting currency. The functional currency of the Company and its overseas subsidiaries incorporated in the Cayman Islands and Hong Kong is United States dollars (“US$”). The functional currency of the Company’s subsidiaries incorporated in Japan is Japanese yen. The functional currency of the Group’s PRC entities is RMB.
2. Significant Accounting Policies (Continued)

d) Functional currency and foreign currency translation (continued)

In the consolidated financial statements, the financial information of the Company and other entities located outside of the PRC have been translated into RMB. Assets and liabilities are translated at the exchange rates on the balance sheet date, equity amounts are translated at historical exchange rates, and revenues, expenses, gains and losses are translated using the average rate for the year. Translation adjustments are reported as foreign currency translation adjustments, and are shown as a component of other comprehensive (loss)/income on the consolidated statements of operations and comprehensive loss.

Foreign currency transactions denominated in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the applicable exchange rates at the balance sheet dates. Net gains and losses resulting from foreign exchange transactions are included in exchange gains/(losses) on the consolidated statements of operations and comprehensive loss.

e) Convenience Translation

Translations of balances on the consolidated balance sheets, consolidated statements of operations and comprehensive loss and consolidated statements of cash flows from RMB into US$ as of and for the year ended December 31, 2019 are solely for the convenience of the reader and were calculated at the rate of US$1.00 = RMB 6.9618, representing the noon buying rate in The City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2019. No representation is made that the RMB amounts represent or could have been, or could be, converted, realized or settled into US$ at that rate on December 31, 2019, or at any other rate.

f) Fair value measurements

Financial instruments

Accounting guidance defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

Accounting guidance establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument’s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Accounting guidance establishes three levels of inputs that may be used to measure fair value:

a. Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

b. Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical asset or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.
f) Fair value measurements (continued)

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The Group’s financial instruments include cash and cash equivalents, time deposits, accounts receivable, receivables due from related parties, short-term investments, and accounts payable of which the carrying values approximate their fair values. Please see Note 24 for additional information.

g) Cash and cash equivalents and time deposits

Cash and cash equivalents mainly represent cash on hand, demand deposits placed with large reputable banks in the United States of America and China, and highly liquid investments that are readily convertible to known amounts of cash and with original maturities from the date of purchase with terms of three months or less. As of December 31, 2018 and 2019, there were cash on hand and demand deposits with terms of less than three months denominated in U.S. dollars amounting to approximately US$481.6 million and US$670.1 million, respectively (equivalent to approximately RMB3,305.3 million and RMB4,674.6 million, respectively). As of December 31, 2018 and 2019, the Group had cash held in accounts managed by online payment platforms such as Alipay and Paypal in connection with the collection of online service fees for a total amount of RMB10.8 million and RMB26.8 million, respectively, which have been classified as cash and cash equivalents on the consolidated balance sheets.

As of December 31, 2018 and 2019, the Group had approximately RMB377.8 million and RMB1,596.0 million cash and cash equivalents held by its PRC subsidiaries and VIEs, representing 11% and 32% of total cash and cash equivalents of the Group, respectively.

Time deposits represent deposits placed with banks with original maturities more than three months but less than one year. As of December 31, 2018 and 2019, there were time deposits denominated in U.S. dollars amounting to approximately RMB749.4 million and RMB1,844.6 million, respectively.

The Group had no other lien arrangements for the years ended December 31, 2017, 2018 and 2019. As of December 31, 2018 and 2019, the Group had no restricted cash balance.

b) Inventories, net

Inventories, mainly represent products for the Group’s e-commerce business, are stated at the lower of cost or net realizable value on the consolidated balance sheets. Cost of inventories is determined using the weighted average cost method. Adjustments are recorded to write down the cost of inventories to the estimated net realizable value due to slow-moving merchandise and damaged goods, which is dependent upon factors such as historical and forecasted consumer demand, and promotional environment. The Group takes ownership, risks and rewards of the products purchased. Write downs are recorded in cost of revenues on the consolidated statements of operations and comprehensive loss. Certain costs attributable to buying and receiving products, such as purchase freights, are included in cost of inventories.
2. Significant Accounting Policies (Continued)

i) Property and equipment, net

Property and equipment are stated at cost less accumulated depreciation and impairment, if any. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally three years. Leasehold improvements are amortized over the shorter of the estimated useful lives of the assets or the remaining lease term. Expenditures for maintenance and repairs are expensed as incurred. The 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 on the consolidated statements of operations and comprehensive loss.

j) Intangible assets, net

Intangible assets acquired through business acquisitions are recognized as assets separate from goodwill if they satisfy either the “contractual-legal” or “separability” criterion. Purchased intangible assets are initially recognized and measured at fair value. Major identifiable intangible assets that have determinable lives continue to be amortized over their estimated useful lives using the straight-line method as follows:

<table>
<thead>
<tr>
<th>Intangible Asset</th>
<th>Amortization Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licensed copyrights of content</td>
<td>Shorter of the licensed period or projected useful life of the content</td>
</tr>
<tr>
<td>License rights of mobile games</td>
<td>Shorter of the licensed period or projected useful life of mobile games</td>
</tr>
<tr>
<td>Domain names and others</td>
<td>1 - 10 years</td>
</tr>
</tbody>
</table>

If expectations of the usefulness of the content are revised downward, the unamortized cost is written down to the estimated net realizable value. A write-down from unamortized cost to a lower estimated net realizable value establishes a new cost basis.
2. Significant Accounting Policies (Continued)

k) 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 depreciated or amortized but is tested for impairment at the reporting unit level on an annual basis, and between annual tests when an event or circumstances change occurs that indicate the asset might be impaired. Under ASC 350-20-35, the Group has the option to choose whether it will apply the qualitative assessment first and then the quantitative assessment, if necessary, or to apply the quantitative assessment directly. The Group chooses to directly apply the quantitative impairment test, which consists of a two-step quantitative impairment test. The first step is comparing the carrying amount of the reporting unit to the fair value of the reporting unit. If the fair value of the reporting unit exceeds the carrying value of the reporting unit, goodwill is not impaired and the Group is not required to perform further testing. If the carrying value of the reporting unit exceeds the fair value of the reporting unit, then the Group must perform the second step of the two-step quantitative goodwill impairment test to measure the amount of impairment loss by comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. Application of a goodwill impairment test requires significant management judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. The judgment in estimating the fair value of reporting units includes estimating future cash flows, determining appropriate discount rates and making other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit. The Group as a whole is determined to be one reporting unit for goodwill impairment testing. The Group directly applied the quantitative assessment and performed the goodwill impairment test by quantitatively comparing the fair values of the reporting unit to its carrying amounts, and no impairment charge was recognized for any of the periods presented.

l) Impairment of long-lived assets other than goodwill and intangible assets

Long-lived assets are evaluated for impairment whenever events or changes in circumstances (such as a significant adverse change to market conditions that will impact the future use of the assets) indicate that the carrying value of an asset may not be fully recoverable or that the useful life is shorter than the Group had originally estimated. When these events occur, the Group evaluates the impairment for the long-lived assets by comparing the carrying value of the assets to an estimate of future undiscounted cash flows expected to be generated from the use of the assets and their eventual disposition. If the sum of the expected future undiscounted cash flows is less than the carrying value of the assets, the Group recognizes an impairment loss based on the excess of the carrying value of the assets over the fair value of the assets. No impairment charge was recognized for any of the periods presented.
2. Significant Accounting Policies (Continued)

m) Research and development expenses

Research and development expenses mainly consist of payroll-related expenses incurred for the innovation of video function, development and enhancement to the Group’s websites and platforms of applications and development of online games.

For internal use software, the Group expenses all costs incurred for the preliminary project stage and post implementation-operation stage of development, and costs associated with repair or maintenance of the existing platforms. Costs incurred in the application development stage are capitalized and amortized over the estimated useful life. Since the amount of the Group’s research and development expenses qualifying for capitalization has been immaterial, as a result, all development costs incurred for development of internal used software have been expensed as incurred.

For external use software, costs incurred for development of external use software have not been capitalized since the inception of the Group, because the period after the date technical feasibility is reached and the time when the software is marketed is short historically, and the amount of costs qualifying for capitalization has been immaterial.

n) Sales and marketing expenses

Sales and marketing expenses consist primarily of marketing and promotional expenses, salaries and other compensation-related expenses to the Group’s sales and marketing personnel. Marketing and promotional expenses consist primarily of costs for the promotion of corporate image and product marketing. The Group expenses all marketing and promotion costs as incurred and classifies these costs under sales and marketing expenses. For the years ended December 31, 2017, 2018 and 2019, the marketing and promotional expenses were RMB168.7 million, RMB436.5 million and RMB934.7 million, respectively.

o) Leases

On January 1, 2019, the Group adopted ASU No. 2016-02, Leases (Topic 842), as amended, which supersedes the lease accounting guidance under Topic 840, and generally requires lessees to recognize operating and financing lease liabilities and corresponding right-of-use assets on the balance sheet and to provide enhanced disclosures surrounding the amount, timing and uncertainty of cash flows arising from leasing arrangements.

The Group elected to apply practical expedients permitted under the transition method that allow the Group to use the beginning of the period of adoption as the date of initial application, to not recognize lease assets and lease liabilities for leases with a term of twelve months or less, to not separate non-lease components from lease components, and to not reassess lease classification, treatment of initial direct costs, or whether an existing or expired contract contains a lease. The Group used modified retrospective method and did not adjust the prior comparative periods. Under the new lease standard, the Group determines if an arrangement is or contains a lease at inception. Right-of-use assets and liabilities are recognized at lease commencement date based on the present value of remaining lease payments over the lease terms. The Group considers only payments that are fixed and determinable at the time of lease commencement.

As a result of the adoption, the Group recognized approximately RMB235.7 million of right-of-use assets recorded in “Other long-term assets,” and corresponding short-term leasing liabilities recorded in “Accrued liabilities and other payables” and long-term leasing liabilities recorded in “Other long-term liabilities” respectively on the consolidated balance sheet as of January 1, 2019. The adoption had no material impact on the Group’s consolidated statements of operations and comprehensive loss for the year ended December 31, 2019 or the opening balances of retained earnings as of January 1, 2019.
The Group leases office space and staff quarters under non-cancelable operating lease agreements, which expire at various dates through 2024. As of December 31, 2019, the Group’s operating leases had a weighted average remaining lease term of 3.2 years and a weighted average discount rate of 4.75%. Future lease payments under operating leases as of December 31, 2019 were as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Future lease payments (RMB in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>93,741</td>
</tr>
<tr>
<td>2021</td>
<td>100,109</td>
</tr>
<tr>
<td>2022</td>
<td>89,399</td>
</tr>
<tr>
<td>2023</td>
<td>28,643</td>
</tr>
<tr>
<td>2024</td>
<td>357</td>
</tr>
<tr>
<td>Total</td>
<td>312,249</td>
</tr>
<tr>
<td>Impact of discounting remaining lease payments</td>
<td>(23,298)</td>
</tr>
<tr>
<td>Total lease liabilities</td>
<td>288,951</td>
</tr>
</tbody>
</table>

Rent expense under operating leases was RMB55.0 million and RMB55.8 million for the years ended December 31, 2017 and 2018, respectively. Operating lease cost for the year ended December 31, 2019 was RMB79.4 million, which excluded cost of short-term contracts. Short-term lease cost for the year ended December 31, 2019 was immaterial. Supplemental cash flow information related to operating leases was as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating Lease* (RMB in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>65,400</td>
</tr>
<tr>
<td>2020</td>
<td>72,230</td>
</tr>
<tr>
<td>2021</td>
<td>73,054</td>
</tr>
<tr>
<td>2022</td>
<td>69,681</td>
</tr>
<tr>
<td>Beyond 2022</td>
<td>19,544</td>
</tr>
</tbody>
</table>

* Amounts are based on ASC 840, Leases that were superseded upon the Company’s adoption of ASC 842, Leases on January 1, 2019.

p) Share-based compensation

Share-based compensation expenses arise from share-based awards, including share options for the purchase of the Company’s ordinary shares. The Group accounts for share-based awards granted to employees in accordance with ASC 718 Compensation - Stock Compensation and share-based awards granted to nonemployees in accordance with ASC 505. On January 1, 2019, the Group adopted ASU 2018-07, Compensation—Stock Compensation (Topic 718): Improvement to Nonemployee Share-based Payment Accounting to amend the accounting for share-based payment awards issued to nonemployees. Under ASU 2018-07, the accounting for awards to non-employees are similar to the model for employee awards.

For share options for the purchase of ordinary shares granted to employees determined to be equity classified awards, the related share-based compensation expenses are recognized in the consolidated financial statements based on their grant date fair values which are calculated using the binomial option pricing model. The determination of the fair value is affected by the share price as well as assumptions regarding a number of complex and subjective variables, including the expected share price volatility, risk-free interest rates and expected dividends.

For share options granted with service conditions only, share-based compensation expenses are recorded net of estimated forfeitures using straight-line method during the requisite service period, such that expenses are recorded only for those share-based awards that are expected to ultimately vest.

For share options granted with service condition and the occurrence of an IPO as performance condition, share-based compensation expenses are recorded net of estimated forfeitures using graded-vesting method during the requisite service period. Cumulative share-based compensation expenses for the options that have satisfied the service condition, amounting to RMB28.9 million, were recorded upon the completion of the IPO in 2018.
2. Significant Accounting Policies (Continued)

q) Employee benefits

PRC Contribution Plan

Full time employees of the Group in the PRC participate in a government mandated defined contribution plan, pursuant to which certain pension benefits, medical care, employee housing fund and other welfare benefits are provided to the employees. Chinese labor regulations require that the PRC subsidiaries and VIEs of the Group make contributions to the government for these benefits based on certain percentages of the employees’ salaries, up to a maximum amount specified by the local government. The Group has no legal obligation for the benefits beyond the contributions made.

r) Investments

Short-term investments

Short-term investments primarily include money market funds, financial products with variable interest rates referenced to performance of underlying assets issued by commercial banks or other financial institutions and publicly traded companies with the intention to be sold within twelve months.

In accordance with ASC 825, Financial Instruments, for financial products with variable interest rates referenced to performance of underlying assets, the Group elected the fair value method at the date of initial recognition and carries these investments at fair value. Changes in the fair value of these investments are reflected on the consolidated statements of operations and comprehensive loss as “Investment income, net”. Fair value is estimated based on quoted prices of similar products provided by financial institutions at the end of each reporting period.

For the investments in publicly traded companies, the Group carries the investments at fair value at the end of each reporting period. Changes in the fair value of these investments are reflected on the consolidated statements of operations and comprehensive loss as “Investment income, net”.

F-27
2. Significant Accounting Policies (Continued)

r) Investments (continued)

**Long-term investments, net**

The Group’s long-term investments primarily consist of equity investments accounted for using the measurement alternative, equity investments accounted for using the equity method and other investments accounted for at fair value.

**Equity investments accounted for using the measurement alternative**

For those investments over which the Group does not have significant influence and without readily determinable fair value, the Group records them at cost, less impairment, and plus or minus subsequent adjustments for observable price changes, in accordance with ASU 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. Under this measurement alternative, changes in the carrying value of the equity investments are required to be made whenever there are observable price changes in orderly transactions for the identical or similar investment of the same issuer.

Management regularly evaluates the impairment of these investments based on performance and financial position of the investee as well as other evidence of market value. Such evaluation includes, but is not limited to, reviewing the investee’s cash position, recent financing, projected and historical financial performance, cash flow forecasts and financing needs. An impairment loss recognized equal to the excess of the investment cost 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.

**Equity investments accounted for using the equity method**

The Group applies the equity method of accounting to account for equity investments and limited partnership in a private equity fund, according to ASC 323 Investment—Equity Method and Joint Ventures, over which it has significant influence but does not own a majority equity interest or otherwise control. Under the equity method, the Group initially records the investments at cost and the difference between the cost of the equity investee and the fair value of the underlying equity in the net assets of the equity investee is recognized as equity method goodwill, which is included in the equity method investments on the consolidated balance sheets. The Group subsequently adjusts the carrying amount of the investments to recognize its proportionate share of each equity investee’s net income or loss into earnings and cash distributions from investees, after the date of investment. The Group evaluates the equity method investments for impairment under ASC 323. An impairment loss on the equity method investments is recognized in earnings when the decline in value is determined to be other-than-temporary.

**Investments accounted for at fair value**

In accordance with ASC 825, Financial Instruments, for financial products with variable interest rates referenced to performance of underlying assets and with original maturities greater than one year, the Group elected the fair value method at the date of initial recognition and carries these investments at fair value. Changes in the fair value of these investments are reflected on the consolidated statements of operations and comprehensive loss as “Investment income, net”. Fair value is estimated based on quoted prices of similar products provided by financial institutions at the end of each reporting period. The Group classifies the valuation techniques that use these inputs as Level 2 of fair value measurements. Please see Note 24 for additional information.
2. Significant Accounting Policies (Continued)

s) Taxation

   Income taxes
Current income taxes are provided on the basis of income/(loss) for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions. Deferred income taxes are provided using the assets and liabilities method. Under this method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. The effect on deferred taxes of a change in tax rates is recognized in the consolidated statement of operations and comprehensive loss in the period of change. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more-likely-than-not that some portion of, or all of the deferred tax assets will not be realized.

   Uncertain tax positions
In order to assess uncertain tax positions, the Group applies a more-likely-than-not threshold and a two-step approach for the tax position measurement and financial statement recognition. Under the two-step approach, the first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more-likely-than-not that the position will be sustained, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likelihood of being realized upon settlement. The Group recognizes interest and penalties, if any, under accrued expenses and other current liabilities on its consolidated balance sheets and under income tax expenses in its consolidated statements of operations and comprehensive loss. The Group did not have any significant unrecognized uncertain tax positions as of and for the years ended December 31, 2017, 2018 and 2019. The Group also did not expect any significant increase or decrease in unrecognized tax liability within 12 months following the reporting date.

t) Revenue recognition
On January 1, 2018, the Group adopted ASC 606, Revenue from Contracts with Customers using the modified retrospective method for all contracts not completed as of the date of adoption.

   Under ASC 606, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. The Group identifies its contracts with customers and all performance obligations within those contracts. The Group then determines the transaction price and allocates the transaction price to the performance obligations within the Group’s contracts with customers, recognizing revenue when, or as, the Group satisfies its performance obligations.

   The adoption of ASC 606 did not significantly change (1) the timing and pattern of revenue recognition for all of the Group’s revenue streams, and (2) the presentation of revenue as gross versus net. Therefore, the adoption of ASC 606 did not have a significant impact on the Group’s financial position, results of operations, equity or cash flows as of the adoption date and for the years ended December 31, 2018 and 2019.
2. Significant Accounting Policies (Continued)

   t) Revenue recognition (continued)

   The Group’s revenue recognition policies effective upon the adoption of ASC 606 are as follows:

   **Mobile game services**

   *Exclusively distributed mobile games*

   For the years ended December 31, 2017, 2018 and 2019, the Group primarily generates revenues from the sale of in-game virtual items, including characters, warships, characters or camouflage for warships or other accessories to enhance the game-playing experience, within the games.

   In accordance with ASC 606, the Group evaluates the contracts with its customers and determines that the Group has a single combined performance obligation which is to make the game and the ongoing game related services available to the paying players. The transaction price, which is the amount paid for in-game virtual items by the paying player, is allocated entirely to this single combined performance obligation. The Group recognizes revenue from in-game virtual items over the estimated average playing period of paying players, starting from the point-in-time when related in-game virtual items are delivered to the paying players’ accounts.

   The Group has estimated the average playing period of the paying players for each game, usually between three to seven months. The Group considers the average period that players typically play the games and other game player behavior patterns, as well as various other factors to arrive at the best estimates for the estimated playing period of the paying players. To compute the estimated average playing period for paying players, the Group considers the initial purchase date as the starting point of a player’s lifespan. The Group tracks populations of paying players who made their initial purchases during the interval period (the “Cohort”) and tracks each Cohort to understand the subsequent churn rate of the paying players of each Cohort, i.e. the number of players from each Cohort who left subsequent to their initial purchases. To determine the ending point of a paying player’s lifespan beyond the date for which observable data are available, the Group extrapolates the actual observed churn rate to arrive at an estimated weighted average playing lifespan for paying players of the selected games. If a new game is launched and only a limited period of paying player data is available, then the Group considers other qualitative factors, such as the playing patterns for paying players for other games with similar characteristics with the new game, including paying player type and purchasing frequency. While the Group believes its estimates to be reasonable based on available game player information, the Group may revise such estimates based on new information indicating a change in the game player behavior patterns and any adjustments are applied prospectively.

   In accordance with ASC 606-10-55-39, the Group assesses whether it acts as the principal or as an agent in the arrangement with each party respectively. The Group records revenue generated from exclusively distributed mobile games on a gross basis as the Group is acting as the principal to fulfill all obligations related to the mobile game operations. The Group is responsible for the launch of the games, hosting and maintenance of game servers, and determination of when and how to operate the in-game promotions and customer services. The Group is also determining the pricing of in-game virtual items and making a localized version for overseas licensed games.
2. Significant Accounting Policies (Continued)

(t) Revenue recognition (continued)

Proceeds earned from selling in-game virtual items are shared between the Group and the third-party game developers, with the amount paid to the third-party game developers generally calculated based on amounts paid by paying players, after deducting the fees paid to the payment channels and the distribution channels. Fees paid to third-party game developers, distribution channels and payment channels are recorded as “Cost of revenues” on the consolidated statements of operations and comprehensive loss.

Jointly operated mobile game distribution services

The Group is also offering distribution services for mobile games developed by third-party game developers. In accordance with ASC 606, the Group evaluates the contracts with the third-party game developers and identifies the performance obligations as distributing games and providing payment solution and market promotion service to the game developers. Accordingly, the Group earns service revenue by distributing them to the game players.

In accordance with ASC 606-10-55-39, the Group assesses whether it acts as the principal or as an agent in the arrangement with each party respectively. With respect to the jointly operated licensed arrangements between the Group and the third-party game developers, the Group considered it does not have the primary responsibility for fulfillment and acceptability of the game services. The Group’s responsibilities are distributing games and providing payment solution and market promotion service, and thus the Group views the third-party game developers to be its customers. Accordingly, the Group records the game distribution service revenue from these games, on a net basis based on the ratios pre-determined with the third-party game developers when the performance obligations are satisfied, which is generally when the paying players purchase virtual currencies issued by the third-party game developers.

Advertising services

Display advertisements

The Group provides display-based online advertising services to its customers by integrating different formats of advertisements, including but not limited to banners, text-links, videos, logos, buttons and rich media, as well as in-program advertisements. The Group determines each format of advertisements is a distinct performance obligation. Consideration is allocated to each performance obligation based on its standalone selling price. The Group recognizes revenue on a pro-rata basis for each performance obligation, commencing on the date the advertisements are displayed on the Group’s platform.

Performance-based advertisements

The Group’s auction-based pay-for-performance (“P4P”) platform enables a customer to place a short commercial video, a landing page with related description or download link on the Group’s platform. The P4P platform enables customers to reach target users related to their products or services. Revenue is recognized when the performance obligations are satisfied, which is generally at the point-in-time when a user clicks on one of the customer-sponsored links or in-feed marketing, or downloads the customer’s mobile applications.

Sales incentives to customers

The Group provides various sales incentives to its customers, including cash incentives in the form of commissions to certain third-party advertising agencies and noncash incentives such as discounts and advertising services provided free of charge in certain bundled arrangements, which are negotiated on a contract by contract basis with customers. The Group accounts for these incentives granted to customers as variable consideration in accordance with ASC 606. The amount of variable consideration is measured based on the most likely amount of incentive to be provided to customers.
2. Significant Accounting Policies (Continued)

1) Revenue recognition (continued)

Live broadcasting and other valued added service (“VAS”)

The Group operates and maintains live broadcasting channel whereby users can enjoy live performances provided by the hosts and interact with the hosts. Most of the hosts host the performance on their own. The Group creates and sells virtual items to users so that the users present them simultaneously to hosts to show their support. The virtual items sold by the Group comprise of either (i) consumable items or (ii) time-based items, such as privilege titles etc. Revenues derived from the sale of virtual items are recorded on a gross basis as the Group acts as the principal to fulfill all obligations related to the sale of virtual items in accordance with ASC 606-10-55-39. Accordingly, revenue is recognized at point-in-time when the virtual item is delivered and consumed if the virtual item is a consumable item or, in the case of time-based virtual item, recognized ratably over the period each virtual item is made available to the user, which generally does not exceed one year. Proceeds received from the sales of virtual items before they consumed are recorded as “Deferred revenue”.

Under the arrangements with the hosts, the Group shares with them a portion of the revenues derived from the sales of virtual items. The portion paid to hosts is recognized as “Cost of revenues” on the consolidated statements of operations and comprehensive loss.

The other VAS mainly includes premium membership subscription and sales of virtual items for video, audio and comic content. The Group offers premium membership subscription services which provide subscribing members access to streaming of premium content in exchange for a non-refundable upfront premium membership fee. When the receipt of premium membership fees is for services to be delivered over a period of time, generally from one month to twelve months, the receipt is initially recorded as “Deferred revenue” and revenue is recognized ratably over the membership period as services are rendered. Revenue from sales of virtual items is recognized on item basis, which is consistent with the revenue recognition of live broadcasting.

E-commerce and other revenues

E-commerce and other revenues are mainly from the sales of products through the Group’s e-commerce platform, as well as revenues from holding certain offline performance activities. E-commerce and other revenues are recognized when control of promised goods or services is transferred to the customers, which generally occurs upon the acceptance of the goods or services by the customers. Pursuant to ASC 606-10-55-39, for arrangements where the Group is primarily responsible for fulfilling the promise to provide the goods or services, is subject to inventory risk, and has latitude in establishing prices and selecting suppliers, revenues are recorded on a gross basis. Otherwise, revenues are recorded on a net basis. Cash coupons, granted to the customers for free at the Group’s discretion, are recorded as a reduction of the arrangement’s transaction price thereby reducing the amount of revenue recognized as the payment is not for a distinct good or service received from the customer in accordance with ASC 606-10-32-25.

Net revenues presented on the consolidated statements of operations and comprehensive loss are net of sales discount and sales tax.
Other Estimates and Judgments

The Group estimates revenue of mobile game, live broadcasting and other VAS from the third-party payment processors in the current period when reasonable estimates of these amounts can be made. The processors provide reliable interim preliminary reporting within a reasonable time frame following the end of each month and the Group maintains records of sales data, both of which allow the Group to make reasonable estimates of revenue and therefore to recognize revenue during the reporting period. Determination of the appropriate amount of revenue recognized involves judgments and estimates that the Group believes are reasonable, but actual results may differ from the Group’s estimates. When the Group receives the final reports, to the extent not received within a reasonable time frame following the end of each month, the Group records any differences between estimated revenue and actual revenue in the reporting period when the Group determines the actual amounts. The revenue on the final revenue report have not differed significantly from the reported revenue for the periods presented.

Contract balances

Timing of revenue recognition may differ from the timing of invoicing to customers. Accounts receivable represent amounts invoiced, and revenue recognized prior to invoicing when the Group has satisfied its performance obligations and has the unconditional right to consideration.

Deferred revenue relates to unsatisfied performance obligations at the end of each reporting period and consists of cash payment received in advance from game players in mobile games, from customers in advertising services, live broadcasting services and other VAS, and e-commerce platforms. Due to the generally short-term duration of the relevant contracts, the majority of the performance obligations are satisfied within one year. The amount of revenue recognized that was included in the receipts in advance balance at the beginning of the year was RMB571.4 million and RMB943.4 million for the years ended December 31, 2018 and 2019.

Practical expedients

The Group has used the following practical expedients as allowed under ASC 606:

The transaction price allocated to the performance obligations that are unsatisfied, or partially unsatisfied, has not been disclosed, as substantially all of the contracts have an original expected duration of one year or less.

The Group expenses the costs to obtain a contract as incurred when the amortization period is one year or less.

The following table presents the Group’s net revenues disaggregated by revenue sources:

<table>
<thead>
<tr>
<th></th>
<th>For the Year Ended December 31</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017 RMB in thousands</td>
<td>2018</td>
<td>2019 RMB in thousands</td>
</tr>
<tr>
<td>Mobile game</td>
<td>2,058,226</td>
<td>2,936,331</td>
<td>3,597,809</td>
</tr>
<tr>
<td>Advertising</td>
<td>159,160</td>
<td>463,490</td>
<td>817,016</td>
</tr>
<tr>
<td>Live broadcasting and other VAS</td>
<td>176,443</td>
<td>585,643</td>
<td>1,641,043</td>
</tr>
<tr>
<td>E-commerce and others</td>
<td>74,620</td>
<td>143,467</td>
<td>722,054</td>
</tr>
<tr>
<td><strong>Total net revenues</strong></td>
<td><strong>2,468,449</strong></td>
<td><strong>4,128,931</strong></td>
<td><strong>6,777,922</strong></td>
</tr>
</tbody>
</table>

F-33
2. Significant Accounting Policies (Continued)

u) Cost of revenues

Costs of revenues consist primarily of revenue sharing costs to mobile games developers and distribution channels and payment channels, revenue sharing with the hosts, staff costs, content costs, servers and bandwidth service fees, depreciation expenses and other direct costs of providing these services as well as cost of merchandise sold. These costs are charged to the consolidated statements of operations and comprehensive loss as incurred.

v) Related parties

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 in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or significant influence, such as a family member or relative, shareholder, or a related corporation.

w) Net loss per share

Loss per share is computed in accordance with ASC 260, Earnings per Share. The two-class method is used for computing earnings per share in the event the Group has net income available for distribution. Under the two-class method, net income is allocated between ordinary shares and participating securities based on dividends declared (or accumulated) and participating rights in undistributed earnings as if all the earnings for the reporting period had been distributed. The Company's Pre-IPO Preferred Shares and other permanent equities are participating securities because they are entitled to receive dividends or distributions on an as-converted basis. Prior to the IPO, the computation of basic loss per share using the two-class method is not applicable as the Group is in a net loss position and net loss is not allocated to other participating securities because in accordance with their contractual terms they are not obligated to share in the losses.

Basic net loss per share is computed using the weighted average number of ordinary shares outstanding during the period. Diluted net loss per share is computed using the weighted average number of ordinary shares and potential ordinary shares outstanding during the period. Potential ordinary shares include ordinary shares issuable upon the conversion of the Pre-IPO Preferred Shares and other permanent equities, using the if-converted method, for periods prior to the completion of the IPO, ordinary shares issuable upon the exercise of outstanding share options using the treasury stock method and ordinary shares issuable upon the conversion of the 2026 Notes using the if-converted method. The computation of diluted net loss per share does not assume conversion, exercise, or contingent issuance of securities that would have an anti-dilutive effect (i.e. an increase in earnings per share amounts or a decrease in loss per share amounts) on net loss per share. After the completion of the IPO, net loss per ordinary share is computed on Class Y Ordinary Shares and Class Z Ordinary Shares combined basis, because both classes have the same dividend rights in the Company’s undistributed net income.
2. Significant Accounting Policies (Continued)

x) Statutory reserves

In accordance with China’s Company Laws, the Company’s VIEs in PRC must make appropriations from their after-tax profit, as determined under the accounting principles generally acceptable in the People’s Republic of China (“PRC GAAP”), to non-distributable reserve funds including (i) statutory surplus fund and (ii) discretionary surplus fund. The appropriation to the statutory surplus fund must be at least 10% of the after-tax profits calculated in accordance with PRC GAAP. Appropriation is not required if the statutory surplus fund has reached 50% of the registered capital of the respective company. Appropriation to the discretionary surplus fund is made at the discretion of the respective company.

Pursuant to the laws applicable to China’s FIEs, the Company’s subsidiaries that are FIEs in China have to make appropriations from their after-tax profit (as determined under PRC GAAP) to reserve funds including (i) general reserve fund, (ii) enterprise expansion fund and (iii) staff bonus and welfare fund. The appropriation to the general reserve fund must be at least 10% of the after-tax profits calculated in accordance with PRC GAAP. Appropriation is not required if the general reserve fund has reached 50% of the registered capital of the respective company. Appropriations to the other two reserve funds are at the respective companies’ discretion.

The following table presents the Group’s appropriations to general reserve funds and statutory surplus funds for the years ended December 31, 2017, 2018 and 2019:

<table>
<thead>
<tr>
<th>For the Year Ended December 31,</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appropriations to general reserve funds and statutory surplus funds</td>
<td>2,480</td>
<td>3,591</td>
<td>5,797</td>
</tr>
</tbody>
</table>

y) Noncontrolling interests

For the Company’s majority-owned subsidiaries and consolidated VIEs, noncontrolling interests are recognized to reflect the portion of the equity which is not attributable, directly or indirectly, to the Company as the controlling shareholder. Noncontrolling interests acquired through a business combination are recognized at fair value at the acquisition date, which is estimated with reference to the purchase price per share as of the acquisition date.

The noncontrolling interests will continue to be attributed with its share of losses even if that attribution results in a deficit noncontrolling interest balance.

z) Comprehensive (loss)/income

Comprehensive (loss)/income is defined to include all changes in equity/(deficit) of the Group during a period arising from transactions and other events and circumstances excluding transactions resulting from investments by shareholders and distributions to shareholders. Accumulated other comprehensive income, as presented on the consolidated balance sheets, consists of accumulated foreign currency translation adjustments.
2. Significant Accounting Policies (Continued)

aa) Segment reporting

Based on the criteria established by ASC 280, Segment Reporting, the Group’s chief operating decision maker has been identified as the Chairman of the Board of Directors and CEO, who reviews consolidated results of the Group when making decisions about allocating resources and assessing performance. The Group has internal reporting of revenue, cost and expenses by nature as a whole. Hence, the Group has only one operating segment. The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in the PRC and earns majority of the revenues from external customers attributed to the PRC.

bb) Business combinations

The Group accounts for its business combinations using the acquisition method of accounting in accordance with ASC 805, Business Combinations. The cost of an acquisition is measured as the aggregate of the acquisition date fair values of the assets transferred and liabilities incurred by the Group to the sellers and equity instruments issued. Transaction costs directly attributable to the acquisition are expensed as incurred. Identifiable assets and liabilities acquired or assumed are measured separately at their fair values as of the acquisition date, irrespective of the extent of any noncontrolling interests. The excess of (i) the total costs of acquisition, fair value of the noncontrolling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statements of operations and comprehensive loss. During the measurement period, which can be up to one year from the acquisition date, the Group may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded on the consolidated statements of operations and comprehensive loss.

In a business combination achieved in stages, the Group re-measures the previously held equity interests in the acquiree when obtaining control at its acquisition date fair value and the re-measurement gain or loss, if any, is recognized on the consolidated statements of operations and comprehensive loss.

For the Company’s majority-owned subsidiaries and consolidated VIEs, noncontrolling interests are recognized to reflect the portion of their equity which is not attributable, directly or indirectly, to the Company.

If a business combination is under common control, the acquired assets and liabilities are recognized at their historical book value. The consolidated financial statements include the results of the acquired entities from the earliest date presented or, if more recent, from the date when the entities first came under common control, regardless of the date of the combination. Consolidated financial statements for prior years would also be retrospectively adjusted for periods during which the entities were under common control.
2. Significant Accounting Policies (Continued)
   
   cc) Recently issued accounting pronouncements

   Financial Instruments-Credit Losses. In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. ASU 2016-13 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2019. The Group does not expect the adoption to have a material impact on its consolidated financial statements.

   Simplifying the Test for Goodwill Impairment. In January 2017, the FASB issued ASU 2017-04 “Simplifying the Test for Goodwill Impairment.” The guidance removes Step 2 of goodwill impairment tests, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance is to be adopted on a prospective basis for the annual or any interim goodwill impairment tests beginning after December 15, 2019. The Group does not expect the adoption to have a material impact on its consolidated financial statements.

   Fair Value Measurement. In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement, which eliminates, adds and modifies certain disclosure requirements for fair value measurements. Under the guidance, public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The guidance is effective for all entities for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years. The Group does not expect the adoption to have a material impact on its consolidated financial statements.

   Improvements to Accounting for Costs of Films and License Agreements for Program Materials. In March 2019, the FASB issued ASU 2019-02, Improvements to Accounting for Costs of Films and License Agreements for Program Materials, which improves U.S. GAAP by aligning the accounting for production costs of an episodic television series with the accounting for production costs of films by removing the content distinction for capitalization. In addition, ASU 2019-02 requires that an entity test a film or license agreement for program material within the scope of ASC 920-350 for impairment at a film group level when the film or license agreement is predominantly monetized with other films and/or license agreements. The presentation and disclosure requirements in ASU 2019-02 also increase the transparency of information provided to users of financial statements about produced and licensed content. This update will be effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Group does not expect the adoption to have a material impact on its consolidated financial statements.
3. Concentrations and Risks

a) Telecommunications service provider

The Group relied on telecommunications service providers and their affiliates for servers and bandwidth services to support its operations for the years ended December 31, 2017, 2018 and 2019 as follows:

<table>
<thead>
<tr>
<th>For the Year Ended December 31,</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of telecommunications service providers</td>
<td>52</td>
<td>88</td>
<td>107</td>
</tr>
<tr>
<td>Number of service providers providing 10% or more of the Group’s servers and bandwidth expenditure</td>
<td>2</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Total percentage of the Group’s servers and bandwidth expenditure provided by 10% or greater service providers</td>
<td>34%</td>
<td>48%</td>
<td>45%</td>
</tr>
</tbody>
</table>

b) Foreign currency exchange rate risk

The functional currency and the reporting currency of the Company are U.S. dollars and RMB, respectively. The Group’s exposure to foreign currency exchange rate risk primarily relates to cash and cash equivalents, time deposits, short-term and long-term investments, long-term debt and accounts payable denominated in the U.S. dollars. Most of the Group’s revenues, costs and expenses are denominated in RMB, while the long-term debt and a portion of cash and cash equivalents, time deposits, short-term and long-term investments, and accounts payable are denominated in U.S. dollars. Any significant fluctuation of RMB against U.S. dollars may materially and adversely affect the Company’s cash flows, revenues, earnings and financial positions.

c) Credit risk

The Group’s financial instruments potentially subject to significant concentrations of credit risk primarily consist of cash and cash equivalents, time deposits, accounts receivable, and money market funds and financial products with variable interest rates referenced to performance of underlying assets issued by commercial banks and other financial institutions. As of December 31, 2018 and 2019, substantially all of the Group’s cash and cash equivalents and time deposits were held in major financial institutions located in the United States of America and China, which management consider being of high credit quality. Accounts receivable is typically unsecured and is primarily derived from revenue earned from mobile game services (mainly relates to remittances due from payment channels and distribution channels) and advertising services. There was no individual payment channel that had receivable balance exceeding 10% of the Group’s accounts receivable balance as of December 31, 2018 and 2019. One distribution channel had receivable balance exceeding 10% of the Group’s accounts receivable balance as of December 31, 2018 and 2019, respectively, as follows:

<table>
<thead>
<tr>
<th>RMB in thousands</th>
<th>December 31, 2018</th>
<th>December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distribution channel A</td>
<td>63,762</td>
<td>118,860</td>
</tr>
</tbody>
</table>

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3. Concentrations and Risks (Continued)

d) Major customers and supplying channels

No single customer represented 10% or more of the Group’s net revenues for the years ended December 31, 2017, 2018 and 2019.

The Group relied on a distribution channel to publish and generate the iOS version of its mobile games. Mobile game revenues generated through this distribution channel accounted for approximately 38%, 29% and 17% of the Group’s total net revenues for the years ended December 31, 2017, 2018 and 2019, respectively.

e) Mobile games

Mobile game revenues accounted for 83%, 71% and 53% of the Group’s net revenues for the years ended December 31, 2017, 2018 and 2019, respectively.

The following table summarizes revenues generated by mobile games individually contributing more than 10% of the Group’s total mobile game revenues for the years ended December 31, 2017, 2018 and 2019, respectively.

<table>
<thead>
<tr>
<th>For the Year Ended December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Mobile game 1</td>
</tr>
<tr>
<td>Mobile game 2</td>
</tr>
</tbody>
</table>

4. Allowance for Doubtful Accounts

The Group closely monitors the collection of its receivables and records allowance for specifically identified non-recoverable amounts. If the economic situation and the financial condition of a customer deteriorate resulting in an impairment of the customer’s ability to make payments, additional allowances might be required.

Receivable balances are written off when they are determined to be uncollectible. The following table sets out movements of the allowance for doubtful accounts for the years ended December 31, 2017, 2018 and 2019:

<table>
<thead>
<tr>
<th></th>
<th>Charged to (write-back against) cost and expenses</th>
<th>Write-off of receivable balances and corresponding provisions</th>
<th>Balance at December 31, RMB in thousands</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Balance at January 1, RMB in thousands</td>
<td></td>
<td>Balance at December 31, RMB in thousands</td>
</tr>
<tr>
<td>2017</td>
<td>1,800</td>
<td>—</td>
<td>4,516</td>
</tr>
<tr>
<td>2018</td>
<td>4,516</td>
<td>10,904 (1,000)</td>
<td>14,420</td>
</tr>
<tr>
<td>2019</td>
<td>14,420</td>
<td>9,396 (6,120)</td>
<td>17,696</td>
</tr>
</tbody>
</table>
### 5. Prepayments and Other Current Assets

The following is a summary of prepayments and other current assets:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2018</th>
<th>December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepayments for revenue sharing cost*</td>
<td>462,883</td>
<td>542,971</td>
</tr>
<tr>
<td>Prepayments for content cost</td>
<td>130,619</td>
<td>226,500</td>
</tr>
<tr>
<td>Prepayments for sales tax</td>
<td>80,487</td>
<td>157,244</td>
</tr>
<tr>
<td>Interest income receivable</td>
<td>26,812</td>
<td>93,688</td>
</tr>
<tr>
<td>Inventories, net</td>
<td>55,032</td>
<td>69,914</td>
</tr>
<tr>
<td>Loans to investees or ongoing investments</td>
<td>84,075</td>
<td>64,463</td>
</tr>
<tr>
<td>Prepayments of marketing and other operational expenses</td>
<td>33,198</td>
<td>53,246</td>
</tr>
<tr>
<td>Prepayments/receivables relating to jointly invested content</td>
<td>44,951</td>
<td>43,838</td>
</tr>
<tr>
<td>Deposits</td>
<td>20,447</td>
<td>26,301</td>
</tr>
<tr>
<td>Prepayments to inventory suppliers</td>
<td>12,901</td>
<td>9,058</td>
</tr>
<tr>
<td>Others</td>
<td>39,446</td>
<td>28,678</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>990,851</strong></td>
<td><strong>1,315,901</strong></td>
</tr>
</tbody>
</table>

* App stores retain commissions on each purchase made by the users through the App stores. The Group is also obligated to pay ongoing licensing fees in form of royalties to the third-party game developers. Licensing fees consist of fees that the Group pays to content owners for the use of licensed content, including trademarks and copyrights, in the development of games. Licensing fees are either paid in advance and recorded on the balance sheet as prepayments or accrued as incurred and subsequently paid. Additionally, the Group defers the revenue from licensed mobile games over the estimated average playing period of paying players given that there is an implied obligation to provide on-going services to end-users. The related direct and incremental platform commissions as well as game developers’ licensing fees are deferred and reported in “Prepayments and Other Current Assets” on the consolidated balance sheets.

### 6. Short-term Investments

The following is a summary of short-term investments:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2018</th>
<th>December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial products</td>
<td>858,021</td>
<td>1,070,113</td>
</tr>
<tr>
<td>Investments in publicly traded companies</td>
<td>—</td>
<td>80,918</td>
</tr>
<tr>
<td>Money market funds</td>
<td>87,317</td>
<td>109,779</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>945,338</strong></td>
<td><strong>1,260,810</strong></td>
</tr>
</tbody>
</table>

For the years ended December 31, 2017, 2018 and 2019, the Group recorded investment income of RMB39.0 million and RMB13.8 million, and investment loss of RMB3.1 million related to short-term investments on the consolidated statements of operations and comprehensive loss, respectively.
7. Property and Equipment, Net

The following is a summary of property and equipment, net:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2018</th>
<th>December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RMB in thousands</td>
<td>RMB in thousands</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>51,186</td>
<td>76,772</td>
</tr>
<tr>
<td>Servers and computers</td>
<td>481,695</td>
<td>765,110</td>
</tr>
<tr>
<td>Others</td>
<td>19,127</td>
<td>23,211</td>
</tr>
<tr>
<td>Total</td>
<td>552,008</td>
<td>865,093</td>
</tr>
<tr>
<td>Less: accumulated depreciation</td>
<td>(157,110)</td>
<td>(349,006)</td>
</tr>
<tr>
<td>Net book value</td>
<td>394,898</td>
<td>516,087</td>
</tr>
</tbody>
</table>

Depreciation expenses were RMB38.4 million, RMB99.7 million and RMB191.8 million for the years ended December 31, 2017, 2018 and 2019, respectively.

8. Intangible Assets, Net

The following is a summary of intangible assets, net:

As of December 31, 2018

<table>
<thead>
<tr>
<th></th>
<th>Gross carrying value</th>
<th>Accumulated amortization</th>
<th>Net carrying value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RMB in thousands</td>
<td>RMB in thousands</td>
<td>RMB in thousands</td>
</tr>
<tr>
<td>Licensed copyrights of content</td>
<td>1,997,175</td>
<td>(921,565)</td>
<td>1,075,610</td>
</tr>
<tr>
<td>License rights of mobile games</td>
<td>18,098</td>
<td>(15,163)</td>
<td>2,935</td>
</tr>
<tr>
<td>Domain names and others</td>
<td>412,202</td>
<td>(71,312)</td>
<td>340,890</td>
</tr>
<tr>
<td>Total</td>
<td>2,427,475</td>
<td>(1,008,040)</td>
<td>1,419,435</td>
</tr>
</tbody>
</table>

As of December 31, 2019

<table>
<thead>
<tr>
<th></th>
<th>Gross carrying value</th>
<th>Accumulated amortization</th>
<th>Net carrying value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RMB in thousands</td>
<td>RMB in thousands</td>
<td>RMB in thousands</td>
</tr>
<tr>
<td>Licensed copyrights of content</td>
<td>3,072,959</td>
<td>(1,736,608)</td>
<td>1,336,351</td>
</tr>
<tr>
<td>License rights of mobile games</td>
<td>71,703</td>
<td>(35,863)</td>
<td>35,840</td>
</tr>
<tr>
<td>Domain names and others</td>
<td>434,089</td>
<td>(148,947)</td>
<td>285,142</td>
</tr>
<tr>
<td>Total</td>
<td>3,578,751</td>
<td>(1,921,418)</td>
<td>1,657,333</td>
</tr>
</tbody>
</table>

Amortization expenses were RMB260.6 million, RMB542.7 million and RMB905.6 million for the years ended December 31, 2017, 2018 and 2019, respectively. No impairment charge was recognized for any of the periods presented. As of December 31, 2019, the licensed copyrights of content have weighted-average useful lives of 3.2 years. The intangible assets amortization expense for future years is expected to be as follows:

<table>
<thead>
<tr>
<th>Intangible assets amortization expense</th>
<th>RMB in thousands</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>705,062</td>
</tr>
<tr>
<td>2021</td>
<td>390,818</td>
</tr>
<tr>
<td>2022</td>
<td>228,651</td>
</tr>
<tr>
<td>2023</td>
<td>123,159</td>
</tr>
<tr>
<td>2024</td>
<td>74,550</td>
</tr>
<tr>
<td>Thereafter</td>
<td>135,093</td>
</tr>
<tr>
<td><strong>Total expected amortization expense</strong></td>
<td><strong>1,657,333</strong></td>
</tr>
</tbody>
</table>

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9. Goodwill

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2018</th>
<th>December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning balance</td>
<td>50,967</td>
<td>941,488</td>
</tr>
<tr>
<td>Additions (Note 26)</td>
<td>890,521</td>
<td>70,538</td>
</tr>
<tr>
<td><strong>Ending balance</strong></td>
<td><strong>941,488</strong></td>
<td><strong>1,012,026</strong></td>
</tr>
</tbody>
</table>

No impairment charge was recognized for the years ended December 31, 2017, 2018 and 2019.

10. Long-term Investments, Net

The Group’s long-term investments primarily consist of equity investments accounted for using the measurement alternative, equity investments accounted for using the equity method and other investments accounted for at fair value.

*Equity investments using the measurement alternative*

The Group did not disclose the fair value of alternative measure method investments if it is not practicable to estimate the fair value of its alternative measure method investments for which a quoted market price is not available due to both excessive cost as well as lack of available information on fair value of such investments. Specifically, many of the investees are start-up companies in China and operate in emerging industries for which the Group has not been able to estimate their fair values. For those equity investments having observable price changes in orderly transactions for the identical or similar investments of the same issuers, the Group would disclose the fair value of the alternative measure method investments. RMB34.2 million and nil of investment income was recognized in “Investment income, net”, as a result of re-measurement of equity investments using the measurement alternative, for the years ended December 31, 2018 and 2019, respectively. As of December 31, 2018 and 2019, the carrying value of equity investments accounted for using the measurement alternative was RMB793.1 million and RMB666.0 million, respectively.

The Group recorded impairment charges for long-term investments of RMB46.4 million and RMB5.9 million as “Investment income, net” on the consolidated statements of operations and comprehensive loss for the years ended December 31, 2018 and 2019, respectively, as the Group determined the fair value of these investments was less than their carrying value. Prior to the adoption of ASU 2016-01, impairment charges for long-term investments recorded by the Group were RMB16.0 million for the year ended December 31, 2017.
10. Long-term Investments, Net (Continued)

Equity investments accounted for using the equity method

As of December 31, 2019, the carrying value of equity investments accounted for using the equity method was RMB280.0 million. RMB24.2 million of the Group’s proportionate share of equity investee’s net loss, after net-off of dividend received, was recognized in “Investment income, net” for the year ended December 31, 2019. No impairment charges were recognized for the year ended December 31, 2019. The Group did not have equity method investment as of December 31, 2018.

Investments accounted for at fair value

Investments accounted for at fair value primarily include financial products with variable interest rates referenced to performance of underlying assets and with original maturities greater than one year. Nil, a loss of RMB2.9 million and a gain of RMB13.2 million resulted from the change in fair value was recognized in “Investment income, net” for the years ended December 31, 2017, 2018 and 2019, respectively.

11. Taxation

Composition of income tax

The following table presents the composition of income tax expenses for the years ended December 31, 2017, 2018 and 2019:

<table>
<thead>
<tr>
<th>For the Year Ended December 31</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current income tax expense</td>
<td>8,881</td>
<td>14,909</td>
<td>29,452</td>
</tr>
<tr>
<td>Withholding income tax expense</td>
<td>—</td>
<td>11,079</td>
<td>16,894</td>
</tr>
<tr>
<td>Deferred income tax expense</td>
<td>—</td>
<td>—</td>
<td>(10,479)</td>
</tr>
<tr>
<td>Total</td>
<td>8,881</td>
<td>25,988</td>
<td>35,867</td>
</tr>
</tbody>
</table>

a) Income taxes

Cayman Islands

Under the current laws of the Cayman Islands, the Company and its intermediate holding companies in the Cayman Islands are not subject to tax on income or capital gain. Additionally, upon payments of dividends by the Company or its subsidiaries in the Cayman Islands to their shareholders, no withholding tax will be imposed.

British Virgin Islands (“BVI”)

Subsidiaries in the BVI are exempted from income tax on their foreign-derived income in the BVI. There are no withholding taxes in the BVI.
11. Taxation (Continued)

a) Income taxes (continued)

Hong Kong

Subsidiaries in Hong Kong are subject to 16.5% income tax on their taxable income generated from operations in Hong Kong. The payments of dividends by these companies to their shareholders are not subject to any withholding tax in Hong Kong. Commencing from the year of assessment of 2018 and 2019, the first HK$2 million of profits earned by the Company’s subsidiaries incorporated in Hong Kong will be taxed at half the current tax rate (i.e. 8.25%) while the remaining profits will continue to be taxed at the existing 16.5% tax rate.

China

On March 16, 2007, the National People’s Congress of the PRC enacted the Enterprise Income Tax (“EIT”) Law, under which FIEs and domestic companies would be subject to EIT at a uniform rate of 25%. Preferential tax treatments will continue to be granted to FIEs or domestic companies which conduct businesses in certain encouraged sectors and to entities otherwise classified as “Software Enterprises”, “Key Software Enterprises” and/or “High and New Technology Enterprises” (“HNTEs”). The EIT Law became effective on January 1, 2008.

The aforementioned preferential tax rates are subject to annual review by the relevant tax authorities in China. Shanghai Hode was qualified as a HNTE in 2017 and Shanghai Bilibili Technology Co., Ltd. was qualified as a HNTE in 2018, respectively. Therefore, they are entitled to a preferential income tax rate at 15% for three years starting from 2017 and 2018, respectively, provided that they continue to qualify as HNTEs during such periods.

The following table presents a reconciliation of the differences between the statutory income tax rate and the Group’s effective income tax rate for the years ended December 31, 2017, 2018 and 2019:

<table>
<thead>
<tr>
<th>For the Year Ended December 31</th>
<th>2017 %</th>
<th>2018 %</th>
<th>2019 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory income tax rate</td>
<td>25.00</td>
<td>25.00</td>
<td>25.00</td>
</tr>
<tr>
<td>Permanent differences</td>
<td>(13.22)</td>
<td>(3.76)</td>
<td>(0.83)</td>
</tr>
<tr>
<td>Tax rate difference from statutory rate in other jurisdictions*</td>
<td>(20.07)</td>
<td>(0.92)</td>
<td>(0.39)</td>
</tr>
<tr>
<td>Tax effect of preferential tax treatments</td>
<td>3.76</td>
<td>(3.15)</td>
<td>(8.48)</td>
</tr>
<tr>
<td>Withholding tax</td>
<td>—</td>
<td>(2.05)</td>
<td>(1.33)</td>
</tr>
<tr>
<td>Change in valuation allowance</td>
<td>(0.55)</td>
<td>(19.94)</td>
<td>(16.80)</td>
</tr>
<tr>
<td>Effective income tax rate</td>
<td>(5.08)</td>
<td>(4.82)</td>
<td>(2.83)</td>
</tr>
</tbody>
</table>

* It is primarily due to the tax effect of the Company as a tax-exempt entity incorporated in the Cayman Islands.

As of December 31, 2019, certain entities of the Group had net operating tax loss carry forwards as follows:

- Loss expiring in 2020: RMB 78,943 thousand
- Loss expiring in 2021: RMB 53,320 thousand
- Loss expiring in 2022: RMB 137,483 thousand
- Loss expiring in 2023: RMB 457,884 thousand
- Loss expiring in 2024: RMB 1,316,206 thousand
- Total: RMB 2,043,836 thousand
11. Taxation (Continued)

b) Sales tax

The Group’s subsidiaries and VIEs incorporated in China are subject to 6% value added tax (“VAT”) for services rendered and 16% or 13% VAT for goods sold.

c) Deferred tax assets and liabilities

The following table presents the tax impact of significant temporary differences that give rise to the deferred tax assets and liabilities as of December 31, 2018 and 2019:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2018</th>
<th>December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RMB in thousands</td>
<td>RMB in thousands</td>
</tr>
<tr>
<td>Deferred tax assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred revenue, primarily for games</td>
<td>90,311</td>
<td>95,806</td>
</tr>
<tr>
<td>Accrued expenses and other payables</td>
<td>25,984</td>
<td>82,351</td>
</tr>
<tr>
<td>Advertising expenses in excess of deduction limit</td>
<td>312</td>
<td>7,507</td>
</tr>
<tr>
<td>Net operating tax loss carry forwards</td>
<td>176,439</td>
<td>360,975</td>
</tr>
<tr>
<td>Others</td>
<td>909</td>
<td>1,199</td>
</tr>
<tr>
<td>Total deferred tax assets</td>
<td>293,955</td>
<td>547,838</td>
</tr>
<tr>
<td>Less: valuation allowance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(293,955)</td>
<td>(537,359)</td>
<td></td>
</tr>
<tr>
<td>Net deferred tax assets</td>
<td></td>
<td>10,479</td>
</tr>
</tbody>
</table>

Realization of the net deferred tax assets is dependent on factors including future reversals of existing taxable temporary differences and adequate future taxable income, exclusive of reversing deductible temporary differences and tax loss or credit carry forwards. The Group evaluates the potential realization of deferred tax assets on an entity-by-entity basis. As of December 31, 2018, and 2019, valuation allowances were provided against deferred tax assets in entities where it was determined it was more-likely-than-not that the benefits of the deferred tax assets will not be realized.

The following table sets forth the movement of the aggregate valuation allowances for deferred tax assets for the periods presented:

<table>
<thead>
<tr>
<th></th>
<th>Re-measurement due to applicable preferential tax rate for HNTE</th>
<th>Addition</th>
<th>Expiration of loss carry forward and impact of disposal of subsidiaries</th>
<th>Balance at December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RMB in thousands</td>
<td></td>
<td></td>
<td>RMB in thousands</td>
</tr>
<tr>
<td>Balance at January 1</td>
<td>23,074 (962)</td>
<td>(248,896)</td>
<td>5,492</td>
<td>(537,359)</td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>22,502 (159,690)</td>
<td>497</td>
<td></td>
<td>(293,955)</td>
</tr>
<tr>
<td>2019</td>
<td>—</td>
<td>(248,896)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
11. Taxation (Continued)

d) Withholding income tax on dividends

The EIT Law also imposes a withholding income tax of 10% on dividends distributed by a FIE to its immediate holding company outside of China, if such immediate holding company is considered as a non-resident enterprise without any establishment or place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company’s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. The Cayman Islands, where the Company was incorporated, does not have such tax treaty with China. According to the arrangement between mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by a FIE in China to its immediate holding company in Hong Kong will be subject to withholding tax at a rate that may be lowered to 5% (if the foreign investor owns directly at least 25% of the shares of the FIE). The State Administration of Taxation further promulgated Circular 601 on October 27, 2009, which provides that tax treaty benefits will be denied to “conduit” or shell companies without business substance and that a beneficial ownership analysis will be used based on a “substance-over-form” principle to determine whether or not to grant the tax treaty benefits.

To the extent that subsidiaries and VIEs of the Group have undistributed earnings, the Group will accrue appropriate expected withholding tax associated with repatriation of such undistributed earnings. As of December 31, 2018 and 2019, the Group did not record any withholding tax on the retained earnings of its subsidiaries and VIEs in the PRC as they were still in accumulated deficit position.

12. Taxes Payable

The following is a summary of taxes payable as of December 31, 2018 and 2019:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2018</th>
<th>December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RMBs in thousands</td>
<td>RMBs in thousands</td>
</tr>
<tr>
<td>Withholding individual income taxes for employees</td>
<td>7,844</td>
<td>12,941</td>
</tr>
<tr>
<td>VAT payable</td>
<td>13,920</td>
<td>16,519</td>
</tr>
<tr>
<td>EIT payable</td>
<td>6,913</td>
<td>20,599</td>
</tr>
<tr>
<td>Withholding income tax payable</td>
<td>5,510</td>
<td>12,302</td>
</tr>
<tr>
<td>Others</td>
<td>4,318</td>
<td>5,495</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>38,505</strong></td>
<td><strong>67,856</strong></td>
</tr>
</tbody>
</table>
13. Accrued Liabilities and Other Payables

The following is a summary of accrued liabilities and other payables as of December 31, 2018 and 2019:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2018</th>
<th>December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued marketing expenses</td>
<td>71,217</td>
<td>229,457</td>
</tr>
<tr>
<td>Leasing liabilities - current portion</td>
<td>—</td>
<td>95,901</td>
</tr>
<tr>
<td>Consideration payable for acquisitions and investments</td>
<td>502,279</td>
<td>79,059</td>
</tr>
<tr>
<td>Advances to/payables from third parties</td>
<td>21,966</td>
<td>76,893</td>
</tr>
<tr>
<td>Payables to producers and licensors</td>
<td>9,357</td>
<td>25,898</td>
</tr>
<tr>
<td>Professional fees</td>
<td>13,492</td>
<td>22,562</td>
</tr>
<tr>
<td>Other staff related cost</td>
<td>18,685</td>
<td>13,791</td>
</tr>
<tr>
<td>Interest payable</td>
<td>11,990</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>33,446</td>
<td>20,212</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>670,442</strong></td>
<td><strong>575,763</strong></td>
</tr>
</tbody>
</table>

14. Deferred Revenue

Deferred revenue relates to unsatisfied performance obligations at the end of each reporting period and consists of cash payment received in advance from game players in mobile games, from customers in advertising services, live broadcasting services and other VAS, and e-commerce platforms. Due to the generally short-term duration of the relevant contracts, the majority of the performance obligations are satisfied within one year. The amount of revenue recognized that was included in the receipts in advance balance at the beginning of the year was RMB571.4 million and RMB943.4 million for the years ended December 31, 2018 and 2019.

15. Long-term Debt

In April 2019, the Group issued US$500.0 million of 2026 Notes with an interest rate of 1.375% per annum. The net proceeds to the Company from the issuance of the 2026 Notes were US$488.2 million (RMB3,356.1 million), net of issuance costs of US$11.8 million (RMB81.1 million). The 2026 Notes may be converted, at an initial conversion rate of 40.4040 ADSs per US$1,000 principal amount (which represents an initial conversion price of US$24.75 per ADS) at each holder’s option at any time prior to the close of business on the second business day immediately preceding the maturity date of April 1, 2026.

Holders of the 2026 Notes may require the Company to repurchase all or part of their 2026 Notes in cash on April 1, 2024 or in the event of certain fundamental changes at a repurchase price equal to 100% of the principal amount, plus accrued and unpaid interest.

The issuance costs of the 2026 Notes were amortized to interest expense over the contractual life to the maturity date (i.e., April 1, 2026). For the year ended December 31, 2019, the 2026 Notes related interest expense was US$6.4 million (RMB44.9 million).

The Group assessed the 2026 Notes under ASC 815 and concluded that:

- Since the conversion option is considered indexed to the Company’s own stock and classified in stockholders’ equity, bifurcation of conversion option from the 2026 Notes is not required as the scope exception prescribed in ASC 815-10-15-74 is met;
- The repurchase option is considered clearly and closely related to its debt host and does not meet the requirement for bifurcation;
15. Long-term Debt (Continued)

- There was no beneficial conversion feature attributed to the 2026 Notes as the conversion price for the 2026 Notes was greater than the fair value of the Company’s ordinary share price at date of issuance;

Therefore, the Group accounted for the 2026 Notes as a single instrument as “Long-term debt” on the consolidated balance sheets. The issuance costs were recorded as an adjustment to the long-term debt and are amortized as interest expense using the effective interest method. As of December 31, 2019, the principal amount of the debt was RMB3,488.1 million and unamortized debt issuance costs were RMB73.5 million.

16. Ordinary Shares

Since the inception, the Company issued Pre-IPO Class A, Pre-IPO Class B, Pre-IPO Class C, and Pre-IPO Class D Ordinary Shares, or collectively referred to as “Pre-IPO Ordinary Shares”. Holders of Pre-IPO Class B, Pre-IPO Class C and Pre-IPO Class D Ordinary Shares have rights to convert their shares into Pre-IPO Class A Ordinary Shares on 1:1 ratio at any time after the date of issuance.

According to the revised memorandum of association of the Company dated April 1, 2017, all the Pre-IPO Ordinary Shares held by the founders shall have the right to ten votes for each outstanding Pre-IPO ordinary share they held. Each of the Pre-IPO Ordinary Shares held by a person other than the founders and all Pre-IPO Preferred Shares shall have the right to one vote for each outstanding Pre-IPO Ordinary Share or Pre-IPO Preferred Share they held (on an as-converted basis).

Immediately prior to the completion of the IPO, the Company adopted a dual-class share structure, consisting of Class Y Ordinary Shares and Class Z Ordinary Shares, par value US$0.0001 per share. As set forth in the Sixth Amended and Restated Memorandum and Articles of Association of the Company effective immediately prior to the completion of the IPO, holders of Class Y Ordinary Shares and Class Z Ordinary Shares have the same rights except that the holders of Class Z Ordinary Shares are entitled to one vote per share in respect of matters requiring the votes of shareholders, while holders of Class Y Ordinary Shares are entitled to ten votes per share. Each Class Y Ordinary Share is convertible into one Class Z Ordinary Share at any time by the holder thereof. Class Z Ordinary Shares are not convertible into Class Y Ordinary Shares under any circumstances. The Group concluded that the adoption of dual-class share structure did not have a material impact on its consolidated financial statements.

Other permanent equities

The Pre-IPO Class B, Pre-IPO Class C and Pre-IPO Class D Ordinary Shares are preferred shares in nature as they have liquidation preference compared to Pre-IPO Class A Ordinary Shares. The Group classified Pre-IPO Class B Ordinary Shares as permanent equity as they are not redeemable. Pre-IPO Class C and Pre-IPO Class D Ordinary Shares are redeemable upon certain liquidation events, including a change in control, which is deemed to be a liquidation event. However, as stipulated in the article of association of the Company, change in control will trigger the legal liquidation and termination of the Company, unless both majority of preferred shareholders and majority of ordinary shareholders otherwise agree on the exemption. Therefore, upon occurrence of the change in control, the Company will be liquidated and terminated, all the holders of equity shares of the Company are entitled to redeem, and form of consideration (cash or share) should be the same. Accordingly, such liquidation feature meets the exception in ASC 480-10-S99-3A(f) and therefore Pre-IPO Class C and Pre-IPO Class D Ordinary Shares were classified as permanent equity on the consolidated balance sheets.

In April 2018, the Company completed its IPO on the NASDAQ Global Select Market. In the offering, 42,000,000 ADSs, representing 42,000,000 Class Z Ordinary Shares, were issued and sold to the public at a price of US$11.50 per ADS. The net proceeds to the Company from the IPO, after deducting commissions and offering expenses, were approximately $443.3 million (RMB2,781.8 million).
Upon the completion of the IPO, the Company completed the redesignation on a one-for-one basis of: (i) 60,027,926 shares of Pre-IPO Class A Ordinary Shares, 13,600,000 shares of Pre-IPO Class B Ordinary Shares, 8,500,000 shares of Pre-IPO Class C Ordinary Shares, and 2,132,353 shares of Pre-IPO Class D Ordinary Shares into Class Y Ordinary Shares; and 9,309,000 shares of Pre-IPO Class A Ordinary Shares into Class Z Ordinary Shares; (ii) 1,104,535 shares of Pre-IPO Series C1 Preferred Shares into Class Y Ordinary Shares, 7,078,502 shares of Pre-IPO Series A Preferred Shares, 14,643,281 shares of Pre-IPO Series A+ Preferred Shares, 22,794,876 shares of Pre-IPO Series B Preferred Shares, 27,996,184 shares of Pre-IPO Series C Preferred Shares, 41,480,769 shares of Pre-IPO Series C1 Preferred Shares, 954,605 shares of Pre-IPO Series C2 Preferred Shares, 13,101,189 shares of Pre-IPO Series D1 Preferred Shares and 13,759,564 shares of Pre-IPO Series D2 Preferred Shares into Class Z Ordinary Shares.

In October 2018, 25,063,451 ADSs, representing 25,063,451 Class Z Ordinary Shares, were issued and sold to Tencent. The net proceeds to the Company from the offering, after deducting offering expenses, were approximately US$317.2 million (RMB2,170.8 million).

In April 2019, the Company completed the Primary Offering. The total net proceeds to the Company, after deducting commissions and offering expenses, were approximately US$245.7 million (RMB1,647.7 million).

The Pre-IPO Series A, A+, B, C, C1/C2 and D1/D2 Preferred Shares are collectively referred to as the “Pre-IPO Preferred Shares”. The Group classified the Pre-IPO Preferred Shares as mezzanine equity on the consolidated balance sheets, as they were contingently redeemable at the options of the holders, and recorded accretion on the Pre-IPO Preferred Shares to the redemption value from the issuance dates to the earliest redemption dates.

Upon the completion of the Company’s IPO, all of the issued and outstanding Pre-IPO Preferred Shares were redesignated into Class Y Ordinary Shares and Class Z Ordinary Shares, respectively. See Note 16 for additional information.

In 2017, the Company redesignated certain Pre-IPO Series C Preferred Shares into Pre-IPO Series D1 Preferred Shares, which resulted in a deemed dividend of RMB129.2 million and were recorded against additional paid-in capital.
17. Pre-IPO Preferred Shares (Continued)

The Group’s Pre-IPO Preferred Shares activities for the year ended December 31, 2017 are summarized below:

<table>
<thead>
<tr>
<th>Pre-IPO Series</th>
<th>Preferred Shares</th>
<th>Number of shares</th>
<th>Amount (in RMB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-IPO Series A</td>
<td>Preferred Shares</td>
<td>7,078,502</td>
<td>15,640</td>
</tr>
<tr>
<td>Pre-IPO Series A+</td>
<td>Preferred Shares</td>
<td>7,078,502</td>
<td>15,640</td>
</tr>
<tr>
<td>Pre-IPO Series B</td>
<td>Preferred Shares</td>
<td>22,794,876</td>
<td>382,257</td>
</tr>
<tr>
<td>Pre-IPO Series C</td>
<td>Preferred Shares</td>
<td>30,297,573</td>
<td>1,085,154</td>
</tr>
<tr>
<td>Pre-IPO Series C1</td>
<td>Preferred Shares</td>
<td>42,381,304</td>
<td>1,344,096</td>
</tr>
<tr>
<td>Pre-IPO Series C2</td>
<td>Preferred Shares</td>
<td>954,605</td>
<td>34,317</td>
</tr>
<tr>
<td>Pre-IPO Series D1</td>
<td>Preferred Shares</td>
<td>1,344,096</td>
<td>49,086</td>
</tr>
<tr>
<td>Pre-IPO Series D2</td>
<td>Preferred Shares</td>
<td>13,759,564</td>
<td>689,069</td>
</tr>
<tr>
<td>Total Mezzanine Equity</td>
<td></td>
<td>14,914,207</td>
<td>738,155</td>
</tr>
</tbody>
</table>

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## 17. Pre-IPO Preferred Shares (Continued)

The Group’s Pre-IPO Preferred Shares activities for the year ended December 31, 2018 are summarized below:

<table>
<thead>
<tr>
<th>Pre-IPO Series A Preferred Shares</th>
<th>Pre-IPO Series A+ Preferred Shares</th>
<th>Pre-IPO Series B Preferred Shares</th>
<th>Pre-IPO Series C Preferred Shares</th>
<th>Pre-IPO Series C1 Preferred Shares</th>
<th>Pre-IPO Series C2 Preferred Shares</th>
<th>Pre-IPO Series D1 Preferred Shares</th>
<th>Pre-IPO Series D2 Preferred Shares</th>
<th>Total Mezzanine Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of shares</td>
<td>Amount</td>
<td>Number of shares</td>
<td>Amount</td>
<td>Number of shares</td>
<td>Amount</td>
<td>Number of shares</td>
<td>Amount</td>
<td>Number of shares</td>
</tr>
<tr>
<td>RMB in thousands, except for share data</td>
<td></td>
<td>RMB in thousands, except for share data</td>
<td></td>
<td>RMB in thousands, except for share data</td>
<td></td>
<td>RMB in thousands, except for share data</td>
<td></td>
<td>RMB in thousands, except for share data</td>
</tr>
<tr>
<td>Balance as of December 31, 2017</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7,678,362</td>
<td>16,625</td>
<td>14,641,201</td>
<td>85,681</td>
<td>22,794,876</td>
<td>325,509</td>
<td>27,996,184</td>
<td>979,305</td>
<td>586,185</td>
</tr>
<tr>
<td>Accretion to Pre-IPO Preferred Shares redemption value</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(30,007)</td>
</tr>
<tr>
<td>Redesignation of Pre-IPO Preferred Shares into Class Y Ordinary Shares</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(30,007)</td>
</tr>
<tr>
<td>Redesignation of Pre-IPO Preferred Shares into Class Z Ordinary Shares</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(30,007)</td>
</tr>
<tr>
<td>Balance as of December 31, 2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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18. Employee Benefits

The Company’s subsidiaries and VIEs incorporated in China participate in a government-mandated multi-employer defined contribution plan under which certain retirement, medical, housing and other welfare benefits are provided to employees. Chinese labor regulations require the Company’s Chinese subsidiaries and VIEs to pay to the local labor bureau a monthly contribution at a stated contribution rate based on the monthly basic compensation of qualified employees. The relevant local labor bureau is responsible for meeting all retirement benefit obligations; hence, the Group has no further commitments beyond its monthly contribution. The following table presents the Group’s employee welfare benefits expenses for the years ended December 31, 2017, 2018 and 2019:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions to medical and pension schemes</td>
<td>91,302</td>
<td>158,113</td>
<td>215,553</td>
</tr>
<tr>
<td>Other employee benefits</td>
<td>14,595</td>
<td>23,958</td>
<td>24,180</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>105,897</strong></td>
<td><strong>182,071</strong></td>
<td><strong>239,733</strong></td>
</tr>
</tbody>
</table>

19. Share-based Compensation

a) Description of share option plans

In July 2014, the Group adopted its Global Share Incentive Plan (the “2014 Plan”), which permits the grant of options, restricted shares and restricted share units of the Company to relevant directors, officers, other employees and consultants of the Group. The maximum aggregate number of Class Z Ordinary Shares, which may be issued pursuant to all awards under the 2014 Plan, is 19,880,315 shares.

In February 2018, the Group adopted its 2018 Share Incentive Plan (the “2018 Plan”) to provide additional incentives to employees, directors and consultants and promote the success of our business. The maximum aggregate number of Class Z Ordinary Shares, which may be issued pursuant to all awards under the 2018 Plan, is 6,962,069 shares.

Option awards are granted with an exercise price determined by the Board of Directors. Those option awards generally vest over a period of two to four years and expire in six years.

As of December 31, 2019, total unrecognized compensation expenses related to unvested awards granted under the 2014 Plan and the 2018 Plan, adjusted for estimated forfeitures, was RMB472.0 million, which is expected to be recognized over a weighted-average period of 3.0 years and may be adjusted for future changes in estimated forfeitures.

b) Valuation assumptions

The Group uses binomial option pricing model to determine the fair value of share options. The estimated fair value of each share option granted is estimated on the date of grant using the binomial option-pricing model with the following assumptions:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected volatility</td>
<td>42.5%-45.8%</td>
<td>47.8%-48.4%</td>
<td>49.6%-52.1%</td>
</tr>
<tr>
<td>Weighted average volatility</td>
<td>43.3%</td>
<td>48.3%</td>
<td>50.8%</td>
</tr>
<tr>
<td>Expected dividends</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Risk-free rate</td>
<td>1.5% - 2.3%</td>
<td>2.6%-2.8%</td>
<td>1.4%-2.4%</td>
</tr>
<tr>
<td>Contractual term (in years)</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
</tbody>
</table>
19. Share-based Compensation (Continued)

(b) Valuation assumptions (continued)

The expected volatility at each grant date was estimated based on the annualized standard deviation of the daily return embedded in historical share prices of comparable peer companies with a time horizon close to the expected expiry of the term of the share options. The weighted average volatility is the expected volatility at the grant date weighted by the number of the share options. The Company has never declared or paid any cash dividends on its capital stock, and the Company does not anticipate any dividend payments in the foreseeable future. Contractual term is the remaining contract life of the share options. The Group estimated the risk-free interest rate based on the yield to maturity of U.S. treasury bonds denominated in US dollars at the share option grant date.

(c) Share options activities

The following table presents a summary of the Group’s share options activities for the years ended December 31, 2017, 2018 and 2019:

<table>
<thead>
<tr>
<th></th>
<th>Employees (In thousands)</th>
<th>Senior Management (In thousands)</th>
<th>Consultants (In thousands)</th>
<th>Total (In thousands)</th>
<th>Weighted Average Exercise Price (US$)</th>
<th>Weighted Average Remaining Contractual Life (In years)</th>
<th>Aggregate Intrinsic Value (RMB in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding at January 1, 2017</td>
<td>4,992</td>
<td>6,580</td>
<td>—</td>
<td>11,572</td>
<td>0.0001</td>
<td>5.02</td>
<td>224,620</td>
</tr>
<tr>
<td>Granted</td>
<td>3,419</td>
<td>5,115</td>
<td>700</td>
<td>9,234</td>
<td>0.0001</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Exercised</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>0.0001</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Forfeited</td>
<td>(287)</td>
<td>(1,100)</td>
<td>—</td>
<td>(1,387)</td>
<td>0.0001</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Outstanding at December 31, 2017</td>
<td>8,124</td>
<td>10,595</td>
<td>700</td>
<td>19,419</td>
<td>0.0001</td>
<td>4.80</td>
<td>880,197</td>
</tr>
<tr>
<td>Outstanding at January 1, 2018</td>
<td>8,124</td>
<td>10,595</td>
<td>700</td>
<td>19,419</td>
<td>0.0001</td>
<td>4.80</td>
<td>880,197</td>
</tr>
<tr>
<td>Granted</td>
<td>2,587</td>
<td>620</td>
<td>—</td>
<td>3,207</td>
<td>0.0001</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Exercised</td>
<td>(2,387)</td>
<td>(5,543)</td>
<td>(212)</td>
<td>(8,142)</td>
<td>0.0001</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Forfeited</td>
<td>(683)</td>
<td>(1,437)</td>
<td>(50)</td>
<td>(2,170)</td>
<td>0.0001</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Outstanding at December 31, 2018</td>
<td>7,641</td>
<td>4,235</td>
<td>438</td>
<td>12,314</td>
<td>0.0001</td>
<td>4.46</td>
<td>1,233,028</td>
</tr>
<tr>
<td>Outstanding at January 1, 2019</td>
<td>7,641</td>
<td>4,235</td>
<td>438</td>
<td>12,314</td>
<td>0.0001</td>
<td>4.46</td>
<td>1,233,028</td>
</tr>
<tr>
<td>Granted</td>
<td>2,464</td>
<td>730</td>
<td>—</td>
<td>3,194</td>
<td>0.0001</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Exercised</td>
<td>(1,352)</td>
<td>(710)</td>
<td>(193)</td>
<td>(2,255)</td>
<td>0.0001</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Forfeited</td>
<td>(479)</td>
<td>(600)</td>
<td>—</td>
<td>(1,079)</td>
<td>0.0001</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Outstanding at December 31, 2019</td>
<td>8,274</td>
<td>3,655</td>
<td>245</td>
<td>12,174</td>
<td>0.0001</td>
<td>4.13</td>
<td>1,581,408</td>
</tr>
<tr>
<td>Exercisable as of December 31, 2019</td>
<td>955</td>
<td>—</td>
<td>145</td>
<td>1,100</td>
<td>0.0001</td>
<td>2.59</td>
<td>142,892</td>
</tr>
</tbody>
</table>

The weighted average grant date fair value of share options granted for the years ended December 31, 2017, 2018 and 2019 was RMB35.1 (US$5.3), RMB76.2 (US$11.7) and RMB104.4 (US$15.0) per share, respectively.

It is the Group’s policy to issue new shares upon exercise of share options. The aggregate number of Class Z Ordinary Shares available for future grant under the 2014 Plan and the 2018 Plan was 4,271,875 as of December 31, 2019.

In 2017, the Company also recognized a total of RMB36.1 million share-based compensation expenses on certain transactions related to Pre-IPO Class A Ordinary Shares, Pre-IPO Series C1 and Pre-IPO Series D1 Preferred Shares.
20. Net Loss per Share

For the years ended December 31, 2017, 2018 and 2019, the Company had potential ordinary shares, including share options granted, Pre-IPO Preferred Shares and other permanent equities, and ordinary shares issuable upon the conversion of the 2026 Notes, where applicable. As the Group incurred losses for the years ended December 31, 2017, 2018 and 2019, these potential ordinary shares were anti-dilutive and excluded from the calculation of diluted net loss per share. Considering that the holders of Pre-IPO Preferred Shares and other permanent equities have no contractual obligations to participate in the Group’s losses, any losses from the Group was not be allocated to them.

For the year ended December 31, 2017, the numbers of share options, Pre-IPO Preferred Shares and other permanent equities that were anti-dilutive and excluded from the calculation of diluted net loss per share were 20,419,209 shares, 142,913,505 shares and 24,232,353 shares, respectively.

Upon the completion of the Company’s IPO in April 2018, all of the outstanding Pre-IPO Preferred Shares and other permanent equities were converted into 25,336,888 shares of Class Y Ordinary Shares and 141,808,970 of Class Z Ordinary Shares. The number of share options, which was anti-dilutive and excluded from the computation of diluted net loss per share for the year ended December 31, 2018, was 15,594,490 shares.

For the year ended December 31, 2019, the numbers of share options and the number of ordinary shares issuable upon the conversion of the 2026 Notes, which were anti-dilutive and excluded from the computation of diluted net loss per share, were 9,328,721 shares and 20,202,000 shares, respectively.
20. Net Loss per Share (Continued)

The following table sets forth the computation of basic and diluted net loss per share for the years ended December 31, 2017, 2018 and 2019:

<table>
<thead>
<tr>
<th>For the Year Ended December 31</th>
<th>RMB in thousands, except share and per share data</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>Numerator:</td>
<td></td>
</tr>
<tr>
<td>Net loss</td>
<td>(183,750)</td>
</tr>
<tr>
<td>Accretion to Pre-IPO Preferred Shares redemption value</td>
<td>(258,554)</td>
</tr>
<tr>
<td>Deemed dividend in connection with repurchase of Pre-IPO Preferred Shares</td>
<td>(129,244)</td>
</tr>
<tr>
<td>Net loss attributable to noncontrolling interests</td>
<td>—</td>
</tr>
<tr>
<td>Net loss attributable to Bilibili Inc.’s shareholders for basic/dilutive net loss per share calculation</td>
<td>(571,548)</td>
</tr>
<tr>
<td>Denominator:</td>
<td></td>
</tr>
<tr>
<td>Weighted average number of ordinary shares outstanding, basic</td>
<td>69,938,570</td>
</tr>
<tr>
<td>Weighted average number of ordinary shares outstanding, diluted</td>
<td>69,938,570</td>
</tr>
<tr>
<td>Net loss per share, basic</td>
<td>(8.17)</td>
</tr>
<tr>
<td>Net loss per share, diluted</td>
<td>(8.17)</td>
</tr>
</tbody>
</table>

21. Commitments and Contingencies

(a) Commitments

Purchase obligations

In December 2019, the Group entered into a letter of intent to purchase the three-year license for live broadcasting the League of Legends World Championship in China starting from 2020 at an aggregate purchase price of RMB800.0 million (US$114.9 million).

Long-term debt obligations

The Group’s long-term debt obligations are to repay the principal amount and cash interests in connection with the 2026 Notes. The expected repayment schedule of the 2026 Notes has been disclosed in Note 15.

(b) Litigation

From time to time, the Group is involved in claims and legal proceedings that arise in the ordinary course of business. Based on currently available information, management does not believe that the ultimate outcome of any unresolved matters, individually and in the aggregate, is reasonably possible to have a material adverse effect on the Group’s financial position, results of operations or cash flows.

However, litigation is subject to inherent uncertainties and the Group’s view of these matters may change in the future. The Group records a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Group reviews the need for any such liability on a regular basis. The Group has not recorded any material liabilities in this regard as of December 31, 2018 and 2019.

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22. Related Party Transactions and Balances

The Group entered into the following significant related party transactions for the periods presented:

<table>
<thead>
<tr>
<th></th>
<th>For the Year Ended December 31,</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2018</td>
<td>2019</td>
</tr>
<tr>
<td>Purchases of goods and services</td>
<td>3,741</td>
<td>162,992</td>
<td>87,597</td>
</tr>
<tr>
<td>Transfer of long-term investments*</td>
<td>12,750</td>
<td>3,250</td>
<td>539,646</td>
</tr>
</tbody>
</table>

The Group had the following significant related party balances as of December 31, 2018 and 2019 respectively:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2018</th>
<th>December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount due from related parties</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due from an investment fund</td>
<td>—</td>
<td>170,535</td>
</tr>
<tr>
<td>Due from other related parties</td>
<td>—</td>
<td>24,755</td>
</tr>
<tr>
<td>Total</td>
<td>—</td>
<td>195,290</td>
</tr>
<tr>
<td>Amount due to related parties</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due to Chaodian</td>
<td>50,331</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>50,331</td>
<td>—</td>
</tr>
</tbody>
</table>

* In June 2019, to focus the Company’s efforts and resources on its core businesses, the Company transferred several equity investments of the Group to an investment fund. The Group contributed a total of RMB220.0 million cash into this fund as a limited partner, which is accounted for as an equity method investment. The cost of the equity investments transferred was RMB465.8 million. The consideration was RMB539.6 million, which was based on the estimated fair value of the investments. The difference between the consideration and cost of the investments was recognized as investment income. As of December 31, 2019, the consideration receivable was RMB143.7 million. The transactions in 2017 and 2018 referred to the investments transferred to an entity controlled by the Group’s major shareholders.

23. Segment Information

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker (“CODM”), or decision making group, in deciding how to allocate resources and in assessing performance. The Group’s CODM is Mr. Rui Chen, the Chairman of the Board of Directors and CEO.

The Group’s organizational structure is based on a number of factors that the CODM uses to evaluate, view and run its business operations which include, but not limited to, customer base, homogeneity of products and technology. The Group’s operating segments are based on such organizational structure and information reviewed by the Group’s CODM to evaluate the operating segment results. The Group has internal reporting of revenue, cost and expenses by nature as a whole. Hence, the Group has only one operating segment.

Substantially the majority of the Group’s revenues are derived from China based on the geographical locations where services are provided to customers. In addition, the Group’s long-lived assets are substantially all located in and derived from China, and the amount of long-lived assets attributable to any individual other country is not material. Therefore, no geographical segments are presented.

F-56
24. Fair Value Measurement

When available, the Group uses quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, the Group will measure fair value using valuation techniques that use, when possible, current market-based or independently sourced market parameters, such as interest rates and currency rates. The Group measures investments in money market funds, financial products and equity investments in publicly traded companies at fair value.

Money market funds and equity investments in publicly traded companies. The Group values its money market funds and equity investments in publicly traded companies using observable inputs that reflect quoted prices for securities with identical characteristics, and accordingly, the Group classifies the valuation techniques that use these inputs as Level 1.

Financial products. The Group values its financial products investments held in certain banks or other financial institutions using quoted prices for securities with similar characteristics and other observable inputs, and accordingly, the Group classifies the valuation techniques that use these inputs as Level 2.

Accounts receivable, receivables due from related parties and prepayments and other current assets are financial assets with carrying values that approximate fair value due to their short term nature. Accounts payable and accrued liabilities and other payables are financial liabilities with carrying values that approximate fair value due to their short term nature.

The Group measures equity investments accounted for using the equity method at fair value on a non-recurring basis only if an impairment charge were to be recognized. Equity investments accounted for using the measurement alternative are generally not categorized in the fair value hierarchy. However, if equity investments without readily determinable fair values were re-measured during the years ended December 31, 2018 and 2019, they were classified within Level 3 in the fair value hierarchy because the Group estimated the value of the instruments based on valuation methods using the observable transaction price at the transaction date and other unobservable inputs.
25. Restricted Net Assets

Relevant PRC laws and regulations permit the PRC companies to pay dividends only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Additionally, the Company’s PRC subsidiaries and VIEs can only distribute dividends upon approval of the shareholders after they have met the PRC requirements for appropriation to the generically reserve fund and the statutory surplus fund respectively. The general reserve fund and the statutory surplus fund require that annual appropriations of 10% of net after-tax income should be set aside prior to payment of any dividends. As a result of these and other restrictions under the PRC laws and regulations, the PRC subsidiaries and VIEs are restricted in their abilities to transfer a portion of their net assets to the Company either in the form of dividends, loans or advances, which restricted portion amounted to approximately RMB1.8 billion, or 24.1% of the Company’s total consolidated net assets, as of December 31, 2019. Even though the Company currently does not require any such dividends, loans or advances from the PRC subsidiaries and VIEs for working capital and other funding purposes, the Company may in the future require additional cash resources from its PRC subsidiaries and VIEs due to changes in business conditions, to fund future acquisitions and developments, or merely declare and pay dividends to or distributions to the Company’s shareholders.
26. Acquisitions

Transaction with Zenith Group Holdings Co., Limited ("Zenith")

In September 2018, the Group entered into an agreement to increase its shareholding to acquire the majority of equity interests in Zenith, the owner of a series of famous virtual singers, such as Luo Tianyi. Prior to this transaction, the Group owned 7.4% of equity interest in Zenith, which was accounted for as long-term investments using alternative measure method. The total consideration was RMB296.8 million in cash. Following the completion of this transaction in September 2018, the Group held approximately 71.9% of equity interests in Zenith and Zenith became a consolidated subsidiary of the Group.

The Group made estimates and judgments in determining the fair value of the assets acquired and liabilities assumed with the assistance from an independent valuation firm. The purchase price allocation as the date of the acquisition is as follows:

<table>
<thead>
<tr>
<th>Amount</th>
<th>Amortization Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>RMB in thousands</td>
<td></td>
</tr>
<tr>
<td>Net assets acquired</td>
<td>30,252</td>
</tr>
<tr>
<td>Intangible assets</td>
<td></td>
</tr>
<tr>
<td>— Tradename</td>
<td>54,974</td>
</tr>
<tr>
<td>— Non-compete clause</td>
<td>2,230</td>
</tr>
<tr>
<td>Noncontrolling interests</td>
<td>(121,154)</td>
</tr>
<tr>
<td>Goodwill</td>
<td>360,039</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>326,341</strong></td>
</tr>
</tbody>
</table>

Total purchase price comprised of:

<table>
<thead>
<tr>
<th>Amount</th>
<th>RMB in thousands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash consideration</td>
<td>296,796</td>
</tr>
<tr>
<td>Fair value of previously held equity interests</td>
<td>29,545</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>326,341</strong></td>
</tr>
</tbody>
</table>

A gain of RMB5.8 million in relation to the revaluation of the previously held equity interests in Zenith was recorded in “Investment income, net” on the consolidated statements of operations and comprehensive loss for the year ended December 31, 2018. The fair value of the previously held equity interests was estimated based on the purchase price per share as of the acquisition date.

Goodwill arising from this acquisition was attributable to the synergies between virtual idols and the Group’s multiple business streams, including live broadcasting, advertising, games, virtual idol related derivative products and offline performance events. The goodwill recognized was not expected to be deductible for income tax purpose.
26. Acquisitions (Continued)

Transaction with Zenith Group Holdings Co., Limited (“Zenith”) (continued)

In the fourth quarter of 2019, the Group acquired the remaining 28.1% of equity interests in Zenith from noncontrolling shareholders with a total consideration of US$22.4 million (RMB156.5 million), which was accounted for as an equity transaction pursuant to ASC 810-10-45-23. The difference between the fair value of the consideration and the carrying value of the noncontrolling interests was accounted for as deemed dividend to the noncontrolling shareholders and was recorded against additional paid-in capital. No gain or loss was recorded by the Group.

Transactions with Chaodian

In July 2019, the Group entered into a series of agreements to acquire 72.0% of equity interests in Chaodian, which was subsequently diluted to 63.6% with capital injections from certain other noncontrolling interests. The total consideration of this acquisition consisted of RMB288.6 million paid to the existing third party shareholders and a direct capital injection amounting to RMB909.6 million. Chaodian runs various offline events such as flagship concerts and exhibitions, and operates an industry-related talent agency. The Company and Chaodian were under the same control of the Controlling Shareholder since July 2019. Therefore, this transaction was accounted for as a business combination under common control and the Company’s consolidated financial statements included the acquired assets and liabilities of Chaodian, at their historical carrying amounts of approximately RMB986.4 million. The consolidated financial statements as of and for the year ended December 31, 2019 reflected the results of the Company and Chaodian as if they had been combined since July 1, 2019. The excess of the consideration over the historical carrying amount of the acquired assets and liabilities, as well as noncontrolling interests, was accounted for deemed dividend to the other shareholders of Chaodian.

The allocation of the consideration of the assets acquired and liabilities assumed based on their historical carrying amounts was as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consideration</td>
<td>1,198,198</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>1,199,117</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>95,147</td>
</tr>
<tr>
<td>Goodwill</td>
<td>36,120</td>
</tr>
<tr>
<td>Other asset acquired</td>
<td>68,214</td>
</tr>
<tr>
<td><strong>Total assets acquired</strong></td>
<td>1,398,598</td>
</tr>
<tr>
<td>Accrued liabilities and other payables</td>
<td>(323,025)</td>
</tr>
<tr>
<td>Other liabilities assumed</td>
<td>(89,217)</td>
</tr>
<tr>
<td><strong>Total liability assumed</strong></td>
<td><strong>(412,242)</strong></td>
</tr>
<tr>
<td>Noncontrolling interests</td>
<td>(276,621)</td>
</tr>
<tr>
<td>Deemed dividend</td>
<td>488,463</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,198,198</strong></td>
</tr>
</tbody>
</table>
26.  Acquisitions (Continued)

Other acquisitions

For the years ended December 31, 2018 and 2019, the Group completed several other acquisitions, to complement its existing businesses and achieve synergies. The acquired entities individually and in aggregate were insignificant. The Group’s other acquisitions are summarized in the following table:

<table>
<thead>
<tr>
<th></th>
<th>For the Year Ended December 31,</th>
<th>Amount</th>
<th>Amortization Period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2019</td>
<td></td>
</tr>
<tr>
<td>Net assets acquired</td>
<td>62,800</td>
<td>65,582</td>
<td></td>
</tr>
<tr>
<td>Intangible assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>— Tradename</td>
<td>104,000</td>
<td>—</td>
<td>5 to 10 years</td>
</tr>
<tr>
<td>— User base</td>
<td>21,500</td>
<td>—</td>
<td>3 years</td>
</tr>
<tr>
<td>— Copyrights</td>
<td>23,500</td>
<td>—</td>
<td>9 months to 3 years</td>
</tr>
<tr>
<td>— Technology</td>
<td>9,000</td>
<td>—</td>
<td>6 to 8 months</td>
</tr>
<tr>
<td>Noncontrolling interests</td>
<td>(107,505)</td>
<td>(30,000)</td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td>530,482</td>
<td>34,418</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>643,777</td>
<td>70,000</td>
<td></td>
</tr>
</tbody>
</table>

Total purchase price comprised of:

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RMB in thousands</td>
<td>RMB in thousands</td>
</tr>
<tr>
<td>Cash consideration</td>
<td>391,071</td>
<td>70,000</td>
</tr>
<tr>
<td>Fair value of previously held equity interests</td>
<td>252,706</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>643,777</td>
<td>70,000</td>
</tr>
</tbody>
</table>

In relation to the revaluation of previously held equity interests, the Group recognized a gain of RMB138.6 million and nil on the consolidated statements of operations and comprehensive loss for the years ended December 31, 2018 and 2019, respectively, for the other acquisitions that constitute business combinations.

Pro forma results of operations for all the acquisitions have not been presented because they were not material to the consolidated statements of operations and comprehensive loss for the years ended December 31, 2018 and 2019, either individually or in aggregate.

No acquisition incurred for the year ended December 31, 2017.

27.  Subsequent Events

Starting from January 2020, it was reported that a novel strain of coronavirus, later named COVID-19, spread worldwide. The Group is still in the process of assessing the impact. The extent to which COVID-19 impacts the business and financial results of the Group will depend on future developments, which are uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions to contain the coronavirus or treat its impact, among others.
BILIBILI Inc.

and

Deutsche Bank Trust Company Americas as Trustee

INDENTURE

dated as of April 5, 2019

US$500,000,000 1.375% CONVERTIBLE SENIOR NOTES DUE 2026
<table>
<thead>
<tr>
<th>ARTICLE 1</th>
<th>DEFINITIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section 1.01</td>
<td>Definitions</td>
</tr>
<tr>
<td>Section 1.02</td>
<td>References to Interest</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ARTICLE 2</th>
<th>ISSUE, DESCRIPTION, EXECUTION, REGISTRATION AND EXCHANGE OF NOTES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section 2.01</td>
<td>Designation and Amount</td>
</tr>
<tr>
<td>Section 2.02</td>
<td>Form of Notes</td>
</tr>
<tr>
<td>Section 2.03</td>
<td>Date and Denomination of Notes; Payments of Interest and Defaulted Amounts</td>
</tr>
<tr>
<td>Section 2.04</td>
<td>Execution, Authentication and Delivery of Notes</td>
</tr>
<tr>
<td>Section 2.05</td>
<td>Exchange and Registration of Transfer of Notes; Restrictions on Transfer; Depository</td>
</tr>
<tr>
<td>Section 2.06</td>
<td>Mutilated, Destroyed, Lost or Stolen Notes</td>
</tr>
<tr>
<td>Section 2.07</td>
<td>Temporary Notes</td>
</tr>
<tr>
<td>Section 2.08</td>
<td>Cancellation of Notes Paid, Converted, Etc.</td>
</tr>
<tr>
<td>Section 2.09</td>
<td>CUSIP Numbers</td>
</tr>
<tr>
<td>Section 2.10</td>
<td>Additional Notes; Repurchases</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ARTICLE 3</th>
<th>SATISFACTION AND DISCHARGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section 3.01</td>
<td>Satisfaction and Discharge</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ARTICLE 4</th>
<th>PARTICULAR COVENANTS OF THE COMPANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section 4.01</td>
<td>Payment of Principal and Interest</td>
</tr>
<tr>
<td>Section 4.02</td>
<td>Maintenance of Office or Agency</td>
</tr>
<tr>
<td>Section 4.03</td>
<td>Appointments to Fill Vacancies in Trustee’s Office</td>
</tr>
<tr>
<td>Section 4.04</td>
<td>Provisions as to Paying Agent</td>
</tr>
<tr>
<td>Section 4.05</td>
<td>Existence</td>
</tr>
<tr>
<td>Section 4.06</td>
<td>Rule 144A Information Requirement and Annual Reports</td>
</tr>
<tr>
<td>Section 4.07</td>
<td>Additional Amounts</td>
</tr>
</tbody>
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INDENTURE dated as of April 5, 2019 between BILIBILI INC., a Cayman Islands exempted company, as issuer (the “Company,” as more fully set forth in Section 1.01) and DEUTSCHE BANK TRUST COMPANY AMERICAS, a New York banking corporation, as trustee (the “Trustee,” as more fully set forth in Section 1.01).

W I T N E S S E T H:

WHEREAS, for its lawful corporate purposes, the Company has duly authorized the issuance of its 1.375% Convertible Senior Notes due 2026 (the “Notes”), initially in an aggregate principal amount not to exceed US$500,000,000, subject to Section 2.10, and in order to provide the terms and conditions upon which the Notes are to be authenticated, issued and delivered, the Company has duly authorized the execution and delivery of this Indenture; and

WHEREAS, the Form of Note, the certificate of authentication to be borne by each Note, the Form of Notice of Conversion, the Form of Fundamental Change Repurchase Notice, the Form of Repurchase Notice and the Form of Assignment and Transfer to be borne by the Notes are to be substantially in the forms hereinafter provided; and

WHEREAS, all acts and things necessary to make the Notes, when executed by the Company and authenticated and delivered by the Trustee, as in this Indenture provided, the valid, binding and legal obligations of the Company, and this Indenture a valid agreement according to its terms, have been done and performed, and the execution of this Indenture and the issuance hereunder of the Notes have in all respects been duly authorized.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

That in order to declare the terms and conditions upon which the Notes are, and are to be, authenticated, issued and delivered, and in consideration of the premises and of the purchase and acceptance of the Notes by the Holders thereof, the Company covenants and agrees with the Trustee for the equal and proportionate benefit of the respective Holders from time to time of the Notes (except as otherwise provided below), as follows:

ARTICLE 1
DEFINITIONS

Section 1.01 Definitions. The terms defined in this Section 1.01 (except as herein otherwise expressly provided or unless the context otherwise requires) for all purposes of this Indenture and of any indenture supplemental hereto shall have the respective meanings specified in this Section 1.01. The words “herein,” “hereof,” “hereunder,” and words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision. The terms defined in this Article include the plural as well as the singular.

“Additional ADSs” shall have the meaning specified in Section 14.03(a).

“Additional Amounts” shall have the meaning specified in Section 4.07(a).

“Additional Interest” means all amounts, if any, payable pursuant to Section 4.06(d), Section 4.06(e) and Section 6.03, as applicable.
“ADS” means an American Depositary Share, issued pursuant to the Unrestricted Deposit Agreement or Restricted Deposit Agreement, as applicable, representing one Ordinary Share of the Company as of the date of this Indenture, and deposited with the ADS Custodian.

“ADS Custodian” means Deutsche Bank AG, Hong Kong Branch, with respect to the ADSs delivered pursuant to the Unrestricted Deposit Agreement or the Restricted Deposit Agreement, as applicable, or any successor entity thereto.

“ADS Depositary” means Deutsche Bank Trust Company Americas, as depositary for the ADSs.

“ADS Price” shall have the meaning specified in Section 14.03(b).

“Affiliate” of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, “control,” when used with respect to any specified Person means the power to direct or cause the direction of the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Agents” means the Paying Agent, the Transfer Agent, the Note Registrar and the Conversion Agent.

“Applicable PRC Rate” means (i) in the case of deduction or withholding of People’s Republic of China income tax, 10%, (ii) in the case of deduction or withholding of, or reduction for, People’s Republic of China value added tax (including any related local levies), 6.72%, or (iii) in the case of deduction or withholding of, or reduction for, both People’s Republic of China income tax and People’s Republic of China value added tax (including any related local levies), 16.72%.

“applicable taxes” shall have the meaning specified in Section 4.07(a).

“Board of Directors” means the board of directors of the Company or a committee of such board duly authorized to act for it hereunder.

“Board Resolution” means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors, and to be in full force and effect on the date of such certification, and delivered to the Trustee.

“Business Day” means, with respect to any Note, each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in the State of New York or the Cayman Islands are authorized or obligated by law or executive order to close.

“Capital Stock” means, for any entity, any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) stock issued by that entity.
“Change in Tax Law” shall have the meaning specified in Section 16.01.

“Clause A Distribution” shall have the meaning specified in Section 14.04(c).

“Clause B Distribution” shall have the meaning specified in Section 14.04(c).

“Clause C Distribution” shall have the meaning specified in Section 14.04(c).

“Close of business” means 5:00 p.m. (New York City time).


“Commission” means the U.S. Securities and Exchange Commission.

“Common Equity” of any Person means ordinary share capital or common stock of such Person that is generally entitled (a) to vote in the election of directors of such Person or (b) if such Person is not a corporation, to vote or otherwise participate in the selection of the governing body, partners, managers or others that will control the management or policies of such Person.

“Company” shall have the meaning specified in the first paragraph of this Indenture, and subject to the provisions of Article 11, shall include its successors and assigns.

“Company Notice” shall have the meaning specified in Section 15.01(a).

“Company Order” means a written order of the Company, signed by an Officer of the Company and delivered to the Trustee.

“Consolidated Affiliated Entity” means, with respect to any Person, any corporation, association or other entity which is or is required to be consolidated with such Person under Accounting Standards Codification subtopic 810-10, Consolidation: Overall (including any changes, amendments or supplements thereto) or, if such person prepares its financial statements in accordance with accounting principles other than the accounting principles generally accepted in the United States of America, the equivalent of Accounting Standards Codification subtopic 810-10, Consolidation: Overall under such accounting principles.

“Conversion Agent” shall have the meaning specified in Section 4.02.

“Conversion Date” shall have the meaning specified in Section 14.02(c).

“Conversion Obligation” shall have the meaning specified in Section 14.01.

“Conversion Rate” shall have the meaning specified in Section 14.01.

“Corporate Trust Office” means the corporate trust office of the Trustee at which at any time its corporate trust business shall be administered, which office at the date hereof is located at 60 Wall Street, New York, NY 10005, or such other address as the Trustee may designate from time to time by notice to the Holders and the Company, or the corporate trust office of any successor trustee (or such other address as such successor trustee may designate from time to time by notice to the Holders and the Company).
“Default” means any event that is, or after notice or passage of time, or both, would be, an Event of Default.

“Defaulter Amounts” means any amounts on any Note (including, without limitation, the Redemption Price, the Repurchase Price, the Fundamental Change Repurchase Price, principal and interest) that are payable but are not punctually paid or duly provided for.

“Depositary” means, with respect to each Global Note, the Person specified in Section 2.05(c) and Section 2.05(e) as the Depositary with respect to such Notes, until a successor shall have been appointed and become such pursuant to the applicable provisions of this Indenture, and thereafter, “Depositary” shall mean or include such successor.

“Distributed Property” shall have the meaning specified in Section 14.04(c).

“Effective Date” shall have the meaning specified in Section 14.03(c).

“Event of Default” shall have the meaning specified in Section 6.01.

“Ex-Dividend Date” means the first date on which the ADSs trade on the applicable exchange or in the applicable market, regular way, without the right to receive the issuance, dividend or distribution in question, from the Company or, if applicable, from the seller of the ADSs on such exchange or market (in the form of due bills or otherwise) as determined by such exchange or market.


“Expiring Rights” means any rights, options or warrants to purchase Ordinary Shares or ADSs that expire on or prior to the Maturity Date.

“FATCA” shall have the meaning specified in Section 4.07(a)(i)(D).

“Form of Assignment and Transfer” shall mean the “Form of Assignment and Transfer” attached as Attachment 4 to the Form of Note attached hereto as Exhibit A.

“Form of Fundamental Change Repurchase Notice” shall mean the “Form of Fundamental Change Repurchase Notice” attached as Attachment 2 to the Form of Note attached hereto as Exhibit A.

“Form of Notice of Conversion” shall mean the “Form of Notice of Conversion” attached as Attachment 1 to the Form of Note attached hereto as Exhibit A.

“Form of Repurchase Notice” shall mean the “Form of Repurchase Notice” attached as Attachment 3 to the Form of Note attached hereto as Exhibit A.

“Fractional ADS” shall have the meaning specified in Section 14.02(a).
“Fundamental Change” shall be deemed to have occurred at the time after the Notes are originally issued if any of the following occurs:

(a) (A) A “person” or “group” within the meaning of Section 13(d) of the Exchange Act, other than the Company, its Subsidiaries, the employee benefit plans of the Company and its Subsidiaries and the Permitted Holders, files a Schedule TO or any schedule, form or report under the Exchange Act disclosing that such person or group has become the direct or indirect “beneficial owner,” as defined in Rule 13d-3 under the Exchange Act, of: (i) the Company’s ordinary share capital (including ordinary share capital held in the form of ADSs) representing more than 50% of the voting power of the Company’s ordinary share capital, or (ii) Ordinary Shares representing more than 50% of the Ordinary Shares (including Ordinary Shares held in the form of ADSs), or (B) the Permitted Holders (together with any of their respective affiliates that directly or indirectly through one or more intermediaries is controlling, is controlled by, or is under common control with, any or all of the Permitted Holders) have become the direct or indirect “beneficial owners”, as defined in Rule 13d-3 under the Exchange Act, of Ordinary Shares (including Ordinary Shares held in the form of ADSs) representing, in the aggregate, more than 45% of the Ordinary Shares (including Ordinary Shares held in the form of ADSs), based on any Schedule TO or any schedule, form or report under the Exchange Act disclosing the same filed by any one or more of the Permitted Holders;

(b) the consummation of (A) any recapitalization, reclassification or change of the Ordinary Shares or the ADSs (other than changes resulting from a subdivision or combination) as a result of which the Ordinary Shares or the ADSs would be converted into, or exchanged for, stock, other securities, other property or assets; (B) any share exchange, consolidation or merger of the Company pursuant to which the Ordinary Shares or the ADSs will be converted into cash, securities or other property; or (C) any sale, lease or other transfer in one transaction or a series of transactions of all or substantially all of the consolidated assets of the Company and its Subsidiaries and Consolidated Affiliated Entities, taken as a whole, to any Person other than one of the Company’s wholly-owned Subsidiaries; provided, however, that a transaction described in clause (B) in which the holders of all classes of the Company’s ordinary share capital (including ordinary share capital held in the form of ADSs) immediately prior to such transaction own, directly or indirectly, more than 50% of all classes of Common Equity of the continuing or surviving corporation or transferee or the parent thereof immediately after such transaction in substantially the same proportions vis-a-vis each other as such ownership immediately prior to such transaction shall not be a Fundamental Change pursuant to this clause (b);

(c) the shareholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company;

(d) the ADSs (or other Common Equity or ADSs in respect of Common Equity underlying the Notes) cease to be listed or quoted on any of The New York Stock Exchange, The NASDAQ Global Select Market or The NASDAQ Global Market (or any of their respective successors); or
any change in or amendment to the laws, regulations and rules of the People’s Republic of China or the official interpretation or official application thereof (a “Change in Law”) that results in (x) the Company, its Subsidiaries and its Consolidated Affiliated Entities (collectively, the “Company Group”) (as in existence immediately subsequent to such Change in Law), as a whole, being legally prohibited from operating substantially all of the business operations conducted by the Company Group (as in existence immediately prior to such Change in Law) as of the last date of the period described in the Company’s consolidated financial statements for the most recent fiscal quarter and (y) the Company’s being unable to continue to derive substantially all of the economic benefits from the business operations conducted by the Company Group (as in existence immediately prior to such Change in Law) in the same manner as reflected in the Company’s consolidated financial statements for the most recent fiscal quarter;

provided, however, that a transaction or event described in clause (b) above shall not constitute a Fundamental Change, if at least 90% of the consideration received or to be received by holders of the ADSs, excluding cash payments for Fractional ADSs, in connection with such transaction or event consists of shares of Common Equity or ADSs in respect of Common Equity that are listed or quoted on any of The New York Stock Exchange, The NASDAQ Global Select Market or The NASDAQ Global Market (or any of their respective successors) or will be so listed or quoted when issued or exchanged in connection with such transaction or event that would otherwise constitute a Fundamental Change under clause (b) of the definition thereof and as a result of such transaction or event, the Notes become convertible into such consideration, excluding cash payments for Fractional ADSs.

For the purposes of the definition of Fundamental Change, any transaction that would constitute a Fundamental Change pursuant to both clauses (a) and (b) above (prior to giving effect to the proviso to clause (b) and prior to giving effect to the immediately preceding paragraph) shall be deemed (i) not to be a transaction under clause (a) of the definition of “Fundamental Change”; and (ii) to be a transaction solely under clause (b) of the definition of “Fundamental Change” (but for the avoidance of doubt, subject to the immediately preceding paragraph to the extent applicable).

“Fundamental Change Company Notice” shall have the meaning specified in Section 15.02(c).

“Fundamental Change Repurchase Date” shall have the meaning specified in Section 15.02(a).

“Fundamental Change Repurchase Notice” shall have the meaning specified in Section 15.02(b)(i).

“Fundamental Change Repurchase Price” shall have the meaning specified in Section 15.02(a).

“Global Note” shall have the meaning specified in Section 2.05(b).
“Holder,” as applied to any Note, or other similar terms (but excluding the term “beneficial holder”), shall mean any Person in whose name at the time a particular Note is registered on the Note Register.

“Indenture” means this instrument as originally executed or, if amended or supplemented as herein provided, as so amended or supplemented.

“Initial Purchasers” means Morgan Stanley & Co. LLC, Credit Suisse Securities (USA) LLC and J.P. Morgan Securities LLC, as representatives of the several “Purchasers” (as defined in the Purchase Agreement).

“Interest Payment Date” means each April 1 and October 1 of each year or, if the relevant date is not a Business Day, the immediately following Business Day, beginning on October 1, 2019.

“Last Reported Sale Price” of the ADSs on any date means the closing sale price per ADS (or if no closing sale price is reported, the average of the bid and ask prices or, if more than one in either case, the average of the average bid and the average ask prices) on that date as reported in composite transactions for the principal U.S. national or regional securities exchange on which the ADSs are traded. If the ADSs are not listed for trading on a U.S. national or regional securities exchange on the relevant date, the “Last Reported Sale Price” shall be the last quoted bid price for the ADSs in the over-the-counter market on the relevant date as reported by OTC Markets Group Inc. or a similar organization. If the ADSs are not so quoted, the “Last Reported Sale Price” shall be the average of the mid-point of the last bid and ask prices for the ADSs on the relevant date from each of at least three nationally recognized independent investment banking firms selected by the Company for this purpose.

“Make-Whole Fundamental Change” means any transaction or event described in clause (a), (b), (d) or (e) of the definition of Fundamental Change (determined after giving effect to any exceptions to or exclusions from such definition, including in the proviso immediately succeeding clause (e) of the definition thereof, but without regard to the proviso in clause (b) of the definition thereof).

“Maturity Date” means April 1, 2026.

“Merger Event” shall have the meaning specified in Section 14.07(a).

“Note” or “Notes” shall have the meaning specified in the first paragraph of the recitals of this Indenture.

“Notes Fungibility Date” means the date, if any, following the Resale Restriction Termination Date on which all of the Rule 144A Notes and all of the Regulation S Notes are no longer Restricted Securities, do not bear the restrictive legend required by Section 2.05(c), are fungible for U.S. securities law purposes and are assigned an identical, unrestricted CUSIP number.

“Note Register” shall have the meaning specified in Section 2.05(a).
“Note Registrar” shall have the meaning specified in Section 2.05(a).

“Notice of Conversion” shall have the meaning specified in Section 14.02(b).

“Offering Memorandum” means the preliminary offering memorandum dated April 1, 2019, as supplemented by the pricing term sheet dated April 2, 2019, relating to the offering and sale of the Notes.

“Officer” means, with respect to the Company, the President, the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer and the Treasurer.

“Officers’ Certificate,” when used with respect to the Company, means a certificate that is delivered to the Trustee and that is signed by (a) two Officers of the Company. Each such certificate shall include the statements provided for in Section 17.06 if and to the extent required by the provisions of such Section. One of the Officers giving an Officers’ Certificate pursuant to Section 4.09 shall be the principal executive, financial or accounting officer of the Company.

“open of business” means 9:00 a.m. (New York City time).

“Opinion of Counsel” means an opinion in writing signed by legal counsel and in a form reasonably acceptable to the Trustee, who may be counsel to the Company, or other counsel acceptable to the Trustee, that is delivered to the Trustee. Each such opinion shall include the statements provided for in Section 17.06 if and to the extent required by the provisions of such Section 17.06.

“Ordinary Shares” means Class Z ordinary shares of the Company, par value US$0.0001 per share, at the date of this Indenture, subject to Section 14.07.

“outstanding,” when used with reference to Notes, shall, subject to the provisions of Section 8.04, mean, as of any particular time, all Notes authenticated and delivered by the Trustee under this Indenture, except:

(a) Notes theretofore canceled by the Note Registrar or accepted by the Note Registrar for cancellation;

(b) Notes, or portions thereof, that have become due and payable and in respect of which monies in the necessary amount shall have been deposited with the Trustee or with any Paying Agent (other than the Company) or shall have been set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent);

(c) Notes that have been paid pursuant to Section 2.06 or Notes in lieu of which, or in substitution for which, other Notes shall have been authenticated and delivered pursuant to the terms of Section 2.06 unless proof satisfactory to the Trustee is presented that any such Notes are held by protected purchasers in due course;

(d) Notes converted pursuant to Article 14 and required to be cancelled pursuant to Section 2.08;
(e) Notes redeemed pursuant to Article 16; and
(f) Notes repurchased by the Company pursuant to the third sentence of Section 2.10.

“Paying Agent” shall have the meaning specified in Section 4.02.

“Permitted Holders” means each of Mr. Rui Chen and Mr. Yi Xu, together with any other respective “person” or “group” subject to aggregation with respect to the Capital Stock of the Company (including Ordinary Shares held in the form of ADSs) with any of the aforementioned persons under Section 13(d) of the Exchange Act.

“Person” means an individual, a corporation, a limited liability company, an association, a partnership, a joint venture, a joint stock company, a trust, an unincorporated organization or a government or an agency or a political subdivision thereof.

“Physical Notes” means permanent certificated Notes in registered form issued in denominations of US$1,000 principal amount and multiples thereof.

“Predecessor Note” of any particular Note means every previous Note evidencing all or a portion of the same debt as that evidenced by such particular Note; and, for the purposes of this definition, any Note authenticated and delivered under Section 2.06 in lieu of or in exchange for a mutilated, lost, destroyed or stolen Note shall be deemed to evidence the same debt as the mutilated, lost, destroyed or stolen Note that it replaces.

“Purchase Agreement” means that certain Purchase Agreement, dated as of April 2, 2019, among the Company and the Initial Purchasers.

“Record Date” means, with respect to any dividend, distribution or other transaction or event in which the holders of ADSs (or other applicable security) have the right to receive any cash, securities or other property or in which ADSs (or other applicable security) are exchanged for or converted into any combination of cash, securities or other property, the date fixed for determination of holders of the Ordinary Shares (or other applicable security) entitled to receive such cash, securities or other property (whether such date is fixed by the Board of Directors, statute, contract or otherwise).

“Redemption Date” shall have the meaning specified in Section 16.01.

“Redemption Reference Date” shall have the meaning specified in Section 14.03(g).

“Redemption Reference Price” shall have the meaning specified in Section 16.01.

“Redemption Price” shall have the meaning specified in Section 16.01.

“Reference Property” shall have the meaning specified in Section 14.07(a).
**Regular Record Date,** with respect to any Interest Payment Date, shall mean the March 15 or September 15 (whether or not such day is a Business Day) immediately preceding the applicable April 1 or October 1 Interest Payment Date, respectively.

**Regulation S** means Regulation S under the Securities Act or any successor to such regulation.

**Regulation S Notes** means the Notes initially offered and sold outside the United States pursuant to Regulation S.

**Relevant Jurisdiction** shall have the meaning specified in Section 4.07(a).

**Relevant Taxing Jurisdiction** shall have the meaning specified in Section 4.07(a).

**Repurchase Date** shall have the meaning specified in Section 15.01(a).

**Repurchase Expiration Time** shall have the meaning specified in Section 15.01(a).

**Repurchase Notice** shall have the meaning specified in Section 15.01(a).

**Repurchase Price** shall have the meaning specified in Section 15.01(a).

**Resale Restriction Termination Date** shall have the meaning specified in Section 2.05(c).

**Responsible Officer** means, when used with respect to the Trustee, any officer within the corporate trust department of the Trustee, including any vice president, assistant vice president, assistant secretary, assistant treasurer, trust officer or any other officer of the Trustee who customarily performs functions similar to those performed by the Persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of such Person’s knowledge of and familiarity with the particular subject and who shall have direct responsibility for the administration of this Indenture.

**Restricted Deposit Agreement** means the deposit agreement for restricted securities dated as of April 3, 2019 by and among the Company, the ADS Depositary and the holders and beneficial owners of the restricted ADSs delivered thereunder or, if amended or supplemented as provided therein, as so amended or supplemented.

**Restricted Securities** shall have the meaning specified in Section 2.05(c).

**Rule 144** means Rule 144 as promulgated under the Securities Act.

**Rule 144A** means Rule 144A as promulgated under the Securities Act.

**Rule 144A Notes** means the notes initially offered and sold pursuant to Rule 144A.

**Securities Act** means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.
“Significant Subsidiary” means a Subsidiary of the Company that meets the definition of “significant subsidiary” in Article 1, Rule 1-02 of Regulation S-X under the Exchange Act. Each of the Company’s Consolidated Affiliated Entities will be deemed to be a “subsidiary” for purposes of the definition of “significant subsidiary” in Article 1, Rule 1-02 of Regulation S-X.

“Spin-Off” shall have the meaning specified in Section 14.04(c).

“Subsidiary” means, with respect to any Person, any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers, general partners or trustees thereof is at the time owned or controlled, directly or indirectly, by (i) such Person; (ii) such Person and one or more Subsidiaries of such Person; or (iii) one or more Subsidiaries of such Person.

“Successor Company” shall have the meaning specified in Section 11.01(a).

“Trading Day” means a day on which (i) trading in the ADSs (or other security for which a closing sale price must be determined) generally occurs on The NASDAQ Global Select Market or, if the ADSs (or such other security) are not then listed on The NASDAQ Global Select Market, on the principal other U.S. national or regional securities exchange on which the ADSs (or such other security) are then listed or, if the ADSs (or such other security) are not then listed on a U.S. national or regional securities exchange, on the principal other market on which the ADSs (or such other security) are then traded and (ii) a Last Reported Sale Price for the ADSs (or closing sale price for such other security) is available on such securities exchange or market; provided that if the ADSs (or such other security) are not so listed or traded, “Trading Day” means a Business Day.

“transfer” shall have the meaning specified in Section 2.05(c) and Section 2.05(e), as applicable.

“Transfer Agent” shall have the meaning specified in Section 4.02.

“Trigger Event” shall have the meaning specified in Section 14.04(c).

“Trust Indenture Act” means the Trust Indenture Act of 1939, as amended, as it was in force at the date of execution of this Indenture; provided, however, that in the event the Trust Indenture Act of 1939 is amended after the date hereof, the term “Trust Indenture Act” shall mean, to the extent required by such amendment, the Trust Indenture Act of 1939, as so amended.

“Trustee” means the Person named as the “Trustee” in the first paragraph of this Indenture until a successor trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter “Trustee” shall mean or include each Person who is then a Trustee hereunder.

“unit of Reference Property” shall have the meaning specified in Section 14.07(a).
“Unrestricted Deposit Agreement” means the deposit agreement dated as of March 27, 2018, by and among the Company, the ADS Depositary and the holders and beneficial owners of the ADSs delivered thereunder or, if amended or supplemented as provided therein, as so amended or supplemented.

“U.S. Person” shall have the meaning as such term is defined under Regulation S.

“Valuation Period” shall have the meaning specified in Section 14.04(c).

Section 1.02 References to Interest. Unless the context otherwise requires, any reference to interest on, or in respect of, any Note in this Indenture shall be deemed to include Additional Interest if, in such context, Additional Interest is, was or would be payable pursuant to any of Section 4.06(d), Section 4.06(e) and Section 6.03. Unless the context otherwise requires, any express mention of Additional Interest in any provision hereof shall not be construed as excluding Additional Interest in those provisions hereof where such express mention is not made.

ARTICLE 2
ISSUE, DESCRIPTION, EXECUTION, REGISTRATION AND EXCHANGE OF NOTES

Section 2.01 Designation and Amount. The Notes shall be designated as the “1.375% Convertible Senior Notes due 2026.” The aggregate principal amount of Notes that may be authenticated and delivered under this Indenture is initially limited to US$500,000,000, subject to Section 2.10 and except for Notes authenticated and delivered upon registration or transfer of, or in exchange for, or in lieu of other Notes pursuant to Section 2.05, Section 2.06, Section 2.07, Section 10.04, Section 14.02 and Section 15.04.

Section 2.02 Form of Notes. The Notes and the Trustee’s certificate of authentication to be borne by such Notes shall be substantially in the respective forms set forth in Exhibit A, the terms and provisions of which shall constitute, and are hereby expressly incorporated in and made a part of this Indenture. To the extent applicable, the Company and the Trustee, by their execution and delivery of this Indenture, expressly agree to such terms and provisions and to be bound thereby.

Any Global Note may be endorsed with or have incorporated in the text thereof such legends or recitals or changes not inconsistent with the provisions of this Indenture as may be required by the Depositary, or as may be required to comply with any applicable law or any regulation thereunder or with the rules and regulations of any securities exchange or automated quotation system upon which the Notes may be listed or traded or designated for issuance or to conform with any usage with respect thereto, or to indicate any special limitations or restrictions to which any particular Notes are subject.

Any of the Notes may have such letters, numbers or other marks of identification and such notations, legends or endorsements as the Officers executing the same may approve (execution thereof to be conclusive evidence of such approval) and as are not inconsistent with the provisions of this Indenture, or as may be required to comply with any law or with any rule or regulation made pursuant thereto or with any rule or regulation of any securities exchange or automated quotation system on which the Notes may be listed or designated for issuance, or to conform to usage or to indicate any special limitations or restrictions to which any particular Notes are subject.
Each Global Note shall represent such principal amount of the outstanding Notes as shall be specified therein and shall provide that it shall represent the aggregate principal amount of outstanding Notes from time to time endorsed thereon and that the aggregate principal amount of outstanding Notes represented thereby may from time to time be increased or reduced to reflect redemptions, repurchases, cancellations, conversions, transfers or exchanges permitted hereby. Any endorsement of the Global Note to reflect the amount of any increase or decrease in the amount of outstanding Notes represented thereby shall be made by the Trustee or the Note Registrar in such manner and upon instructions given by the Holder of such Notes in accordance with this Indenture. Payment of principal (including the Redemption Price, the Repurchase Price and the Fundamental Change Repurchase Price, if applicable) of, and accrued and unpaid interest on, the Global Note shall be made to the Holder of such Note on the date of payment, unless a record date or other means of determining Holders eligible to receive payment is provided for herein.

Section 2.03 Date and Denomination of Notes; Payments of Interest and Defaulted Amounts. (a) The Notes shall be issuable in registered form without coupons in denominations of US$1,000 principal amount and integral multiples thereof. Each Note shall be dated the date of its authentication and shall bear interest from, and including, the date specified on the face of such Note. Accrued interest on the Notes shall be computed on the basis of a 360-day year composed of twelve 30-day months and, for partial months, on the basis of actual days elapsed over a 30-day month.

(b) The Person in whose name any Note (or its Predecessor Note) is registered on the Note Register at the close of business on any Regular Record Date with respect to any Interest Payment Date shall be entitled to receive the interest payable on such Interest Payment Date. Interest shall be payable at the office or agency of the Company maintained by the Company for such purposes in the Borough of Manhattan, The City of New York, which shall initially be the Corporate Trust Office. The Company shall pay or cause the Paying Agent to pay interest (i) on any Physical Notes (A) to Holders holding Physical Notes having an aggregate principal amount of US$5,000,000 or less, by check mailed (at the Company’s expense) to the Holders of these Notes at their address as it appears in the Note Register and (B) to Holders holding Physical Notes having an aggregate principal amount of more than US$5,000,000, either by check mailed (at the Company’s expense) to such Holders or, upon application by such Holder to the Note Registrar not later than the relevant Regular Record Date, by wire transfer in immediately available funds to that Holder’s account within the United States, which application shall remain in effect until the Holder notifies, in writing, the Note Registrar to the contrary or (ii) on any Global Note by wire transfer of immediately available funds to the account of the Depositary or its nominee.
Any Defaulted Amounts shall forthwith cease to be payable to the Holder on the relevant payment date but shall accrue interest per annum at the rate per annum borne by the Notes plus one percent, subject to the enforceability thereof under applicable law, from, and including, such relevant payment date, and such Defaulted Amounts together with such interest thereon shall be paid by the Company, at its election in each case, as provided in clause (i) or (ii) below:

(i) The Company may elect to make payment of any Defaulted Amounts to the Persons in whose names the Notes (or their respective Predecessor Notes) are registered at the close of business on a special record date for the payment of such Defaulted Amounts, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of the Defaulted Amounts proposed to be paid on each Note and the date of the proposed payment (which shall be not less than 25 days after the receipt by the Trustee of such notice, unless the Trustee in its sole discretion shall consent to an earlier date), and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount to be paid in respect of such Defaulted Amounts or shall make arrangements satisfactory to the Trustee for such deposit on or prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Amounts as in this clause provided. Thereupon the Company shall fix a special record date for the payment of such Defaulted Amounts which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment, and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Company shall promptly notify the Trustee in writing of such special record date and the Trustee, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Amounts and the special record date therefor to be mailed, first-class postage prepaid (at the Company’s expense), to each Holder at its address as it appears in the Note Register, not less than 10 days prior to such special record date. Notice of the proposed payment of such Defaulted Amounts and the special record date therefor having been so mailed, such Defaulted Amounts shall be paid to the Persons in whose names the Notes (or their respective Predecessor Notes) are registered at the close of business on such special record date and shall no longer be payable pursuant to the following clause (ii) of this Section 2.03(c).

(ii) The Company may make payment of any Defaulted Amounts in any other lawful manner not inconsistent with the requirements of any securities exchange or automated quotation system on which the Notes may be listed or designated for issuance, and upon such notice as may be required by such exchange or automated quotation system, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustee.

Section 2.04 Execution, Authentication and Delivery of Notes. The Notes shall be signed in the name and on behalf of the Company by the manual or facsimile signature of its Chief Executive Officer, President, Chief Financial Officer, Treasurer, Secretary or any of its Executive or Senior Vice Presidents. With the delivery of this Indenture, the Company is furnishing, and from time to time thereafter may furnish, a certificate substantially in the form of Exhibit B (an “Authorization Certificate”) identifying and certifying the incumbency and specimen (and/or facsimile) signatures of its active authorized Officers. Until the Trustee receives a subsequent Authorization Certificate, the Trustee shall be entitled to conclusively rely on the last Authorization Certificate delivered to it for purposes of determining the relevant authorized Officers. Typographical and other minor errors or defects in any signature shall not affect the validity or enforceability of any Note which has been duly authenticated and delivered by the Trustee.
At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Notes executed by the Company to the Trustee for authentication, together with a Company Order for the authentication and delivery of such Notes, and the Trustee in accordance with such Company Order shall authenticate and deliver such Notes, without any further action by the Company hereunder.

The Company Order shall specify the amount of Notes to be authenticated (including the initial amount of Rule 144A Notes and the initial amount of Regulation S Notes), the applicable rate at which interest will accrue on such Notes, the date on which the original issuance of such Notes is to be authenticated, the date from which interest will begin to accrue, the date or dates on which interest on such Notes will be payable and the date on which the principal of such Notes will be payable and other terms relating to such Notes. The Trustee shall thereupon authenticate and deliver said Notes to or upon the written order of the Company (as set forth in such Company Order).

The Trustee shall have the right to decline to authenticate and deliver any Notes under this Section (a) unless and until it receives from the Company a Company Order instructing it to so authenticate and deliver such Notes and, if requested by the Trustee, an Officers’ Certificate and an Opinion of Counsel in accordance with Section 17.06 hereof; (b) if the Trustee determines that such action may not lawfully be taken; or (c) if the Trustee determines that such action would expose to Trustee to personal liability, unless indemnity and/or security and/or pre-funding reasonably satisfactory to the Trustee against such liability is provided to the Trustee and the Note Registrar.

Only such Notes as shall bear thereon a certificate of authentication substantially in the form set forth on the form of Note attached as Exhibit A hereto, executed manually or by facsimile by an authorized officer of the Trustee, shall be entitled to the benefits of this Indenture or be valid or obligatory for any purpose. Such certificate by the Trustee upon any Note executed by the Company shall be conclusive evidence that the Note so authenticated has been duly authenticated and delivered hereunder and that the Holder is entitled to the benefits of this Indenture.

In case any Officer of the Company who shall have signed any of the Notes shall cease to be such Officer before the Notes so signed shall have been authenticated and delivered by the Trustee, or disposed of by the Company, such Notes nevertheless may be authenticated and delivered or disposed of as though the Person who signed such Notes had not ceased to be such Officer of the Company; and any Note may be signed on behalf of the Company by such Persons as, at the actual date of the execution of such Note, shall be the Officers of the Company, although at the date of the execution of this Indenture any such Person was not such an Officer.
Section 2.05 Exchange and Registration of Transfer of Notes; Restrictions on Transfer; Depositary. (a) The Company shall cause to be kept at the Corporate Trust Office a register (the register maintained in such office or in any other office or agency of the Company designated pursuant to Section 4.02, the “Note Register”) in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Notes and of transfers of Notes. Such register shall be in written form or in any form capable of being converted into written form within a reasonable period of time. Deutsche Bank Trust Company Americas is hereby initially appointed the “Note Registrar” and “Transfer Agent” for the purpose of registering Notes and transfers of Notes as herein provided. The Company may appoint one or more co-Note Registrars in accordance with Section 4.02.

Prior to the Notes Fungibility Date, upon surrender for registration of transfer of any Rule 144A Note or Regulation S Note, as the case may be, to the Note Registrar or any co-Note Registrar, and satisfaction of the requirements for such transfer set forth in this Section 2.05, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Rule 144A Notes or Regulation S Notes, as the case may be, of any authorized denominations and of a like aggregate principal amount and bearing such restrictive legends as may be required by this Indenture. Following the Notes Fungibility Date, upon surrender for registration of transfer of any Note to the Note Registrar or any co-Note Registrar, and satisfaction of the requirements for such transfer set forth in this Section 2.05, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Notes of any authorized denominations and of a like aggregate principal amount and not bearing the restrictive legends required by Section 2.05(c).

Prior to the Notes Fungibility Date, Rule 144A Notes and Regulation S Notes, as the case may be, may be exchanged for other Rule 144A Notes or Regulation S Notes, as the case may be, of any authorized denominations and of a like aggregate principal amount, upon surrender of the Rule 144A Notes or Regulation S Notes, as the case may be, to be exchanged at any such office or agency maintained by the Company pursuant to Section 4.02. Whenever any Rule 144A Notes or Regulation S Notes, as the case may be, are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Rule 144A Notes or Regulation S Notes, as the case may be, that the Holder making the exchange is entitled to receive, bearing registration numbers not contemporaneously outstanding. Following the Notes Fungibility Date, Notes may be exchanged for other Notes of any authorized denominations and of a like aggregate principal amount but not bearing the restrictive legend required by Section 2.05(c), upon surrender of the Notes to be exchanged at any such office or agency maintained by the Company pursuant to Section 4.02. Whenever any Notes are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Notes that the Holder making the exchange is entitled to receive, bearing registration numbers not contemporaneously outstanding.

All Notes presented or surrendered for registration of transfer or for exchange, repurchase or conversion shall (if so required by the Company, the Trustee, the Note Registrar or any co-Note Registrar) be duly endorsed, or be accompanied by a written instrument or instruments of transfer in form satisfactory to the Company and duly executed, by the Holder thereof or its attorney-in-fact duly authorized in writing.
No service charge shall be imposed by the Company, the Transfer Agent, the Note Registrar, any co-Note Registrar or the Paying Agent for any exchange or registration of transfer of Notes, but the Company may require a Holder to pay a sum sufficient to cover any documentary, stamp, issue, transfer or similar tax required in connection therewith as a result of the name of the Holder of new Notes issued upon such exchange or registration of transfer being different from the name of the Holder of the old Notes surrendered for exchange or registration of transfer. The Company shall pay the ADS Depositary’s fees for issuance of the ADSs.

None of the Company, the Trustee, the Note Registrar or any co-Note Registrar shall be required to exchange or register a transfer of (i) any Notes surrendered for conversion or, if a portion of any Note is surrendered for conversion, such portion thereof surrendered for conversion, (ii) any Notes, or a portion of any Note, surrendered for repurchase (and not withdrawn) in accordance with Article 15 or (iii) any Notes selected for redemption in accordance with Article 16.

All Notes issued upon any registration of transfer or exchange of Notes in accordance with this Indenture shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture as the Notes surrendered upon such registration of transfer or exchange.

The Trustee shall have no responsibility or obligation to any direct or indirect participant or any other Person with respect to the accuracy of the books or records, or the acts or omissions, of the Depositary or its nominee or of any participant or member thereof, with respect to any ownership interest in the Notes or with respect to the delivery to any direct or indirect participant or other Person (other than the Depositary and any other registered Holder of Notes) of any notice (including any notice of redemption pursuant to Article 16) or the payment of any amount, under or with respect to such Notes. All notices and communications to be given to the Holders and all payments to be made to Holders under the Notes shall be given or made only to or upon the order of the registered Holders (which shall be the Depositary or its nominee in the case of a Global Note). The rights of beneficial owners in any Global Note shall be exercised only through the Depositary subject to the customary procedures of the Depositary. The Trustee may rely and shall be fully protected in relying upon information furnished by the Depositary with respect to its direct or indirect participants.

The Trustee shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under this Indenture or under applicable law with respect to any interest in any Note (including any transfers between or among direct or indirect participants in any Global Note) other than to require delivery of such certificates as are expressly required by, and to do so if and when expressly required by, the terms of this Indenture, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

(b) So long as the Notes are eligible for book-entry settlement with the Depositary, unless otherwise required by law, subject to the fourth paragraph from the end of Section 2.05(c) all Notes shall be represented by one or more Notes in global form (each, a “Global Note”) registered in the name of the Depositary or the nominee of the Depositary. The transfer and exchange of beneficial interests in a Global Note that does not involve the issuance of a Physical Note shall be effected through the Depositary in accordance with this Indenture (including the restrictions on transfer set forth herein) and the procedures of the Depositary therefor. Prior to the Notes Fungibility Date, the Rule 144A Notes shall be represented by one or more Global Notes and the Regulation S Notes shall be represented by one or more separate Global Notes. Following the Notes Fungibility Date, the Rule 144A Notes and the Regulation S Notes may be represented by one or more of the same Global Notes.
(c) Every Note that bears or is required under this Section 2.05(c) to bear the legend set forth in this Section 2.05(c) (together with any ADSs (including the Ordinary Shares represented thereby) delivered upon conversion of the Notes that are required to bear the legend set forth in Section 2.05(d), collectively, the “Restricted Securities”) shall be subject to the restrictions on transfer set forth in this Section 2.05(c) (including the legend set forth below), unless such restrictions on transfer shall be eliminated or otherwise waived by written consent of the Company, and the Holder of each such Restricted Security, by such Holder’s acceptance thereof, agrees to be bound by all such restrictions on transfer. As used in this Section 2.05(c) and Section 2.05(d), the term “transfer” encompasses any sale, pledge, transfer or other disposition whatsoever of any Restricted Security.

Until the date (the “Resale Restriction Termination Date”) that is the later of (1) the date that is one year after the last date of original issuance of the Notes, or such shorter period of time as permitted by Rule 144 under the Securities Act or any successor provision thereto, and (2) such later date, if any, as may be required by applicable law, any certificate evidencing such Note (and all securities issued in exchange therefor or substitution thereof, other than ADSs (including the Ordinary Shares represented thereby) issued upon conversion thereof, which shall bear the legend set forth in Section 2.05(d), if applicable) shall bear a legend in substantially the following form (unless such Notes have been transferred pursuant to a registration statement that has become or been declared effective under the Securities Act and that continues to be effective at the time of such transfer, or pursuant to the exemption from registration provided by Rule 144 under the Securities Act or any similar provision then in force under the Securities Act, or unless otherwise agreed by the Company in writing, with notice thereof to the Trustee):

THIS SECURITY, THE AMERICAN DEPOSITARY SHARES DELIVERABLE UPON CONVERSION OF THIS SECURITY AND THE ORDINARY SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), ARE “RESTRICTED SECURITIES” WITHIN THE MEANING OF RULES 144 UNDER THE SECURITIES ACT OR CONTRACTUALLY RESTRICTED SECURITIES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE ACQUIRER:

(1) REPRESENTS THAT IT AND ANY ACCOUNT FOR WHICH IT IS ACTING IS (A) A “QUALIFIED INSTITUTIONAL BUYER” (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) OR (B) NOT A U.S. PERSON AND LOCATED OUTSIDE THE UNITED STATES (WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT) AND THAT IT EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO EACH SUCH ACCOUNT AND THAT IT AND ANY SUCH ACCOUNT IS NOT AN AFFILIATE OF BILIBILI INC. (THE “COMPANY”), AND
(2) AGREES FOR THE BENEFIT OF THE COMPANY THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS SECURITY OR ANY BENEFICIAL INTEREST HEREIN PRIOR TO THE DATE THAT IS THE LATER OF (X) ONE YEAR AFTER THE LAST ORIGINAL ISSUE DATE HEREOF OR SUCH SHORTER PERIOD OF TIME AS PERMITTED BY RULE 144 UNDER THE SECURITIES ACT OR ANY SUCCESSOR PROVISION THERETO AND (Y) SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAW, EXCEPT:

(A) TO THE COMPANY OR ANY SUBSIDIARY THEREOF, OR
(B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT, OR
(C) TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, OR
(D) TO A NON-U.S. PERSON LOCATED OUTSIDE THE UNITED STATES IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT, OR
(E) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE).

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH (2)(E) ABOVE, THE COMPANY, THE DEPOSITARY AND THE TRUSTEE RESERVE THE RIGHT TO REQUIRE THE DELIVERY OF SUCH LEGAL OPINIONS, CERTIFICATIONS OR OTHER EVIDENCE AS MAY REASONABLY BE REQUIRED IN ORDER TO DETERMINE THAT THE PROPOSED TRANSFER IS BEING MADE IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. NO REPRESENTATION IS MADE AS TO THE AVAILABILITY OF ANY EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

NO AFFILIATE (AS DEFINED IN RULE 144 UNDER THE SECURITIES ACT) OF THE COMPANY OR PERSON THAT HAS BEEN AN AFFILIATE (AS DEFINED IN RULE 144 UNDER THE SECURITIES ACT) OF THE COMPANY DURING THE THREE IMMEDIATELY PRECEDING MONTHS MAY PURCHASE, OTHERWISE ACQUIRE OR OWN THIS NOTE, THE AMERICAN DEPOSITARY SHARES DELIVERABLE UPON CONVERSION HEREOF AND THE ORDINARY SHARES REPRESENTED THEREBY, OR A BENEFICIAL INTEREST HEREIN.
No transfer of any Note prior to the Resale Restriction Termination Date will be registered by the Note Registrar unless the applicable box on the Form of Assignment and Transfer has been checked.

Any Note (or security issued in exchange or substitution therefor) as to which such restrictions on transfer shall have expired in accordance with their terms may, upon surrender of such Note for exchange to the Note Registrar in accordance with the provisions of this Section 2.05, be exchanged for a new Note or Notes, of like tenor and aggregate principal amount, which shall not bear the restrictive legend required by this Section 2.05(c) and shall not be assigned a restricted CUSIP number. The Company shall be entitled to instruct the Trustee in writing to so surrender any Global Note as to which such restrictions on transfer shall have expired in accordance with their terms for exchange, and, upon such instruction, the Trustee shall so surrender such Global Note for exchange; and any new Global Note so exchanged therefor shall not bear the restrictive legend specified in this Section 2.05(c) and shall not be assigned a restricted CUSIP number. The Company shall promptly notify the Trustee in writing upon the occurrence of the Resale Restriction Termination Date and after a registration statement, if any, with respect to the Notes or the ADSs (including the Ordinary Shares represented thereby) issued upon conversion of the Notes has been declared effective under the Securities Act.

Notwithstanding any other provisions of this Indenture (other than the provisions set forth in this Section 2.05(c)), a Global Note may not be transferred as a whole or in part except (i) by the Depositary to a nominee of the Depositary or by a nominee of the Depositary to the Depositary or another nominee of the Depositary or by the Depositary or any such nominee to a successor Depositary or a nominee of such successor Depositary and (ii) for transfers of portions of a Global Note in certificated form made upon request of a member of, or a participant in, the Depositary (for itself or on behalf of a beneficial owner) by written notice given to the Trustee by or on behalf of the Depositary in accordance with customary procedures of the Depositary and in compliance with this Section 2.05(c).

The Depositary shall be a clearing agency registered under the Exchange Act. The Company initially appoints The Depository Trust Company to act as Depositary with respect to each Global Note. Initially, each Global Note shall be issued to the Depositary, registered in the name of Cede & Co., as the nominee of the Depositary, and deposited with Deutsche Bank Trust Company Americas as custodian for Cede & Co.

If (i) the Depositary notifies the Company at any time that the Depositary is unwilling or unable to continue as depositary for the Global Notes and a successor depositary is not appointed within 90 days, (ii) the Depositary ceases to be registered as a clearing agency under the Exchange Act and a successor depositary is not appointed within 90 days or (iii) an Event of Default with respect to the Notes has occurred and is continuing and a beneficial owner of any Note requests that its beneficial interest therein be issued as a Physical Note, the Company shall execute, and the Trustee, upon receipt of an Officers’ Certificate and a Company Order for the authentication and delivery of Notes, shall authenticate and deliver (x) in the case of clause (iii), a Physical Note to such beneficial owner in a principal amount equal to the principal amount of such Note corresponding to such beneficial owner’s beneficial interest and (y) in the case of clause (i) or (ii), Physical Notes to each beneficial owner of the related Global Notes (or a portion thereof) in an aggregate principal amount equal to the aggregate principal amount of such Global Notes in exchange for such Global Notes, and upon delivery of the Global Notes to the Note Registrar such Global Notes shall be canceled.
Physical Notes issued in exchange for all or a part of the Global Note pursuant to this Section 2.05(c) shall be registered in such names and in such authorized denominations as the Depositary, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Note Registrar in writing. Upon execution and authentication, the Note Registrar shall deliver such Physical Notes to the Persons in whose names such Physical Notes are so registered.

At such time as all interests in a Global Note have been converted, canceled, repurchased, redeemed or transferred, such Global Note shall be, upon receipt thereof, canceled by the Note Registrar in accordance with standing procedures and existing instructions of the Depositary. At any time prior to such cancellation, if any interest in a Global Note is exchanged for Physical Notes, converted, canceled, repurchased, redeemed or transferred to a transferee who receives Physical Notes therefor or any Physical Note is exchanged or transferred for part of such Global Note, the principal amount of such Global Note shall, in accordance with the standing procedures and existing instructions of the Depositary, be appropriately reduced or increased, as the case may be, and an endorsement shall be made on such Global Note, by the Note Registrar, to reflect such reduction or increase.

None of the Company, the Trustee, the Paying Agent, any agent of the Company or any agent of the Trustee shall have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests of a Global Note or maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

(d) Until the Resale Restriction Termination Date, any certificate representing ADSs (including the Ordinary Shares represented thereby) issued upon conversion of such Note shall bear a legend in substantially the following form (unless the Note or such ADSs (including the Ordinary Shares represented thereby) has been transferred pursuant to a registration statement that has become or been declared effective under the Securities Act and that continues to be effective at the time of such transfer, or pursuant to the exemption from registration provided by Rule 144 or any similar provision then in force under the Securities Act, or such ADS or the Ordinary Shares represented thereby have been issued upon conversion of Notes that have been transferred pursuant to a registration statement that has become or been declared effective under the Securities Act and that continues to be effective at the time of such transfer, or pursuant to the exemption from registration provided by Rule 144 under the Securities Act or any similar provision then in force under the Securities Act, or unless otherwise agreed by the Company with written notice thereof to the Note Registrar and any transfer agent for the ADSs):
THE AMERICAN DEPOSITARY SHARES EVIDENCED HEREBY AND THE ORDINARY SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), ARE “RESTRICTED SECURITIES” WITHIN THE MEANING OF RULE 144 UNDER THE SECURITIES ACT OR CONTRACTUALLY RESTRICTED SECURITIES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE ACQUIRER:

(1) REPRESENTS THAT IT AND ANY ACCOUNT FOR WHICH IT IS ACTING IS (A) A “QUALIFIED INSTITUTIONAL BUYER” (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) OR (B) NOT A U.S. PERSON ANDLOCATED OUTSIDE THE UNITED STATES (WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT) AND THAT IT EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO EACH SUCH ACCOUNT AND THAT IT AND ANY SUCH ACCOUNT IS NOT AN AFFILIATE OF BILIBILI INC. (THE “COMPANY”), AND

(2) AGREES FOR THE BENEFIT OF THE COMPANY THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS SECURITY OR ANY BENEFICIAL INTEREST HEREIN PRIOR TO THE DATE THAT IS THE LATER OF (X) ONE YEAR AFTER THE LAST ORIGINAL ISSUE DATE OF THE SERIES OF NOTES UPON THE CONVERSION OF WHICH THIS SECURITY WAS ISSUED OR SUCH SHORTER PERIOD OF TIME AS PERMITTED BY RULE 144 UNDER THE SECURITIES ACT OR ANY SUCCESSOR PROVISION THERETO AND (Y) SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAW, EXCEPT:

(A) TO THE COMPANY OR ANY SUBSIDIARY THEREOF, OR

(B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT, OR

(C) TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, OR

(D) TO A NON-U.S. PERSON LOCATED OUTSIDE THE UNITED STATES IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT, OR

(E) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE).

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH (2)(E) ABOVE, THE COMPANY, THE DEPOSITARY AND THE TRANSFER AGENT FOR THE COMPANY’S AMERICAN DEPOSITARY SHARES RESERVE THE RIGHT TO REQUIRE THE DELIVERY OF SUCH LEGAL OPINIONS, CERTIFICATIONS OR OTHER EVIDENCE AS MAY REASONABLY BE REQUIRED IN ORDER TO DETERMINE THAT THE PROPOSED TRANSFER IS BEING MADE IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. NO REPRESENTATION IS MADE AS TO THE AVAILABILITY OF ANY EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.
NO AFFILIATE (AS DEFINED IN RULE 144 UNDER THE SECURITIES ACT) OF THE COMPANY OR PERSON THAT HAS BEEN AN AFFILIATE (AS DEFINED IN RULE 144 UNDER THE SECURITIES ACT) OF THE COMPANY DURING THE THREE IMMEDIATELY PRECEDING MONTHS MAY PURCHASE, OTHERWISE ACQUIRE OR OWN THE AMERICAN DEPOSITARY SHARES EVIDENCED HEREBY OR A BENEFICIAL INTEREST THEREIN.

Any such ADSs as to which such restrictions on transfer shall have expired in accordance with their terms may, upon surrender of the certificates representing such ADSs for exchange in accordance with the procedures of the transfer agent for the ADSs and the Restricted Deposit Agreement, as applicable, be exchanged for a new certificate or certificates for a like aggregate number of ADSs, which shall not bear the restrictive legend required by this Section 2.05(d).

(e) Any Note or ADS delivered upon the conversion or exchange of any Note that is repurchased or owned by any Affiliate of the Company may not be resold by such Affiliate unless registered under the Securities Act or resold pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act in a transaction that results in such Note or ADS, as the case may be, no longer being a “restricted security” (as defined under Rule 144 under the Securities Act). The Company shall cause any Note that is repurchased or owned by it to be surrendered to the Note Registrar for cancellation in accordance with Section 2.08.

(f) Until the Resale Restriction Termination Date, prior to any sale of Regulation S Notes, the ADSs deliverable upon conversion thereof or the Ordinary Shares represented thereby, to a qualified institutional buyer in compliance with Rule 144A, the Holder thereof shall deliver to the Trustee, Transfer Agent and/or Depositary, as the case may be, written confirmation that the prospective purchaser is a Person such Holder reasonably believes is a “qualified institutional buyer” (within the meaning of Rule 144A) that is purchasing for its own account or for the account of another qualified institutional buyer and to whom notice is given that the transfer is being made in reliance on Rule 144A.

Section 2.06 Mutilated, Destroyed, Lost or Stolen Notes. In case any Note shall become mutilated or be destroyed, lost or stolen, the Company in its discretion may execute, and upon receipt of a Company Order, the Trustee shall authenticate and deliver, a new Note, bearing a registration number not contemporaneously outstanding, in exchange and substitution for the mutilated Note, or in lieu of and in substitution for the Note so destroyed, lost or stolen. In every case the applicant for a substituted Note shall furnish to the Company and to the Trustee such security and/or indemnity as may be required by them to save each of them harmless from any loss, liability, cost or expense caused by or connected with such substitution, and, in every case of destruction, loss or theft, the applicant shall also furnish to the Company and to the Trustee evidence to their satisfaction of the destruction, loss or theft of such Note and of the ownership thereof.

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The Trustee may authenticate any such substituted Note and deliver the same upon the receipt of such security and/or indemnity as the Trustee and the Company may require. No service charge shall be imposed by the Company, the Transfer Agent, the Note Registrar, any co-Note Registrar or the Paying Agent upon the issuance of any substitute Note, but the Company may require a Holder to pay a sum sufficient to cover any documentary, stamp, issue, transfer or similar tax required in connection therewith as a result of the name of the Holder of the new substitute Note being different from the name of the Holder of the old Note that became mutilated or was destroyed, lost or stolen. In case any Note that has matured or is about to mature or has been surrendered for repurchase (and not withdrawn) in accordance with Article 15 or has been selected for redemption in accordance with Article 16 or is about to be converted in accordance with Article 14 shall become mutilated or be destroyed, lost or stolen, the Company may, in its sole discretion, instead of issuing a substitute Note, pay or authorize the payment of or convert or authorize the conversion of the same (without surrender thereof except in the case of a mutilated Note), as the case may be, if the applicant for such payment or conversion shall furnish to the Company and to the Trustee such security and/or indemnity as may be required by them to save each of them harmless for any loss, liability, cost or expense caused by or connected with such substitution, and, in every case of destruction, loss or theft, evidence satisfactory to the Company, and the Trustee evidence of their satisfaction of the destruction, loss or theft of such Note and of the ownership thereof.

Every substitute Note issued pursuant to the provisions of this Section 2.06 by virtue of the fact that any Note is destroyed, lost or stolen shall constitute an additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Note shall be found at any time, and shall be entitled to all the benefits of (but shall be subject to all the limitations set forth in) this Indenture equally and proportionately with any and all other Notes duly issued hereunder. To the extent permitted by law, all Notes shall be held and owned upon the express condition that the foregoing provisions are exclusive with respect to the replacement, payment, redemption, conversion or repurchase of mutilated, destroyed, lost or stolen Notes and shall preclude any and all other rights or remedies notwithstanding any law or statute existing or hereafter enacted to the contrary with respect to the replacement, payment, redemption, conversion or repurchase of negotiable instruments or other securities without their surrender.

Section 2.07 Temporary Notes. Pending the preparation of Physical Notes, the Company may execute and the Trustee shall, upon receipt of a Company Order, authenticate and deliver temporary Notes (printed or lithographed). Temporary Notes shall be issuable in any authorized denomination, and substantially in the form of the Physical Notes but with such omissions, insertions and variations as may be appropriate for temporary Notes, all as may be determined by the Company. Every such temporary Note shall be executed by the Company and authenticated by the Trustee upon the same conditions and in substantially the same manner, and with the same effect, as the Physical Notes. Without unreasonable delay, the Company shall execute and deliver to the Trustee Physical Notes (other than any Global Note) and thereupon any or all temporary Notes (other than any Global Note) may be surrendered in exchange therefor, at each office or agency maintained by the Company pursuant to Section 4.02 and the Trustee shall upon receipt of a Company Order authenticate and deliver in exchange for such temporary Notes an equal aggregate principal amount of Physical Notes. Such exchange shall be made by the Company at its own expense and without any charge therefor. Until so exchanged, the temporary Notes shall in all respects be entitled to the same benefits and subject to the same limitations under this Indenture as Physical Notes authenticated and delivered hereunder.

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Section 2.08 Cancellation of Notes Paid, Converted, Etc. The Company shall cause all Notes surrendered for the purpose of payment, repurchase, redemption, registration of transfer or exchange or conversion, if surrendered to any Person other than the Note Registrar (including any of the Company’s agents, Subsidiaries or Affiliates), to be delivered and surrendered to the Note Registrar for cancellation. All Notes delivered to the Note Registrar shall be canceled promptly by it, and no Notes shall be authenticated in exchange thereof except as expressly permitted by any of the provisions of this Indenture. The Note Registrar shall dispose of canceled Notes in accordance with its customary procedures and, after such disposition, shall deliver a certificate of such cancellation and disposition to the Company, at the Company’s written request in a Company Order.

Section 2.09 CUSIP Numbers. The Company in issuing the Notes may use “CUSIP” numbers (if then generally in use), and, if so, the Trustee shall use “CUSIP” numbers in all notices issued to Holders as a convenience to such Holders; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Notes or on such notice and that reliance may be placed only on the other identification numbers printed on the Notes. The Company shall promptly notify the Trustee in writing of any change in the “CUSIP” numbers. Prior to the Notes Fungibility Date, the Rule 144A Notes and the Regulation S Notes shall have different “CUSIP” numbers. Following the Notes Fungibility Date, the Rule 144A Notes and the Regulation S Notes shall have the same “CUSIP” number.

Section 2.10 Additional Notes; Repurchases. The Company may, without the consent of the Holders and notwithstanding Section 2.01, reopen this Indenture and issue additional Notes hereunder with the same terms as the Notes initially issued hereunder (except for any differences in the issue price, the issue date and interest accrued, if any, and, if applicable, restrictions on transfer in respect of such additional Notes) in an unlimited aggregate principal amount; provided that if any such additional Notes are not fungible with the Notes initially issued hereunder for U.S. federal income tax or securities law purposes, such additional Notes shall have a separate CUSIP number from both the Rule 144A Notes and the Regulation S Notes. Prior to the issuance of any such additional Notes, the Company shall deliver to the Trustee a Company Order, an Officers’ Certificate and an Opinion of Counsel, such Officers’ Certificate and Opinion of Counsel to cover such matters, in addition to those required by Section 17.06, as the Trustee shall reasonably request. In addition, the Company may, to the extent permitted by law, and directly or indirectly (regardless of whether such Notes are surrendered to the Company), repurchase Notes in the open market or otherwise, whether by the Company or through its Subsidiaries or through a private or public tender or exchange offer or through counterparties to private agreements. The Company shall cause any Notes so repurchased to be surrendered to the Note Registrar for cancellation in accordance with Section 2.08 and upon receipt of a Company Order, the Note Registrar shall cancel all Notes so surrendered and such Notes shall no longer be considered outstanding under this Indenture upon their repurchase. The Company may also enter into cash-settled swaps or other derivatives with respect to the Notes. For the avoidance of doubt, any Notes underlying such cash-settled swaps or other derivatives shall not be required to be surrendered to the Note Registrar for cancellation in accordance with Section 2.08 and will continue to be considered outstanding for purposes of this Indenture, subject to the provisions of Section 8.04.
ARTICLE 3
SATISFACTION AND DISCHARGE

Section 3.01 Satisfaction and Discharge. This Indenture shall upon request of the Company contained in an Officers’ Certificate cease to be of further effect, and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when (a) (i) all Notes theretofore authenticated and delivered (other than (x) Notes which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 2.06 and (y) Notes for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust, as provided in Section 4.04(d)) have been delivered to the Note Registrar for cancellation; or (ii) the Company has deposited with the Paying Agent or delivered to Holders, as applicable, after the Notes have become due and payable, whether on the Maturity Date, a Redemption Date, the Repurchase Date, any Fundamental Change Repurchase Date, upon conversion or otherwise, cash or cash and ADSs (solely to satisfy the Company’s Conversion Obligation, if applicable), sufficient to pay all of the outstanding Notes and all other sums due and payable under this Indenture by the Company; and (b) the Company has delivered to the Trustee an Officers’ Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with. Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 7.06 shall survive.

ARTICLE 4
PARTICULAR COVENANTS OF THE COMPANY

Section 4.01 Payment of Principal and Interest. The Company covenants and agrees that it will cause to be paid the principal (including the Redemption Price, the Repurchase Price and the Fundamental Change Repurchase Price, if applicable) of, and accrued and unpaid interest on, each of the Notes at the places, at the respective times and in the manner provided herein and in the Notes.

Section 4.02 Maintenance of Office or Agency. The Company will maintain in the Borough of Manhattan, The City of New York, an office or agency (which will be the Corporate Trust Office initially) where the Notes may be surrendered for registration of transfer or exchange or for presentation for payment or repurchase (“Paying Agent”) or for conversion (“Conversion Agent”) and where notices and demands to or upon the Company in respect of the Notes and this Indenture may be served. The Company will give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office, provided, however, that the legal service of process against the Company shall in no circumstance be made at an office or agency of the Trustee.
The Company may also from time to time designate as co-Note Registrars one or more other offices or agencies where the Notes may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; provided that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in the Borough of Manhattan, The City of New York, for such purposes. The Company will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency. The terms “Paying Agent” and “Conversion Agent” include any such additional or other offices or agencies, as applicable.

The Company hereby initially designates Deutsche Bank Trust Company Americas as the Paying Agent, Note Registrar, Transfer Agent and Conversion Agent and the Corporate Trust Office and the office or agency of Deutsche Bank Trust Company Americas in the Borough of Manhattan, The City of New York, each shall be considered as one such office or agency of the Company for each of the aforesaid purposes.

Section 4.03 Appointments to Fill Vacancies in Trustee’s Office. The Company, whenever necessary to avoid or fill a vacancy in the office of Trustee, will appoint, in the manner provided in Section 7.09, a trustee, so that there shall at all times be a trustee hereunder.

Section 4.04 Provisions as to Paying Agent. (a) If the Company shall appoint a Paying Agent other than the Trustee, the Company will cause such Paying Agent to execute and deliver to the Trustee an instrument in which such agent shall agree with the Trustee, subject to the provisions of this Section 4.04:

(i) that it will hold all sums held by it as such agent for the payment of the principal (including the Redemption Price, the Repurchase Price and the Fundamental Change Repurchase Price, if applicable) of, and accrued and unpaid interest on, the Notes for the benefit of the Holders of the Notes;

(ii) that it will give the Trustee prompt notice of any failure by the Company to make any payment of the principal (including the Redemption Price, the Repurchase Price and the Fundamental Change Repurchase Price, if applicable) of, and accrued and unpaid interest on, the Notes when the same shall be due and payable; and

(iii) that at any time during the continuance of an Event of Default, upon request of the Trustee, it will forthwith pay to the Trustee all sums so held.

The Company shall, on or before each due date of the principal (including the Redemption Price, the Repurchase Price and the Fundamental Change Repurchase Price, if applicable) of, or accrued and unpaid interest on, the Notes, deposit with the Paying Agent a sum sufficient to pay such principal (including the Redemption Price, the Repurchase Price and the Fundamental Change Repurchase Price, if applicable) or accrued and unpaid interest and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of any failure to take such action; provided that such deposit must be received by the Paying Agent by 10:00 a.m., New York City time, one Business Day prior to the relevant due date. The Paying Agent shall not be bound to make any payment until it has received, in immediately available and cleared funds, an amount which shall be sufficient to pay, as applicable, the aggregate amount of principal (including the Redemption Price, the Repurchase Price and the Fundamental Change Repurchase Price, if applicable) of, or accrued and unpaid interest on, the Notes when such principal or interest shall become due and payable. The Paying Agent shall not be responsible or liable for any delay in making the payment if it does not receive funds before 10:00 a.m. one Business Day prior to the payment date. The Company shall use reasonable efforts to procure that, before 10:00 a.m., New York City time, on the second Business Day before each payment date, the bank effecting payment for it has confirmed by email or facsimile to the Paying Agent the payment instructions relating to such payment.

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(b) If the Company shall act as its own Paying Agent, it will, on or before each due date of the principal (including the Redemption Price, the Repurchase Price and the Fundamental Change Repurchase Price, if applicable) of, and accrued and unpaid interest on, the Notes, set aside, segregate and hold in trust for the benefit of the Holders of the Notes a sum sufficient to pay such principal (including the Redemption Price, the Repurchase Price and the Fundamental Change Repurchase Price, if applicable) and accrued and unpaid interest so becoming due and will promptly notify the Trustee in writing of any failure to take such action and of any failure by the Company to make any payment of the principal (including the Redemption Price, the Repurchase Price and the Fundamental Change Repurchase Price, if applicable) of, or accrued and unpaid interest on, the Notes when the same shall become due and payable. Upon an Event of Default under Section 6.01(i) or Section 6.01(j) hereof, the Trustee shall automatically become the Paying Agent.

(c) Anything in this Section 4.04 to the contrary notwithstanding, the Company may, at any time, for the purpose of obtaining a satisfaction and discharge of this Indenture, or for any other reason, pay, cause to be paid or deliver to the Trustee all sums or amounts held by the Company in trust or by any Paying Agent as required by this Section 4.04, such sums or amounts to be held by the Trustee upon the trusts herein contained and upon such payment or delivery by the Company or any Paying Agent to the Trustee, the Company or such Paying Agent shall be released from all further liability but only with respect to such sums or amounts.

(d) Any money and ADSs deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of principal (including the Redemption Price, the Repurchase Price and the Fundamental Change Repurchase Price, if applicable) of, and accrued and unpaid interest on, any Note (or, in the case of ADSs, in satisfaction of the Conversion Obligation) and remaining unclaimed for two years after such principal (including the Redemption Price, the Repurchase Price and the Fundamental Change Repurchase Price, if applicable) or interest has become due and payable or such Conversion Obligation has become due shall be paid or delivered, as the case may be, to the Company on request of the Company contained in an Officers’ Certificate, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Note shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such money and ADSs, and all liability of the Company as trustee thereof, shall thereupon cease; provided, however, that the Trustee or such Paying Agent, before being required to make any such repayment or delivery, may at the expense of the Company cause to be published once, in a newspaper published in the English language, customarily published on each Business Day and of general circulation in The Borough of Manhattan, The City of New York, notice that such money and ADSs remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money and ADSs then remaining will be repaid or delivered to the Company.
Section 4.05 Existence. Subject to Article 11, the Company shall do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence. The Company shall promptly provide the Trustee with written notice of any change to its name, jurisdiction of incorporation or change to its corporate organization.

Section 4.06 Rule 144A Information Requirement and Annual Reports. (a) At any time the Company is not subject to Section 13 or 15(d) of the Exchange Act, the Company shall, so long as any of the Notes, any ADSs deliverable upon conversion thereof or any Ordinary Shares underlying ADSs deliverable upon conversion thereof shall, at such time, constitute “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, promptly provide to the Trustee and shall, upon written request, provide to any Holder, beneficial owner or prospective purchaser of such Notes or the ADSs deliverable upon conversion of such Notes, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act to facilitate the resale of such Notes or ADSs pursuant to Rule 144A. The Company shall take such further action as any Holder or beneficial owner of such Notes or such ADSs may reasonably request to the extent from time to time required to enable such Holder or beneficial owner to sell such Notes or ADSs in accordance with Rule 144A, as such rule may be amended from time to time.

(b) The Company shall provide to the Trustee within 15 days after the same are required to be filed with the Commission, copies of any documents or reports that the Company is required to file with the Commission pursuant to Section 13 or 15(d) of the Exchange Act (giving effect to any applicable grace period provided by Rule 12b-25 under the Exchange Act). Any such document or report that the Company files with the Commission via the Commission’s EDGAR system (or any successor thereto) shall be deemed to be provided to the Trustee for purposes of this Section 4.06(b) at the time such documents are filed via the EDGAR system (or any successor thereto). The Trustee shall have no obligation to determine if and when the Company’s statements or reports are publicly available and/or accessible electronically.

(c) Delivery of the reports and documents described in subsection (b) above to the Trustee is for informational purposes only, and the Trustee’s receipt of such shall not constitute actual or constructive notice or knowledge of any information contained therein or determinable from information contained therein, including the Company’s compliance with any of its covenants hereunder (as to which the Trustee is entitled to conclusively rely on an Officers’ Certificate).

(d) If, at any time during the six-month period beginning on, and including, the date that is six months after the last date of original issuance of the Notes, the Company fails to timely file any document or report that it is required to file with the Commission pursuant to Section 13 or 15(d) of the Exchange Act, as applicable (after (i) giving effect to all applicable grace periods thereunder and (ii) other than reports on Form 6-K to the extent such reports are not required to satisfy the “current public information” requirement of Rule 144), or the Notes are not otherwise freely tradable pursuant to Rule 144 by Holders other than the Company’s Affiliates or Holders that were the Company’s Affiliates at any time during the three months immediately preceding (as a result of restrictions pursuant to U.S. securities laws or the terms of this Indenture or the Notes), the Company shall pay or cause the Paying Agent (on behalf of the Company and subject to receipt of funds from the Company pursuant to the last paragraph in Section 4.04(a)) to pay Additional Interest on the Notes. Such Additional Interest shall accrue on the Notes at the rate of 0.50% per annum of the principal amount of the Notes outstanding for each day during such period for which the Company’s failure to file has occurred and is continuing or the period during which the Notes are not freely tradable, as the case may be, by Holders other than Affiliates of the Company (or Holders that were Affiliates of the Company during the three months immediately preceding). As used in this Section 4.06(d), documents or reports that the Company is required to “file” with the Commission pursuant to Section 13 or 15(d) of the Exchange Act does not include documents or reports that the Company furnishes to the Commission pursuant to Section 13 or 15(d) of the Exchange Act.
(e) If, and for so long as, the restrictive legend on the Notes specified in Section 2.05(c) has not been removed, the Notes are assigned a restricted CUSIP or the Notes are not otherwise freely tradable by Holders other than the Company’s Affiliates or Holders that were the Company’s Affiliates at any time during the three months immediately preceding (without restrictions pursuant to U.S. securities laws or the terms of this Indenture or the Notes) as of the 370th day after the last date of original issuance of the Notes, the Company shall pay or cause the Paying Agent (on behalf of the Company and subject to receipt of funds from the Company pursuant to the last paragraph in Section 4.04(a)) to pay Additional Interest on the Notes at a rate equal to 0.50% per annum of the principal amount of Notes outstanding until the restrictive legend on the Notes has been removed in accordance with Section 2.05(c), the Notes have been assigned an unrestricted CUSIP and the Notes are freely tradable by Holders other than the Company’s Affiliates or Holders that were the Company’s Affiliates at any time during the three months immediately preceding (without restrictions pursuant to U.S. securities laws or the terms of this Indenture or the Notes).

(f) Additional Interest will be payable in arrears on each Interest Payment Date following accrual in the same manner as regular interest on the Notes.

(g) The Additional Interest that is payable in accordance with Section 4.06(d) or Section 4.06(e) shall be in addition to, and not in lieu of, any Additional Interest that may be payable as a result of the Company’s election pursuant to Section 6.03. In no event shall Additional Interest accrue on any day under the terms of this Indenture (taking any Additional Interest payable pursuant to Section 4.06(d) and Section 4.06(e) together with any Additional Interest payable pursuant to Section 6.03) at an annual rate in excess of 0.50%, in the aggregate, for any violation or Default caused by the Company’s failure to be current in respect of its Exchange Act reporting obligations.

(h) If Additional Interest is payable by the Company pursuant to Section 4.06(d) or Section 4.06(e), the Company shall deliver to the Trustee an Officers’ Certificate to that effect stating (i) the amount of such Additional Interest that is payable and (ii) the date on which such Additional Interest is payable. Unless and until a Responsible Officer of the Trustee receives at the Corporate Trust Office such a certificate, the Trustee may assume without inquiry that no such Additional Interest is payable. If the Company has paid such Additional Interest directly to the Persons entitled to it, the Company shall deliver to the Trustee an Officers’ Certificate setting forth the particulars of such payment.
Section 4.07 Additional Amounts. (a) All payments and deliveries made by, or on behalf of, the Company or any successor to the Company under or with respect to this Indenture and the Notes, including, but not limited to, payments of principal (including, if applicable, the Redemption Price, the Repurchase Price and the Fundamental Change Repurchase Price), premium, if any, payments of interest and deliveries of ADSs or any other consideration due on conversion of a Note (together with payments of cash for any Fractional ADS or other consideration) shall be made without withholding, deduction or reduction for any other collection at source for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied (including any penalties and interest related thereto) ("applicable taxes") by or within any jurisdiction in which the Company or any successor to the Company is, for tax purposes, incorporated, organized or resident or doing business (each, as applicable, a "Relevant Taxing Jurisdiction") or through which payment is made or deemed made (together with each Relevant Taxing Jurisdiction, a "Relevant Jurisdiction," and in each case, any political subdivision or taxing authority thereof or therein) unless such withholding, deduction or reduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding, deduction or reduction is so required, the Company or any successor to the Company shall pay or deliver to each Holder such additional amounts of cash, ADSs or other consideration, as applicable ("Additional Amounts") as may be necessary to ensure that the net amount received by the beneficial owner of the Notes after such withholding, deduction or reduction (and after deducting any taxes on the Additional Amounts) shall equal the amounts that would have been received by such beneficial owner had no such withholding, deduction or reduction been required; provided that no Additional Amounts shall be payable:

(i) for or on account of:

(A) any applicable taxes that would not have been imposed but for:

(1) the existence of any present or former connection between the relevant Holder or beneficial owner of such Note and the Relevant Jurisdiction, other than merely acquiring or holding such Note, receiving ADSs (together with the payment of cash for any Fractional ADS) or other consideration upon conversion of such Note or the receipt of payments or the exercise or enforcement of rights thereunder, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having had a permanent establishment therein;

(2) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of (including the Redemption Price, the Repurchase Price and Fundamental Change Repurchase Price, if applicable) and interest on, such Note or the delivery of ADSs (together with payment of cash for any Fractional ADS) upon conversion of such Note became due and payable pursuant to the terms thereof or was made or duly provided for;
(3) the failure of the Holder or beneficial owner to comply with a timely written request from the Company or any successor of the Company, addressed to the Holder, to the extent such Holder or beneficial owner is legally entitled, to provide certification, information, documents or other evidence concerning such Holder’s or beneficial owner’s nationality, residence, identity or connection with the Relevant Taxing Jurisdiction, or to make any declaration or satisfy any other reporting requirement relating to such matters, if and to the extent that due and timely compliance with such request is required by statute, regulation or administrative practice of the Relevant Jurisdiction in order to reduce or eliminate any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder or beneficial owner; or

(4) the presentation of such Note (in cases in which presentation is required) for payment in the Relevant Jurisdiction, unless such Note could not have been presented for payment elsewhere;

(B) any estate, inheritance, gift, sale, transfer, personal property or similar applicable tax or any excise or similar taxes imposed with respect to a transfer;

(C) any applicable tax that is payable otherwise than by withholding, deduction or reduction for any other collection at source from payments or deliveries under or with respect to the Notes;

(D) any applicable tax required to be withheld or deducted under Sections 1471 to 1474 of the Code (or any amended or successor versions of such Sections) (“FATCA”), any regulations or other official guidance thereunder, any intergovernmental agreement or agreement pursuant to Section 1471(b)(1) of the Code entered into in connection with FATCA, or any law, regulation or other official guidance enacted in any jurisdiction implementing FATCA or an intergovernmental agreement; or

(E) any combination of applicable taxes referred to in the preceding clauses (A), (B), (C) or (D); or

(ii) with respect to any payment of the principal of (including the Redemption Price, the Repurchase Price and the Fundamental Change Repurchase Price, if applicable), and interest on, such Note or the delivery of ADSs (together with payment of cash for any Fractional ADS) upon conversion of such Note to a Holder, if the Holder is a fiduciary, partnership or person other than the sole beneficial owner of that payment to the extent that such payment would be required to be included in the income under the laws of the Relevant Jurisdiction, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, a partner or member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner, member or beneficial owner been the Holder thereof.

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(b) If the Company or its successor becomes obligated to pay Additional Amounts with respect to any payment or delivery under or with respect to the Notes, the Company or its successor shall deliver to the Trustee and the Paying Agent, if other than the Trustee, on a date that is at least 30 days prior to the date of that payment or delivery (unless the obligation to pay Additional Amounts arises after the 30th day prior to that payment date, in which case the Company or its successor shall notify the Trustee and the Paying Agent promptly thereafter) an Officers’ Certificate stating the fact that Additional Amounts will be payable and the amount estimated to be so payable. The Officers’ Certificate must also set forth any other information reasonably necessary to enable the Paying Agent or the Conversion Agent, as the case may be, (on behalf of the Company and subject to receipt of funds from the Company pursuant to the last paragraph in Section 4.04(a)) to pay Additional Amounts to Holders on the relevant payment date. The Trustee and the Paying Agent shall be entitled to rely solely on such Officers’ Certificate as conclusive proof that such payments are necessary. The Company or its successor shall provide the Trustee and the Paying Agent with documentation reasonably satisfactory to the Trustee evidencing the payment of Additional Amounts.

(c) The Company or its successor shall make all withholdings and deductions required by law and shall remit the full amount deducted or withheld to the relevant tax authority in accordance with applicable law. Upon request, the Company or its successor shall provide to the Trustee an official receipt or, if official receipts are not obtainable, an Officers’ Certificate evidencing the payment of any applicable taxes so deducted or withheld. Copies of those receipts or other documentation, as the case may be, shall be made available by the Trustee to the Holders of the Notes upon written request.

(d) Any reference in this Indenture or the Notes in any context to the delivery of ADSs (together with payment of cash for any Fractional ADS) or other consideration upon conversion of any Note or the payment of principal of (including the Redemption Price, the Repurchase Price and Fundamental Change Repurchase Price, if applicable) and any premium or interest (including any Additional Interest) on any Note or any other amount payable with respect to such Note, shall be deemed to include payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable with respect to that amount pursuant to this Section 4.07.

(e) Notwithstanding any other provisions, the Company or its successor, the Trustee and the Paying Agent shall be entitled to make any withholding or deduction pursuant to FATCA.

(f) If the Company or its successor is required to make any deduction or withholding from any payments or deliveries with respect to the Notes, it will deliver to the Trustee official tax receipts evidencing the remittance to the relevant tax authorities of the amounts so withheld or deducted.
(g) The foregoing obligations shall survive termination or discharge of this Indenture.

Section 4.08 Stay, Extension and Usury Laws. The Company covenants (to the extent that it may lawfully do so) that it shall not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law or other law that would prohibit or forgive the Company from paying all or any portion of the principal of or interest on the Notes as contemplated herein, wherever enacted, now or at any time hereafter in force, or that may affect the covenants or the performance of this Indenture; and the Company (to the extent it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

Section 4.09 Compliance Certificate; Statements as to Defaults. The Company shall deliver to the Trustee within 120 days after the end of each fiscal year of the Company (beginning with the fiscal year ending on December 31, 2019) an Officers’ Certificate stating that a review has been conducted of the Company’s activities under this Indenture and the Company has fulfilled its obligations hereunder, and whether the authorized Officers thereof have knowledge of any Default by the Company that occurred during the previous year that is then continuing and, if so, specifying each such Default and the nature thereof.

In addition, the Company shall deliver to the Trustee, as soon as possible, and in any event within 30 days after the Company becomes aware of the occurrence of any Default if such Default is then continuing, an Officers’ Certificate setting forth the details of such Default, its status and the action that the Company is taking or proposing to take in respect thereof. The Trustee shall have no responsibility to take any steps to ascertain whether any Event of Default or Default has occurred, and until (i) a Responsible Officer of the Trustee has received an Officers’ Certificate regarding such an occurrence, or (ii) the Trustee has received written notice at the Corporate Trust Office from the Holders of at least 25% in aggregate principal amount of the Notes then outstanding regarding such an occurrence, the Trustee is entitled to assume, without liability, that no Event of Default or Default has occurred.

Section 4.10 Further Instruments and Acts. The Company will execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purposes of this Indenture.

ARTICLE 5
LISTS OF HOLDERS AND REPORTS BY THE COMPANY AND THE TRUSTEE

Section 5.01 Lists of Holders. The Company covenants and agrees that it will furnish or cause to be furnished to the Trustee, semi-annually, not more than 15 days after each March 15 and September 15 in each year beginning with September 15, 2019, and at such other times as the Trustee may request in writing, within 30 days after receipt by the Company of any such request (or such lesser time as the Trustee may reasonably request in order to enable it to timely provide any notice to be provided by it hereunder), a list in such form as the Trustee may reasonably require of the names and addresses of the Holders as of a date not more than 15 days (or such other date as the Trustee may reasonably request in order to so provide any such notices) prior to the time such information is furnished, except that no such list need be furnished so long as the Deutsche Bank Trust Company Americas is acting as Note Registrar.
Section 5.02 Preservation and Disclosure of Lists. The Trustee shall preserve, in as current a form as is reasonably practicable, all information as to the names and addresses of the Holders contained in the most recent list furnished to it as provided in Section 5.01 or maintained by the Trustee in its capacity as Note Registrar, if so acting. The Trustee may destroy any list furnished to it as provided in Section 5.01 upon receipt of a new list so furnished.

ARTICLE 6
DEFAULTS AND REMEDIES

Section 6.01 Events of Default. The following events shall be "Events of Default" with respect to the Notes:

(a) default in any payment of interest or Additional Amounts, if any, on any Note when due and payable and the default continues for a period of 30 days;

(b) default in the payment of principal of any Note when due and payable on the Maturity Date, upon redemption, upon any required repurchase, upon declaration of acceleration or otherwise;

(c) failure by the Company to comply with its obligation to convert the Notes in accordance with this Indenture upon exercise of a Holder’s conversion right and such failure continues for a period of five Business Days;

(d) failure by the Company to issue notices in connection with redemption in respect of a Change in Tax Law in accordance with Section 16.01 or Section 14.03(g), a Company Notice in accordance with Section 15.01(a), a Fundamental Change Company Notice in accordance with Section 15.02(c) or a notice of a Make-Whole Fundamental Change in accordance with Section 14.03(a), in each case, when due and such failure continues for a period of five Business Days;

(e) failure by the Company to comply with its obligations under Article 11;

(f) failure by the Company for 60 days after written notice from the Trustee or by the Trustee at the request of the Holders of at least 25% in aggregate principal amount of the Notes then outstanding has been received by the Company to comply with any of its other agreements contained in the Notes or this Indenture;

(g) default by the Company or any Significant Subsidiary of the Company with respect to any mortgage, agreement or other instrument under which there may be outstanding, or by which there may be secured or evidenced, any indebtedness for money borrowed in excess of US$30 million (or the foreign currency equivalent thereof) in the aggregate of the Company and/or any such Significant Subsidiary, whether such indebtedness now exists or shall hereafter be created (i) resulting in such indebtedness becoming or being declared due and payable or (ii) constituting a failure to pay the principal or interest of any such debt when due and payable at its stated maturity, upon required repurchase, upon declaration of acceleration or otherwise;
(h) a final judgment for the payment of US$30 million (or the foreign currency equivalent thereof) or more (excluding any amounts covered by insurance) rendered against the Company or any Significant Subsidiary of the Company, which judgment is not paid, bonded or otherwise discharged or stayed within 60 days after (i) the date on which the right to appeal thereof has expired if no such appeal has commenced, or (ii) the date on which all rights to appeal have been extinguished;

(i) the Company or any Significant Subsidiary shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to the Company or any such Significant Subsidiary or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of the Company or any such Significant Subsidiary or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due; or

(j) an involuntary case or other proceeding shall be commenced against the Company or any Significant Subsidiary seeking liquidation, reorganization or other relief with respect to the Company or such Significant Subsidiary or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of the Company or such Significant Subsidiary or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 30 consecutive days.

Section 6.02 Acceleration; Rescission and Annulment. If one or more Events of Default shall have occurred and be continuing (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body), then, and in each and every such case (other than an Event of Default specified in Section 6.01(i) or Section 6.01(j) with respect to the Company or any of its Significant Subsidiaries), unless the principal of all of the Notes shall have already become due and payable, the Trustee may by notice in writing to the Company, or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding determined in accordance with Section 8.04, by notice in writing to the Company and to the Trustee may, and the Trustee at the written request of such Holders shall (subject to being indemnified and/or secured and/or pre-funded to its reasonable satisfaction), declare 100% of the principal of, and accrued and unpaid interest on, all the Notes to be due and payable immediately, and upon any such declaration the same shall become and shall automatically be immediately due and payable, notwithstanding anything contained in this Indenture or in the Notes to the contrary. If an Event of Default specified in Section 6.01(i) or Section 6.01(j) with respect to the Company or any of its Significant Subsidiaries occurs and is continuing, 100% of the principal of, and accrued and unpaid interest on, all Notes shall become and shall automatically be immediately due and payable without any action on the part of the Trustee. If an Event of Default occurs and is continuing, all agents of the Company appointed under this Indenture will be required to act on the direction of the Trustee.
The immediately preceding paragraph, however, is subject to the conditions that if, at any time after the principal of the Notes shall have been so declared due and payable, and before any judgment or decree for the payment of the monies due shall have been obtained or entered as hereinafter provided, the Company shall pay or shall deposit with the Trustee a sum sufficient to pay installments of accrued and unpaid interest upon all Notes and the principal of any and all Notes that shall have become due otherwise than by acceleration (with interest on overdue installments of accrued and unpaid interest to the extent that payment of such interest is enforceable under applicable law, and on such principal at the rate per annum borne by the Notes plus one percent) and amounts due to the Trustee pursuant to Section 7.06, and if (1) rescission would not conflict with any judgment or decree of a court of competent jurisdiction and (2) any and all existing Events of Default under this Indenture, other than the nonpayment of the principal of and accrued and unpaid interest on Notes that shall have become due solely by such acceleration, shall have been cured or waived pursuant to Section 6.09, then and in every such case (except as provided in the immediately succeeding sentence) the Holders of a majority in aggregate principal amount of the Notes then outstanding, by written notice to the Company and to the Trustee, may waive all Defaults or Events of Default with respect to the Notes and rescind and annul such declaration and its consequences and such Default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured for every purpose of this Indenture; but no such waiver or rescission and annulment shall extend to or shall affect any subsequent Default or Event of Default, or shall impair any right consequent thereon. Notwithstanding anything to the contrary herein, no such waiver or rescission and annulment shall extend to or shall affect any Default or Event of Default resulting from (i) the nonpayment of the principal of, or accrued and unpaid interest on, any Notes, (ii) a failure to repurchase any Notes when required or (iii) a failure to pay or deliver, as the case may be, the consideration due upon conversion of the Notes.

Section 6.03 Additional Interest. Notwithstanding anything in this Indenture or in the Notes to the contrary, to the extent the Company elects, the sole remedy for Event of Default relating to the Company’s failure to comply with its obligations as set forth in Section 4.06(b) shall after the occurrence of such an Event of Default consist exclusively of the right to receive Additional Interest on the Notes at a rate equal to:

(a) 0.25% per annum of the principal amount of the Notes outstanding for each day during the period beginning on, and including, the date on which such an Event of Default first occurs and ending on the earlier of (i) the date on which such Event of Default is cured or validly waived and (ii) the 90th day immediately following, and including, the date on which such Event of Default first occurred; and

(b) if such Event of Default has not been cured or validly waived prior to the 91st day immediately following, and including, the date on which such Event of Default first occurred, 0.50% per annum of the principal amount of the Notes outstanding for each day during the period beginning on, and including, the 91st day immediately following, and including, the date on which such an Event of Default first occurred and ending on the earlier of (i) the date on which such Event of Default is cured or validly waived and (ii) the 180th day immediately following, and including, the date on which such Event of Default first occurred.
Interest payable pursuant to this Section 6.03 shall be in addition to, not in lieu of, any Additional Interest payable pursuant to Section 4.06(d) or Section 4.06(e). In no event shall Additional Interest accrue on the Notes on any day under this Indenture (taking any Additional Interest payable pursuant to this Section 6.03 together with any Additional Interest payable pursuant to Section 4.06(d) and Section 4.06(e)) at an annual rate accruing in excess of 0.50%, in the aggregate, for any violation or Default caused by the Company’s failure to be current in respect of its Exchange Act reporting obligations. If the Company so elects, such Additional Interest shall be payable in the same manner and on the same dates as regular interest on the Notes. On the 181st day after such Event of Default (if the Event of Default with respect to the Company’s obligations under Section 4.06(b) is not cured or waived prior to such 181st day), the Notes will be subject to acceleration as provided in Section 6.02. In the event the Company does not elect to pay Additional Interest following an Event of Default in accordance with this Section 6.03 or the Company elected to make such payment but does not pay the Additional Interest when due, the Notes shall be subject to acceleration as provided in Section 6.02.

In order to elect to pay Additional Interest as the sole remedy during the first 180 days after the occurrence of any Event of Default described in the immediately preceding paragraph, the Company must notify in writing all Holders of the Notes, the Trustee and the Paying Agent of such election prior to the beginning of such 180-day period. Upon the failure to timely give such notice, the Notes shall be immediately subject to acceleration as provided in Section 6.02.

Section 6.04 Payments of Notes on Default; Suit Therefor. If an Event of Default described in clause (a) or (b) of Section 6.01 shall have occurred, the Company shall, upon demand of the Trustee acting in its own discretion or at the request of Holders of at least 25% in aggregate principal amount of the Notes then outstanding determined in accordance with Section 8.04 and subject to indemnity and/or security and/or pre-funding reasonably satisfactory to the Trustee, pay to the Trustee, for the benefit of the Holders of the Notes, the whole amount then due and payable on the Notes for principal and interest, if any, with interest on any overdue principal and interest, if any, at the rate per annum borne by the Notes at such time plus one percent, and, in addition thereto, such further amount as shall be sufficient to cover any amounts due to the Trustee under Section 7.06. If the Company shall fail to pay such amounts forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, may prosecute such proceeding to judgment or final decree and may enforce the same against the Company or any other obligor upon the Notes and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor upon the Notes, wherever situated.
In the event there shall be pending proceedings for the bankruptcy or for the reorganization of the Company or any other obligor on the Notes under Title 11 of the United States Code, or any other applicable law, or in case a receiver, assignee or trustee in bankruptcy or reorganization, liquidator, sequestrator or similar official shall have been appointed for or taken possession of the Company or such other obligor, the property of the Company or such other obligor, or in the event of any other judicial proceedings relative to the Company or such other obligor upon the Notes, or to the creditors or property of the Company or such other obligor, the Trustee, irrespective of whether the principal of the Notes shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand pursuant to the provisions of this Section 6.04, shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount of principal and accrued and unpaid interest, if any, in respect of the Notes, and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents and to take such other actions as it may deem necessary or advisable in order to have the claims of the Trustee (including any claim for the compensation, properly incurred expenses, properly incurred disbursements and advances of the Trustee, its agents and counsel) and of the Holders allowed in such judicial proceedings relative to the Company or any other obligor on the Notes, its or their creditors, or its or their property, and to collect and receive any monies or other property payable or deliverable on any such claims, and to distribute the same after the deduction of any amounts due to the Trustee under Section 7.06; and any receiver, assignee or trustee in bankruptcy or reorganization, liquidator, custodian or similar official is hereby authorized by each of the Holders to make such payments to the Trustee, as administrative expenses, and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due to it for compensation, properly incurred expenses, advances and properly incurred disbursements, including agents and counsel fees and expenses, and including any other amounts due to the Trustee under Section 7.06, incurred by it up to the date of such distribution. To the extent that such payment of compensation, properly incurred expenses, advances and properly incurred disbursements out of the estate in any such proceedings shall be denied for any reason, payment of the same shall be secured by a lien on, and shall be paid out of, any and all distributions, dividends, monies, securities and other property that the Holders of the Notes may be entitled to receive in such proceedings, whether in liquidation or under any plan of reorganization or arrangement or otherwise.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting such Holder or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

All rights of action and of asserting claims under this Indenture, or under any of the Notes, may be enforced by the Trustee without the possession of any of the Notes, or the production thereof at any trial or other proceeding relative thereto, and any such suit or proceeding instituted by the Trustee shall be brought in its own name or as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the compensation, properly incurred expenses, properly incurred disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Notes.

In any proceedings brought by the Trustee (and in any proceedings involving the interpretation of any provision of this Indenture to which the Trustee shall be a party) the Trustee shall be held to represent all the Holders of the Notes, and it shall not be necessary to make any Holders of the Notes parties to any such proceedings.
In case the Trustee shall have proceeded to enforce any right under this Indenture and such proceedings shall have been discontinued or abandoned because of any waiver pursuant to Section 6.09 or any rescission and annulment pursuant to Section 6.02 or for any other reason or shall have been determined adversely to the Trustee, then and in every such case the Company, the Holders, and the Trustee shall, subject to any determination in such proceeding, be restored respectively to their several positions and rights hereunder, and all rights, remedies and powers of the Company, the Holders, and the Trustee shall continue as though no such proceeding had been instituted.

Section 6.05 Application of Monies Collected by Trustee. Any monies collected by the Trustee pursuant to this Article 6 with respect to the Notes shall be applied in the following order, at the date or dates fixed by the Trustee for the distribution of such monies, upon presentation of the several Notes, and stamping thereon the payment, if only partially paid, and upon surrender thereof, if fully paid:

First, to the payment of all amounts due the Trustee, including to its agents and counsel, under Section 7.06 and any payments due to the Paying Agent, the Transfer Agent, the Conversion Agent and the Note Registrar;

Second, in case the principal of the outstanding Notes shall not have become due and be unpaid, to the payment of interest on, the Notes in default in the order of the date due of the payments of such interest, with interest (to the extent that such interest has been collected by the Trustee) upon such overdue payments at the rate per annum borne by the Notes at such time (including, without duplication, any additional interest on such overdue payments pursuant to Section 6.04), such payments to be made ratably to the Persons entitled thereto;

Third, in case the principal of the outstanding Notes shall have become due, by declaration or otherwise, and be unpaid to the payment of the whole amount (including, if applicable, the payment of the Redemption Price, Repurchase Price or Fundamental Change Repurchase Price and any cash due upon conversion) then owing and unpaid upon the Notes for principal and interest, if any, with interest on the overdue principal and, to the extent that such interest has been collected by the Trustee, upon overdue installments of interest at the rate per annum borne by the Notes at such time plus one percent, and in case such monies shall be insufficient to pay in full the whole amounts so due and unpaid upon the Notes, then to the payment of such principal (including, if applicable, the Redemption Price, Repurchase Price or Fundamental Change Repurchase Price and the cash due upon conversion) and interest without preference or priority of principal over interest, or of interest over principal or of any installment of interest over any other installment of interest, or of any Note over any other Note, ratably to the aggregate of such principal (including, if applicable, the Redemption Price, Repurchase Price or Fundamental Change Repurchase Price) and accrued and unpaid interest; and

Fourth, to the payment of the remainder, if any, to the Company.

Section 6.06 Proceedings by Holders. Except to enforce the right to receive payment of principal (including, if applicable, the Redemption Price, the Repurchase Price or Fundamental Change Repurchase Price) or interest when due, or the right to receive payment or delivery of the consideration due upon conversion, no Holder of any Note shall have any right by virtue of or by availing of any provision of this Indenture to institute any suit, action or proceeding in equity or at law upon or under or with respect to this Indenture, or for the appointment of a receiver, trustee, liquidator, custodian or other similar official, or for any other remedy hereunder, unless:

(a) such Holder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof, as herein provided;
(b) Holders of at least 25% in aggregate principal amount of the Notes then outstanding shall have made written request upon the Trustee to institute such action, suit or proceeding in its own name as Trustee hereunder;

(c) such Holders shall have offered to the Trustee such security and/or indemnity and/or pre-funding reasonably satisfactory to it against any loss, liability or expense to be incurred therein or thereby;

(d) the Trustee for 60 days after its receipt of such notice, request and offer of security and/or indemnity and/or pre-funding, shall have neglected or refused to institute any such action, suit or proceeding; and

(e) no direction that, in the opinion of the Trustee, is inconsistent with such written request shall have been given to the Trustee by the Holders of a majority of the aggregate principal amount of the Notes then outstanding within such 60-day period pursuant to Section 6.09,

it being understood and intended, and being expressly covenanted by the taker and Holder of every Note with every other taker and Holder and the Trustee that no one or more Holders shall have any right in any manner whatever by virtue of or by availing of any provision of this Indenture to affect, disturb or prejudice the rights of any other Holder, or to obtain or seek to obtain priority over or preference to any other such Holder, or to enforce any right under this Indenture, except in the manner herein provided and for the equal, ratable and common benefit of all Holders (except as otherwise provided herein). For the protection and enforcement of this Section 6.06, each and every Holder and the Trustee shall be entitled to such relief as can be given either at law or in equity.

Notwithstanding any other provision of this Indenture and any provision of any Note, the right of any Holder to receive payment or delivery, as the case may be, of (x) the principal (including the Redemption Price, the Repurchase Price and the Fundamental Change Repurchase Price, if applicable) of, (y) accrued and unpaid interest on, and (z) the consideration due upon conversion of, such Note, on or after the respective due dates expressed or provided for in such Note or in this Indenture, or to institute suit for the enforcement of any such payment or delivery, as the case may be, on or after such respective dates against the Company shall not be impaired or affected without the consent of such Holder.

Section 6.07 Proceedings by Trustee. In case of an Event of Default, the Trustee may in its discretion proceed to protect and enforce the rights vested in it by this Indenture by such appropriate judicial proceedings as are necessary to protect and enforce any of such rights, either by suit in equity or by action at law or by proceeding in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in this Indenture or in aid of the exercise of any power granted in this Indenture, or to enforce any other legal or equitable right vested in the Trustee by this Indenture or by law.
Section 6.08 Remedies Cumulative and Continuing. Except as provided in the last paragraph of Section 2.06, all powers and remedies given by this Article 6 to the Trustee or to the Holders shall, to the extent permitted by law, be deemed cumulative and not exclusive of any thereof or of any other powers and remedies available to the Trustee or the Holders of the Notes, by judicial proceedings or otherwise, to enforce the performance or observance of the covenants and agreements contained in this Indenture, and no delay or omission of the Trustee or of any Holder of any of the Notes to exercise any right or power accruing upon any Default or Event of Default shall impair any such right or power, or shall be construed to be a waiver of any such Default or Event of Default or any acquiescence therein; and, subject to the provisions of Section 6.06, every power and remedy given by this Article 6 or by law to the Trustee or to the Holders may be exercised from time to time, and as often as shall be deemed expedient, by the Trustee or by the Holders.

Section 6.09 Direction of Proceedings and Waiver of Defaults by Majority of Holders. The Holders of a majority of the aggregate principal amount of the Notes at the time outstanding determined in accordance with Section 8.04 shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to Notes; provided, however, that (a) such direction shall not be in conflict with any rule of law or with this Indenture, and (b) the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such direction. The Trustee may refuse to follow any direction that would involve the Trustee in personal liability, or if it is not provided with security and/or indemnity and/or pre-funding to its reasonable satisfaction, or that the Trustee determines is unduly prejudicial to the rights of any other Holder. In addition, the Trustee will not be required to expend its own funds under any circumstances. The Holders of a majority in aggregate principal amount of the Notes at the time outstanding determined in accordance with Section 8.04 may on behalf of the Holders of all of the Notes waive any past Default or Event of Default hereunder and its consequences except (i) a default in the payment of accrued and unpaid interest on, or the principal (including, if applicable, the Redemption Price, Repurchase Price or Fundamental Change Repurchase Price) of, the Notes when due that has not been cured pursuant to the provisions of Section 6.02, (ii) a failure by the Company to pay or deliver, or cause to be delivered, as the case may be, the consideration due upon conversion of the Notes or (iii) a default in respect of a covenant or provision hereof which under Article 10 cannot be modified or amended without the consent of each Holder of an outstanding Note affected. Upon any such waiver the Company, the Trustee and the Holders of the Notes shall be restored to their former positions and rights hereunder; but no such waiver shall extend to any subsequent or other Default or Event of Default or impair any right consequent thereon. Whenever any Default or Event of Default hereunder shall have been waived as permitted by this Section 6.09, said Default or Event of Default shall for all purposes of the Notes and this Indenture be deemed to have been cured and to be not continuing; but no such waiver shall extend to any subsequent or other Default or Event of Default or impair any right consequent thereon.
Section 6.10 Notice of Defaults and Events of Default. If a Default or Event of Default occurs and is continuing and is notified in writing to the Trustee, the Trustee shall, within 90 days after the occurrence and continuance of such Default or Event of Default, mail to all Holders (at the Company’s expense) as the names and addresses of such Holders appear upon the Note Register, notice of all Defaults so notified in writing, unless such Defaults shall have been cured or waived before the giving of such notice; provided that the Trustee shall not be deemed to have knowledge of any occurrence of a Default or Event of Default unless it has received written notice. Except in the case of a Default in the payment of the principal of (including the Redemption Price, the Repurchase Price and the Fundamental Change Repurchase Price, if applicable), or accrued and unpaid interest on, any of the Notes or a Default in the payment of the consideration due upon conversion, the Trustee shall be protected in withholding such notice if and so long as the Trustee’s board of directors, a Responsible Officer, an executive committee or a committee of Responsible Officers of the Trustee (in its sole discretion) in good faith determines that the withholding of such notice is in the interests of the Holders.

Section 6.11 Undertaking to Pay Costs. All parties to this Indenture agree, and each Holder of any Note by its acceptance thereof shall be deemed to have agreed, that any court may, in its discretion, require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit and that such court may in its discretion assess costs, including attorneys’ fees and expenses, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; provided that the provisions of this Section 6.11 (to the extent permitted by law) shall not apply to any suit instituted by or against the Trustee, to any suit instituted by any Holder, or group of Holders, holding in the aggregate more than 10% in principal amount of the Notes at the time outstanding determined in accordance with Section 8.04, or to any suit instituted by any Holder for the enforcement of the payment of the principal of or accrued and unpaid interest on any Note (including, but not limited to, the Redemption Price and the Repurchase Price and Fundamental Change Repurchase Price with respect to the Notes being repurchased as provided in this Indenture) on or after the due date expressed or provided for in such Note or to any suit for the enforcement of the right to convert any Note in accordance with the provisions of Article 14.

ARTICLE 7
CONCERNING THE TRUSTEE

Section 7.01 Duties and Responsibilities of Trustee. The Trustee, prior to the occurrence of an Event of Default and after the curing or waiver of all Events of Default that may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture and no implied covenants or obligations will be read into the Indenture against the Trustee. In case an Event of Default, of which the Trustee has actual written notice, has occurred that has not been cured or waived the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person’s own affairs; provided that if an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under this Indenture at the request or direction of any of the Holders unless such Holders have offered to the Trustee indemnity and/or security and/or pre-funding reasonably satisfactory to it against any loss, liability or expense that might be incurred by it in compliance with such request or direction.
No provision of this Indenture shall be construed to relieve the Trustee from liability for its own grossly negligent action, its own grossly negligent failure to act or its own willful misconduct, except that:

(a) prior to the occurrence of an Event of Default and after the curing or waiving of all Events of Default that may have occurred:

(i) the duties and obligations of the Trustee shall be determined solely by the express provisions of this Indenture, and the Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Indenture and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(ii) in the absence of gross negligence and willful misconduct on the part of the Trustee, as proven in a final decision of a court of competent jurisdiction, the Trustee may conclusively and without liability rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but, in the case of any such certificates or opinions that by any provisions hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture (but need not confirm or investigate the accuracy of any mathematical calculations or other facts, statements, opinions or conclusions stated therein);

(b) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer or Responsible Officers of the Trustee, unless it shall be proved in a final decision in a court of competent jurisdiction that the Trustee was grossly negligent in ascertaining the pertinent facts;

(c) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than a majority of the aggregate principal amount of the Notes at the time outstanding determined as provided in Section 8.04 relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture;

(d) whether or not therein provided, every provision of this Indenture relating to the conduct or affecting the liability of, or affording protection to, the Trustee shall be subject to the provisions of this Section;

(e) the Trustee shall not be liable in respect of any payment (as to the correctness of amount, entitlement to receive or any other matters relating to payment) or notice effected by the Company or any Paying Agent or any records maintained by any co-Note Registrar with respect to the Notes;

(f) if any party fails to deliver a notice relating to an event the fact of which, pursuant to this Indenture, requires notice to be sent to the Trustee, the Trustee may conclusively and without liability rely on its failure to receive such notice as reason to act as if no such event occurred;
(g) [RESERVED]

(h) in the event that the Trustee is also acting as Note Registrar, Paying Agent, Conversion Agent or Transfer Agent hereunder, the rights, immunities, privileges, disclaimers from liability and protections (including the right to compensation and indemnity) afforded to the Trustee pursuant to this Article 7 shall also be afforded to such Note Registrar, Paying Agent, Conversion Agent or Transfer Agent;

(i) the Trustee shall have no duty to inquire, no duty to determine and no duty to monitor as to the performance of the Company’s covenants in this Indenture or the financial performance of the Company; the Trustee shall be entitled to assume, until it has received written notice in accordance with this Indenture, that the Company is properly performing its duties hereunder;

(j) the Trustee shall be under no obligation to enforce any of the provisions of this Indenture unless it is instructed by Holders of at least 25% of the aggregate principal amount of outstanding Notes and is provided with security and/or indemnity and/or pre-funding reasonably satisfactory to it;

(k) the Trustee will be under no obligation to exercise any of its rights or powers under this Indenture at the request or direction of any of the Holders unless such Holders have offered to the Trustee indemnity and/or security and/or pre-funding reasonably satisfactory to it against any costs, expenses and liabilities that might be incurred by it in compliance with such requests or direction.

(l) before the Trustee acts or refrains from acting, it may require an Officers’ Certificate or an Opinion of Counsel prepared and delivered at the cost of the Company conforming to Section 17.06 and the Trustee and the Agents may rely conclusively on such certificate or opinion and will not be liable for any action it takes or omits to take in good faith in reliance on such Officers’ Certificate or Opinion of Counsel;

(m) in connection with the exercise by it of its trusts, powers, authorities or discretions (including, without limitation, any modification, waiver, authorization or determination), the Trustee shall have regard to the general interests of the Holders as a class but shall not have regard to any interests arising from circumstances particular to individual Holders (whatever their number) and in particular, but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers, authorities or discretions for individual Holders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any country, state or territory; and

(n) the Trustee is not obliged to do or omit to do anything which in its reasonable opinion, would or may be illegal or would constitute a breach of any fiduciary duty or duty of confidentiality, or any law, rule, regulation, or any decree, order or judgment of any court, or practice, request, direction, notice, announcement or similar action (whether or not having the force of law) of any relevant government, government agency, regulatory authority, stock exchange or self-regulatory organization to which the Trustee is subject. The Trustee may without liability do anything which is, in its reasonable opinion, necessary to comply with any such law, directive or regulations.
None of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur personal financial
liability in the performance of any of its duties or in the exercise of any of its rights or powers.

Section 7.02 Reliance on Documents, Opinions, Etc. Except as otherwise provided in Section 7.01:

(a) the Trustee may conclusively and without liability rely and shall be fully protected in acting upon any resolution, certificate, statement,
instrument, opinion, report, notice, request, consent, order, bond, Note, coupon or other paper or document (whether in its original or facsimile form)
believed by it in good faith to be genuine and to have been signed or presented by the proper party or parties;

(b) any request, direction, order or demand of the Company mentioned herein shall be sufficiently evidenced by an Officers’ Certificate (unless
other evidence in respect thereof be herein specifically prescribed); and any Board Resolution may be evidenced to the Trustee by a copy thereof
certified by the Secretary or an Assistant Secretary of the Company;

(c) the Trustee may consult with counsel and require an Opinion of Counsel and any advice of such counsel or Opinion of Counsel shall be full
and complete authorization and protection in respect of any action taken or omitted by it hereunder in good faith and in accordance with such advice or
Opinion of Counsel;

(d) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument,
opinion, report, notice, request, direction, consent, order, bond, debenture or other paper or document, but the Trustee, in its discretion, may make such
further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or
investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney at the expense of the
Company and shall incur no liability of any kind by reason of such inquiry or investigation;

(e) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents,
delegates, custodians, nominees or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent,
delegate, representative, custodian, nominee or attorney appointed by it with due care hereunder;

(f) the permissive rights of the Trustee enumerated herein shall not be construed as duties;
(g) under no circumstances and notwithstanding any contrary provision included herein, neither the Trustee, the Paying Agent, the Conversion Agent nor the Note Registrar shall be responsible or liable for special, indirect, punitive, or consequential damages or loss of any kind whatsoever (including, but not limited to, loss of profit) irrespective of whether any of them have been advised of the likelihood of such loss or damage and regardless of the form of action; this provision shall remain in full force and effect notwithstanding the discharge of the Notes, the termination of this Indenture or the resignation, replacement or removal of the Trustee, the Paying Agent, the Conversion Agent and the Note Registrar;

(h) the Trustee, the Paying Agent, the Conversion Agent and the Note Registrar may refrain from taking any action in any jurisdiction if the taking of such action in that jurisdiction would, in its opinion based upon legal advice in the relevant jurisdiction, be contrary to any law of that jurisdiction or, to the extent applicable, of New York; furthermore, the Trustee may also refrain from taking such action if it would otherwise render it liable to any person in that jurisdiction or New York or if, in its opinion based on such legal advice, it would not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or in New York or if it is determined by any court or other competent authority in that jurisdiction that it does not have such power;

(i) [RESERVED];

(j) the Trustee shall not be required to give any bond or surety in respect of the performance of its powers and duties hereunder;

(k) the Trustee may request that the Company deliver Officers’ Certificates setting forth the names of individuals and their titles and specimen signatures of officers authorized at such time to take specified actions pursuant to this Indenture, which Officers’ Certificates may be signed by any Person authorized to sign an Officers’ Certificate, as the case may be, including any Person specified as so authorized in any such certificate previously delivered and not superseded;

(l) the Trustee shall not be responsible or liable for any action it takes or omits to take in good faith which it reasonably believes to be authorized or within its rights or powers;

(m) the Trustee shall not be responsible or liable for any action taken or omitted by it in good faith at the direction, in accordance with Section 6.09, of the Holders of not less than a majority in aggregate principal amount of the Notes at the time outstanding determined in accordance with Section 8.04 as to the time, method and place of conducting any proceeding for any remedy available to the Trustee or the exercising of any power conferred by this Indenture; and

(n) the Trustee shall not be responsible or any inaccuracy in the information obtained from the Company or for any inaccuracy or omission in the records which may result from such information or any failure by the Trustee to perform its duties as set forth herein as a result of any inaccuracy or incompleteness of such information; and

(o) neither the Trustee nor any agent thereof shall have any responsibility or liability for any actions taken or not taken by the Depositary.
Section 7.03 No Responsibility for Recitals, Etc. The recitals, statements, warranties and representations contained herein and in the Notes (except in the Trustee’s certificate of authentication) shall be taken as the statements of the Company, and the Trustee assumes no responsibility for the correctness of the same. The Trustee makes no representations as to the accuracy or correctness of the same or for any failure by the Company or any other party to disclose events that may have occurred and may affect the significance or accuracy of such information, or the execution, legality, effectiveness, adequacy, genuineness, validity, enforceability or admissibility in evidence of this Indenture or of the Notes. The Trustee shall not be accountable for the use or application by the Company of any Notes or the proceeds of any Notes authenticated and delivered by the Trustee in conformity with the provisions of this Indenture. Notwithstanding the generality of the foregoing, each Holder shall be solely responsible for making its own independent appraisal of, and investigation into, the financial condition, creditworthiness, condition, affairs, status and nature of the Company, and the Trustee shall not at any time have any responsibility for the same and each Holder shall not rely on the Trustee in respect thereof.

Section 7.04 Trustee, Paying Agents, Conversion Agents or Note Registrar May Own Notes. The Trustee, any Paying Agent, any Conversion Agent or Note Registrar, in its individual or any other capacity, may engage in business and contractual relationships with the Company or its Affiliates and may become the owner or pledgee of Notes with the same rights it would have if it were not the Trustee, Paying Agent, Conversion Agent or Note Registrar, and nothing herein shall obligate any of them to account for any profits earned from any business or transactional relationship.

Section 7.05 Monies to Be Held in Trust. All monies received by the Trustee shall, until used or applied as herein provided, be held in trust for the purposes for which they were received. Money held by the Trustee in trust or by the Paying Agent hereunder need not be segregated from other funds except to the extent required by law. Neither the Trustee nor the Paying Agent shall be under any liability for interest on any money received by it hereunder.

Section 7.06 Compensation and Expenses of Trustee. (a) The Company covenants and agrees to pay to the Trustee from time to time, and the Trustee shall be entitled to, compensation for all services rendered by it hereunder in any capacity (which shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust) as mutually agreed to in writing between the Trustee and the Company (which sum shall be paid free and clear of deduction and withholding on account of taxation, set-off and counterclaim), and the Company will pay or reimburse the Trustee upon its request for all properly incurred expenses, disbursements and advances properly incurred or made by the Trustee in accordance with any of the provisions of this Indenture in any capacity thereunder (including the compensation and the properly incurred expenses and disbursements of its agents and counsel and of all Persons not regularly in its employ) except any such expense, disbursement or advance as shall have been caused by its gross negligence or willful misconduct as proven in a final decision in a court of competent jurisdiction. The Company also covenants to indemnify the Trustee (which for the purposes of this Section 7.06 shall be deemed to include its officers, directors, agents and employees) in any capacity under this Indenture (including without limitation as Note Registrar, Transfer Agent, Conversion Agent and Paying Agent) and any other document or transaction entered into in connection herewith, and to hold it harmless against, any loss, claim, damage, liability or expense (whether arising from third party claims or claims by or against the Company) incurred without gross negligence or willful misconduct on the part of the Trustee, its officers, directors, agents or employees, as the case may be, as proven in a final decision of a court of competent jurisdiction, and arising out of or in connection with the acceptance or administration of this Indenture or in any other capacity hereunder, including the costs and expenses of defending themselves against any claim of liability in the process of enforcing this indemnity. The obligations of the Company under this Section 7.06 to compensate or indemnify the Trustee and to pay or reimburse the Trustee for expenses, disbursements and advances shall be secured by a senior claim to which the Notes are hereby made subordinate on all money or property held or collected by the Trustee, except, subject to the effect of Section 6.05, funds held in trust herewith for the benefit of the Holders of particular Notes. The Trustee’s right to receive payment of any amounts due under this Section 7.06 shall not be subordinate to any other liability or indebtedness of the Company. The indemnity under this Section 7.06(a) is payable upon demand by the Trustee. The obligation of the Company under this Section 7.06(a) shall survive the satisfaction and discharge of the Notes, the termination or discharge of this Indenture and the resignation, replacement or removal of the Trustee. The indemnification provided in this Section 7.06(a) shall extend to the officers, directors, agents and employees of the Trustee. Subject to Section 7.02(e), any negligence or misconduct of any agent, delegate, attorney or representative, in each case, of the Trustee, shall not affect indemnification of the Trustee.
Without prejudice to any other rights available to the Trustee under applicable law, when the Trustee and its agents incur expenses or render services after an Event of Default specified in Section 6.01(i) or Section 6.01(j) occurs, the expenses and the compensation for the services are intended to constitute expenses of administration under any bankruptcy, insolvency or similar laws. If a Default or Event of Default shall have occurred or if the Trustee finds it expedient or necessary or is requested by the Company and/or the Holders to undertake duties which are of an exceptional nature or otherwise outside the scope of the Trustee’s normal duties under this Indenture, the Company will pay such additional remuneration as the Company and the Trustee may separately agree in writing.

(b) The Paying Agent, the Conversion Agent and the Note Registrar shall be entitled to the compensation to be agreed upon in writing with the Company for all services rendered by it under this Indenture, and the Company agrees promptly to pay such compensation and to reimburse the Paying Agent, the Conversion Agent and the Note Registrar for its out-of-pocket expenses (including fees and expenses of counsel) properly incurred by it in connection with the services rendered by it under this Indenture. The Company hereby agrees to indemnify the Paying Agent, the Conversion Agent and the Note Registrar and their respective officers, directors, agents and employees and any successors thereto for, and to hold it harmless against, any loss, liability or expense (including fees and expenses of counsel) properly incurred without gross negligence or willful misconduct on its part arising out of or in connection with its acting as the Paying Agent, the Conversion Agent and the Note Registrar hereunder. The obligations of the Company under this paragraph (b) shall survive the payment of the Notes, the termination or discharge of the Indenture and the resignation, replacement or removal of the Paying Agent, the Conversion Agent and the Note Registrar.

Section 7.07 Officers’ Certificate as Evidence. Except as otherwise provided in Section 7.01, whenever in the administration of the provisions of this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or omitting any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by an Officers’ Certificate delivered to the Trustee, and such Officers’ Certificate shall be full warrant to the Trustee for any action taken or omitted by it under the provisions of this Indenture upon the faith thereof.
Section 7.08 Eligibility of Trustee. There shall at all times be a Trustee hereunder which shall be a Person that is eligible pursuant to the Trust Indenture Act to act as such and has a combined capital and surplus of at least US$50,000,000. If such Person publishes reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

Section 7.09 Resignation or Removal of Trustee. (a) The Trustee may at any time resign by giving 30 days written notice of such resignation to the Company and by mailing notice thereof to the Holders at their addresses as they shall appear on the Note Register. Upon receiving such notice of resignation, the Company shall promptly appoint a successor trustee by written instrument, in duplicate, executed by order of the Board of Directors, one copy of which instrument shall be delivered to the resigning Trustee and one copy to the successor trustee. If no successor trustee shall have been so appointed and have accepted appointment within 30 days after the mailing of such notice of resignation to the Holders, the resigning Trustee may at the expense of the Company petition any court of competent jurisdiction for the appointment of a successor trustee, or any Holder who has been a bona fide holder of a Note or Notes for at least six months may, subject to the provisions of Section 6.11, on behalf of himself or herself and all others similarly situated, petition any such court for the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor trustee.

(b) In case at any time any of the following shall occur:

(i) the Trustee shall cease to be eligible in accordance with the provisions of Section 7.08 and shall fail to resign after written request therefor by the Company or by any such Holder, or

(ii) the Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in either case, the Company may by a Board Resolution remove the Trustee and appoint a successor trustee by written instrument, in duplicate, executed by order of the Board of Directors, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the successor trustee, or, subject to the provisions of Section 6.11, any Holder who has been a bona fide holder of a Note or Notes for at least six months may, on behalf of himself or herself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, remove the Trustee and appoint a successor trustee.
(c) The Holders of a majority in aggregate principal amount of the Notes at the time outstanding, as determined in accordance with Section 8.04, may at any time remove the Trustee and nominate a successor trustee that shall be deemed appointed as successor trustee unless within ten days after notice to the Company of such nomination the Company objects thereto, in which case the Trustee so removed or any Holder, upon the terms and conditions otherwise as in Section 7.09(a) provided, may petition any court of competent jurisdiction for an appointment of a successor trustee.

(d) Any resignation or removal of the Trustee and appointment of a successor trustee pursuant to any of the provisions of this Section 7.09 shall become effective upon acceptance of appointment by the successor trustee as provided in Section 7.10.

Section 7.10 Acceptance by Successor Trustee. Any successor trustee appointed as provided in Section 7.09 shall execute, acknowledge and deliver to the Company and to its predecessor trustee an instrument accepting such appointment hereunder, and thereupon the resignation or removal of the predecessor trustee shall become effective and such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, duties and obligations of its predecessor hereunder, with like effect as if originally named as Trustee herein; but, nevertheless, on the written request of the Company or of the successor trustee, the trustee ceasing to act shall, upon payment of any amounts then due to it pursuant to the provisions of Section 7.06, execute and deliver an instrument transferring to such successor trustee all the rights and powers of the trustee so ceasing to act. Upon request of any such successor trustee, the Company shall execute any and all instruments in writing for more fully and certainly vesting in and confirming to such successor trustee all such rights and powers. Any trustee ceasing to act shall, nevertheless, retain a senior claim to which the Notes are hereby made subordinate on all money or property held or collected by such trustee as such, except for funds held in trust for the benefit of Holders of particular Notes, to secure any amounts then due to it pursuant to the provisions of Section 7.06.

No successor trustee shall accept appointment as provided in this Section 7.10 unless at the time of such acceptance such successor trustee shall be eligible under the provisions of Section 7.08.

Upon acceptance of appointment by a successor trustee as provided in this Section 7.10, each of the Company and the successor trustee, at the written direction and at the expense of the Company shall mail or cause to be mailed notice of the succession of such trustee hereunder to the Holders at their addresses as they shall appear on the Note Register. If the Company fails to mail such notice within ten days after acceptance of appointment by the successor trustee, the successor trustee shall cause such notice to be mailed at the expense of the Company.

Section 7.11 Succession by Merger, Etc. Any corporation or other entity into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation or other entity resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation or other entity succeeding to all or substantially all of the corporate trust business of the Trustee (including the administration of this Indenture), shall be the successor to the Trustee hereunder without the execution or filing of any paper or any further act on the part of any of the parties hereto; provided that in the case of any corporation or other entity succeeding to all or substantially all of the corporate trust business of the Trustee such corporation or other entity shall be eligible under the provisions of Section 7.08.
In case at the time such successor to the Trustee shall succeed to the trusts created by this Indenture, any of the Notes shall have been authenticated but not delivered, any such successor to the Trustee may adopt the certificate of authentication of any predecessor trustee, and deliver such Notes so authenticated; and in case at that time any of the Notes shall not have been authenticated, any successor to the Trustee may authenticate such Notes either in the name of any predecessor trustee hereunder or in the name of the successor trustee; and in all such cases such certificates shall have the full force which it is anywhere in the Notes or in this Indenture provided that the certificate of the Trustee shall have; provided, however, that the right to adopt the certificate of authentication of any predecessor trustee or to authenticate Notes in the name of any predecessor trustee shall apply only to its successor or successors by merger, conversion or consolidation.

Section 7.12 Trustee’s Application for Instructions from the Company. Any application by the Trustee for written instructions from the Company (other than with regard to any action proposed to be taken or omitted to be taken by the Trustee that affects the rights of the Holders of the Notes under this Indenture) may, at the option of the Trustee, set forth in writing any action proposed to be taken or omitted by the Trustee under this Indenture and the date on and/or after which such action shall be taken or such omission shall be effective. The Trustee shall not be liable for any action taken by, or omission of, the Trustee in accordance with a proposal included in such application on or after the date specified in such application (which date shall not be less than three Business Days after the date any officer that the Company has indicated to the Trustee should receive such application actually receives such application, unless any such officer shall have consented in writing to any earlier date), unless, prior to taking any such action (or the effective date in the case of any omission), the Trustee shall have received written instructions in accordance with this Indenture in response to such application specifying the action to be taken or omitted.

ARTICLE 8
CONCERNING THE HOLDERS

Section 8.01 Action by Holders. Whenever in this Indenture it is provided that the Holders of a specified percentage of the aggregate principal amount of the Notes may take any action (including the making of any demand or request, the giving of any notice, consent or waiver or the taking of any other action), the fact that at the time of taking any such action, the Holders of such specified percentage have joined therein may be evidenced (a) by any instrument or any number of instruments of similar tenor executed by Holders in person or by agent or proxy appointed in writing, or (b) by the record of the Holders voting in favor thereof at any meeting of Holders duly called and held in accordance with the provisions of Article 9, or (c) by a combination of such instrument or instruments and any such record of such a meeting of Holders. Whenever the Company or the Trustee solicits the taking of any action by the Holders of the Notes, the Company or the Trustee may fix, but shall not be required to, in advance of such solicitation, a date as the record date for determining Holders entitled to take such action. The record date if one is selected shall be not more than fifteen days prior to the date of commencement of solicitation of such action.
Section 8.02 Proof of Execution by Holders. Subject to the provisions of Section 7.01, Section 7.02 and Section 9.05, proof of the execution of any instrument by a Holder or its agent or proxy shall be sufficient if made in accordance with such reasonable rules and regulations as may be prescribed by the Trustee or in such manner as shall be satisfactory to the Trustee. The holding of Notes shall be proved by the Note Register or by a certificate of the Note Registrar. The record of any Holders’ meeting shall be proved in the manner provided in Section 9.06.

Section 8.03 Who Are Deemed Absolute Owners. The Company, the Trustee, any Paying Agent, any Conversion Agent and any Note Registrar may deem the Person in whose name a Note shall be registered upon the Note Register to be, and may treat it as, the absolute owner of such Note (whether or not such Note shall be overdue and notwithstanding any notation of ownership or other writing thereon made by any Person other than the Company or any Note Registrar) for the purpose of receiving payment of or on account of the principal of and (subject to Section 2.03) accrued and unpaid interest on such Note, for the purpose of conversion of such Note and for all other purposes; and neither the Company nor the Trustee nor any Paying Agent nor any Conversion Agent nor any Note Registrar shall be affected by any notice to the contrary. All such payments or deliveries so made to any Holder for the time being, or upon its order, shall be valid, and, to the extent of the sums or ADSs so paid or delivered, effectual to satisfy and discharge the liability for monies payable or ADSs deliverable upon any such Note. Notwithstanding anything to the contrary in this Indenture or the Notes following an Event of Default, any Holder of a beneficial interest in a Global Note may directly enforce against the Company, without the consent, solicitation, proxy, authorization or any other action of the Depositary or any other Person, such Holder’s right to exchange such beneficial interest for a Note in certificated form in accordance with the provisions of this Indenture.

Section 8.04 Company-Owned Notes Disregarded. In determining whether the Holders of the requisite aggregate principal amount of Notes have concurred in any direction, consent, waiver or other action under this Indenture, Notes that are owned by the Company, by any Subsidiary or Consolidated Affiliated Entity thereof or by any Affiliate of the Company or any Subsidiary or Consolidated Affiliated Entity thereof shall be disregarded and deemed not to be outstanding for the purpose of any such determination; provided that for the purposes of determining whether the Trustee shall be protected in relying on any such direction, consent, waiver or other action only Notes in respect of which a Responsible Officer is notified in writing shall be so disregarded. Notes so owned that have been pledged in good faith may be regarded as outstanding for the purposes of this Section 8.04 if the pledgee shall establish its right to so act with respect to such Notes and that the pledgee is not the Company, a Subsidiary or Consolidated Affiliated Entity thereof or an Affiliate of the Company or a Subsidiary or Consolidated Affiliated Entity thereof. Within five days of acquisition of the Notes by any of the above described persons or entities or at the request of the Trustee, the Company shall furnish to the Trustee promptly an Officers’ Certificate listing and identifying all Notes, if any, known by the Company to be owned or held by or for the account of any of the above described Persons; and, subject to Section 7.01, the Trustee shall be entitled to accept such Officers’ Certificate as conclusive evidence of the facts therein set forth and of the fact that all Notes not listed therein are outstanding for the purpose of any such determination.

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Section 8.05 Revocation of Consents; Future Holders Bound. At any time prior to (but not after) the evidencing to the Trustee, as provided in Section 8.01, of the taking of any action by the Holders of the percentage of the aggregate principal amount of the Notes specified in this Indenture in connection with such action, any Holder of a Note that is shown by the evidence to be included in the Notes the Holders of which have consented to such action may, by filing written notice with the Trustee at its Corporate Trust Office and upon proof of holding as provided in Section 8.02, revoke such action so far as concerns such Note. Except as aforesaid, any such action taken by the Holder of any Note shall be conclusive and binding upon such Holder and upon all future Holders and owners of such Note and of any Notes issued in exchange or substitution therefor or upon registration of transfer thereof, irrespective of whether any notation in regard thereto is made upon such Note or any Note issued in exchange or substitution therefor or upon registration of transfer thereof.

ARTICLE 9
HOLDERS’ MEETINGS

Section 9.01 Purpose of Meetings. A meeting of Holders may be called at any time and from time to time pursuant to the provisions of this Article 9 for any of the following purposes:

(a) to give any notice to the Company or to the Trustee or to give any directions to the Trustee permitted under this Indenture, or to consent to the waiving of any Default or Event of Default hereunder and its consequences, or to take any other action authorized to be taken by Holders pursuant to any of the provisions of Article 6;

(b) to remove the Trustee and nominate a successor trustee pursuant to the provisions of Article 7;

(c) to consent to the execution of an indenture or indentures supplemental hereto pursuant to the provisions of Section 10.02; or

(d) to take any other action authorized to be taken by or on behalf of the Holders of any specified aggregate principal amount of the Notes under any other provision of this Indenture or under applicable law.

Section 9.02 Call of Meetings by Trustee. The Trustee may (in its sole discretion and without obligation) at any time call a meeting of Holders to take any action specified in Section 9.01, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of the Holders, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting and the establishment of any record date pursuant to Section 8.01, shall be mailed to Holders of such Notes at their addresses as they shall appear on the Note Register. Such notice shall also be mailed to the Company. Such notices shall be mailed not less than 20 nor more than 90 days prior to the date fixed for the meeting.

Any meeting of Holders shall be valid without notice if the Holders of all Notes then outstanding are present in person or by proxy or if notice is waived before or after the meeting by the Holders of all Notes then outstanding, and if the Company and the Trustee are either present by duly authorized representatives or have, before or after the meeting, waived notice.
Section 9.03 Call of Meetings by Company or Holders. In case at any time the Company, pursuant to a Board Resolution, or the Holders of at least 10% of the aggregate principal amount of the Notes then outstanding, shall have requested the Company to call a meeting of Holders, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, and the Company shall not have mailed the notice of such meeting within 20 days after receipt of such request, then the Trustee or such Holders may determine the time and the place for such meeting and may call such meeting to take any action authorized in Section 9.01, by mailing notice thereof as provided in Section 9.02.

Section 9.04 Qualifications for Voting. To be entitled to vote at any meeting of Holders a Person shall (a) be a Holder of one or more Notes on the record date pertaining to such meeting or (b) be a Person appointed by an instrument in writing as proxy by a Holder of one or more Notes on the record date pertaining to such meeting. The only Persons who shall be entitled to be present or to speak at any meeting of Holders shall be the Persons entitled to vote at such meeting and their counsel and any representatives of the Trustee and its counsel and any representatives of the Company and its counsel.

Section 9.05 Regulations. Notwithstanding any other provisions of this Indenture, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of Holders, in regard to proof of the holding of Notes and of the appointment of proxies, and in regard to the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall think fit.

The Trustee shall, by an instrument in writing, appoint a temporary chairman of the meeting, unless the meeting shall have been called by the Company or by Holders as provided in Section 9.03, in which case the Company or the Holders calling the meeting, as the case may be, shall in like manner appoint a temporary chairman. A permanent chairman and a permanent secretary of the meeting shall be elected by vote of the Holders of a majority in principal amount of the Notes represented at the meeting and entitled to vote at the meeting.

Subject to the provisions of Section 8.04, at any meeting of Holders each Holder or proxyholder shall be entitled to one vote for each US$1,000 principal amount of Notes held or represented by him or her; provided, however, that no vote shall be cast or counted at any meeting in respect of any Note challenged as not outstanding and ruled by the chairman of the meeting to be not outstanding. The chairman of the meeting shall have no right to vote other than by virtue of Notes held by it or instruments in writing as aforesaid duly designating it as the proxy to vote on behalf of other Holders. Any meeting of Holders duly called pursuant to the provisions of Section 9.02 or Section 9.03 may be adjourned from time to time by the Holders of a majority of the aggregate principal amount of Notes represented at the meeting, whether or not constituting a quorum, and the meeting may be held as so adjourned without further notice.
Minutes shall be made of all resolutions and proceedings at every meeting and, if purporting to be signed by the chairman of that meeting or of the next succeeding meeting of Holders of the Notes, shall be conclusive evidence of the matters in them. Until the contrary is proved every meeting for which minutes have been so made and signed shall be deemed to have been duly convened and held and all resolutions passed or proceedings transacted at it to have been duly passed and transacted.

Section 9.06 Voting. The vote upon any resolution submitted to any meeting of Holders shall be by written ballot on which shall be subscribed the signatures of the Holders or of their representatives by proxy and the outstanding principal amount of the Notes held or represented by them. The permanent chairman of the meeting shall appoint two inspectors of votes who shall count all votes cast at the meeting for or against any resolution and who shall make and file with the secretary of the meeting their verified written reports in duplicate of all votes cast at the meeting. A record in duplicate of the proceedings of each meeting of Holders shall be prepared by the secretary of the meeting and there shall be attached to said record the original reports of the inspectors of votes on any vote by ballot taken thereat and affidavits by one or more Persons having knowledge of the facts setting forth a copy of the notice of the meeting and showing that said notice was mailed as provided in Section 9.02. The record shall show the principal amount of the Notes voting in favor of or against any resolution. The record shall be signed and verified by the affidavits of the permanent chairman and secretary of the meeting and one of the duplicates shall be delivered to the Company and the other to the Trustee to be preserved by the Trustee, the latter to have attached thereto the ballots voted at the meeting.

Any record so signed and verified shall be conclusive evidence of the matters therein stated.

Section 9.07 No Delay of Rights by Meeting. Nothing contained in this Article 9 shall be deemed or construed to authorize or permit, by reason of any call of a meeting of Holders or any rights expressly or impliedly conferred hereunder to make such call, any hindrance or delay in the exercise of any right or rights conferred upon or reserved to the Trustee or to the Holders under any of the provisions of this Indenture or of the Notes.

ARTICLE 10
SUPPLEMENTAL INDENTURES

Section 10.01 Supplemental Indentures Without Consent of Holders. The Company, when authorized by the resolutions of the Board of Directors, and the Trustee, at the Company's expense and direction, may from time to time amend or supplement this Indenture or the Notes for one or more of the following purposes:

(a) to cure any ambiguity, omission, defect or inconsistency;

(b) to provide for the assumption by a Successor Company of the obligations of the Company under this Indenture and the Notes pursuant to Article 11;

(c) to add guarantees with respect to the Notes;

(d) to secure the Notes;
(e) to add to the covenants or Events of Defaults of the Company for the benefit of the Holders or surrender any right or power conferred upon the Company;

(f) upon the occurrence of any transaction or event described in Section 14.07(a), to (i) provide that the Notes are convertible into Reference Property, subject to Section 14.02, and (ii) effect the related changes to the terms of the Notes described under Section 14.07(a), in each case, in accordance with Section 14.07;

(g) to make any change that does not adversely affect the rights of any Holder;

(h) comply with the rules of the Depositary; or

(i) to conform the provisions of this Indenture or the Notes to the “Description of the Notes” section of the Offering Memorandum.

Upon the written request of the Company, the Trustee is hereby authorized to join with the Company in the execution of any such amendment or supplement to this Indenture or the Notes, to make any further appropriate agreements and stipulations that may be therein contained, but the Trustee shall not be obligated to, but may in its discretion, enter into any supplemental indenture that affects the Trustee’s own rights, duties or immunities under this Indenture or otherwise. The Trustee shall seek an Officers’ Certificate and an Opinion of Counsel, at the Company’s expense, that any such amendment or supplement to this Indenture or the Notes is authorized and permitted by the terms of this Indenture and not contrary to law.

Any amendment or supplement to this Indenture or the Notes authorized by the provisions of this Section 10.01 may be executed by the Company and the Trustee without the consent of the Holders of any of the Notes at the time outstanding, notwithstanding any of the provisions of Section 10.02.

Section 10.02 Supplemental Indentures with Consent of Holders. With the consent (evidenced as provided in Article 8) of the Holders of at least a majority of the aggregate principal amount of the Notes then outstanding (determined in accordance with Article 8 and including, without limitation, consents obtained in connection with a repurchase of, or tender or exchange offer for, Notes), the Company, when authorized by the resolutions of the Board of Directors, and the Trustee, at the Company’s expense, may from time to time and at any time enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or any supplemental indenture or of modifying in any manner the rights of the Holders; provided, however, that, without the consent of each Holder of an outstanding Note affected, no such supplemental indenture shall:

(a) reduce the amount of Notes whose Holders must consent to an amendment or waiver;

(b) reduce the rate of or extend the stated time for payment of interest on any Note;

(c) reduce the principal of or extend the Maturity Date of any Note;
(d) make any change that adversely affects the conversion rights of any Notes;

(e) reduce the Repurchase Price payable on the Repurchase Date, the Fundamental Change Repurchase Price or the Redemption Price of any Note or amend or modify in any manner adverse to the Holders the Company’s obligation to make such payments, whether through an amendment or waiver of provisions in the covenants, definitions or otherwise;

(f) make any Note payable in a currency other than U.S. dollars;

(g) change the ranking of the Notes;

(h) impair the right of any Holder to receive payment of principal and interest on such Holder’s Notes on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such Holder’s Note;

(i) change the Company’s obligation to pay Additional Amounts on any Note; or

(j) make any change in this Article 10 that requires each Holder’s consent or in the waiver provisions in Section 6.02 or Section 6.09.

Upon the written request of the Company, and upon the filing with the Trustee of evidence of the consent of Holders as aforesaid and subject to Section 10.05, the Trustee shall join with the Company in the execution of such supplemental indenture unless (i) the Trustee has not received an Officers’ Certificate and an Opinion of Counsel that such supplemental indenture is authorized and permitted by the terms of this Indenture and not contrary to law or (ii) such supplemental indenture affects the Trustee’s own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such supplemental indenture.

Holders do not need under this Section 10.02 to approve the particular form of any proposed supplemental indenture. It shall be sufficient if such Holders approve the substance thereof. After any supplemental indenture becomes effective under Section 10.01 or Section 10.02, the Company shall mail to the Holders a notice briefly describing such supplemental indenture. However, the failure to give such notice to all the Holders, or any defect in the notice, will not impair or affect the validity of the supplemental indenture.

Section 10.03 Effect of Supplemental Indentures. Upon the execution of any supplemental indenture pursuant to the provisions of this Article 10, this Indenture shall be and be deemed to be modified and amended in accordance therewith and the respective rights, limitation of rights, obligations, duties and immunities under this Indenture of the Trustee, the Company and the Holders shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments and all the terms and conditions of any such supplemental indenture shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.
Section 10.04 Notation on Notes. Notes authenticated and delivered after the execution of any supplemental indenture pursuant to the provisions of this Article 10 may, at the Company’s expense, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company or the Trustee shall so determine, new Notes so modified as to conform, in the opinion of the Trustee and the Board of Directors, to any modification of this Indenture contained in any such supplemental indenture may, at the Company’s expense, be prepared and executed by the Company, authenticated by the Trustee upon receipt of a Company Order and delivered in exchange for the Notes then outstanding, upon surrender of such Notes then outstanding.

Section 10.05 Evidence of Compliance of Supplemental Indenture to Be Furnished Trustee. In addition to the documents required by Section 17.06, the Trustee shall receive an Officers’ Certificate and an Opinion of Counsel as conclusive evidence that any supplemental indenture executed pursuant hereto complies with the requirements of this Article 10 and is permitted or authorized by this Indenture and is not contrary to law.

ARTICLE 11
CONSOLIDATION, MERGER, SALE, CONVEYANCE AND LEASE

Section 11.01 Company May Consolidate, Etc. on Certain Terms. Subject to the provisions of Section 11.02, the Company shall not consolidate with, merge with or into, or sell, convey, transfer or lease all or substantially all of the consolidated assets of the Company, its Subsidiaries and its Consolidated Affiliated Entities, taken as a whole, to another Person, unless:

(a) the resulting, surviving or transferee Person (the “Successor Company”), if not the Company, shall be a corporation organized and existing under the laws of the Cayman Islands, the British Virgin Islands, Bermuda or Hong Kong and the Successor Company (if not the Company) shall expressly assume, by supplemental indenture all of the obligations of the Company under the Notes and this Indenture (including, for the avoidance of doubt, the obligation to pay Additional Amounts pursuant to Section 4.07);

(b) if the Company will not be the resulting or surviving corporation, the Company shall have, at or prior to the effective date of such transaction, delivered to the Trustee an Officers’ Certificate and an Opinion of Counsel, each stating that the execution and delivery of the supplemental indenture do not conflict with the requirements set forth in the Indenture and that all conditions precedent to the execution and delivery of such supplemental indenture have been satisfied; and

(c) immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing under this Indenture.

For purposes of this Section 11.01, the sale, conveyance, transfer or lease of all or substantially all of the assets of one or more Subsidiaries or Consolidated Affiliated Entities of the Company to another Person, which properties and assets, if held by the Company instead of such Subsidiaries or Consolidated Affiliated Entities, would constitute all or substantially all of the assets of the Company on a consolidated basis, shall be deemed to be the sale, conveyance, transfer or lease of all or substantially all of the consolidated assets of the Company to another Person.
Section 11.02 Successor Corporation to Be Substituted. In case of any such consolidation, merger, sale, conveyance, transfer or lease and upon the assumption by the Successor Company, by supplemental indenture, executed and delivered to the Trustee and satisfactory in form to the Trustee, of the due and punctual payment of the principal of and accrued and unpaid interest on all of the Notes (including, for the avoidance of doubt, any Additional Amounts), the due and punctual delivery or payment, as the case may be, of any consideration due upon conversion of the Notes (including, for the avoidance of doubt, any Additional Amounts) and the due and punctual performance of all of the covenants and conditions of this Indenture to be performed by the Company, such Successor Company (if not the Company) shall succeed to and, except in the case of a lease of all or substantially all of the Company’s properties and assets, shall be substituted for the Company, with the same effect as if it had been named herein as the party of the first part. Such Successor Company thereupon may cause to be signed, and may issue either in its own name or in the name of the Company any or all of the Notes issuable hereunder which theretofore shall not have been signed by the Company and delivered to the Trustee; and, upon the order of such Successor Company instead of the Company and subject to all the terms, conditions and limitations in this Indenture prescribed, the Trustee shall authenticate and shall deliver, or cause to be authenticated and delivered, any Notes that previously shall have been signed and delivered by the Officers of the Company to the Trustee for authentication, and any Notes that such Successor Company thereafter shall cause to be signed and delivered to the Trustee for that purpose. All the Notes so issued shall in all respects have the same legal rank and benefit under this Indenture as the Notes theretofore or thereafter issued in accordance with the terms of this Indenture as though all of such Notes had been issued at the date of the execution hereof. In the event of any such consolidation, merger, sale, conveyance or transfer (but not in the case of a lease), upon compliance with this Article 11 the Person named as the “Company” in the first paragraph of this Indenture (or any successor that shall thereafter have become such in the manner prescribed in this Article 11) may be dissolved, wound up and liquidated at any time thereafter and, except in the case of a lease, such Person shall be released from its liabilities as obligor and maker of the Notes and from its obligations under this Indenture and the Notes.

In case of any such consolidation, merger, sale, conveyance, transfer or lease, such changes in phraseology and form (but not in substance) may be made in the Notes thereafter to be issued as may be appropriate.

Section 11.03 Opinion of Counsel to Be Given to Trustee. No consolidation, merger, sale, conveyance, transfer or lease shall be effective unless the Trustee shall receive an Officers’ Certificate and an Opinion of Counsel as conclusive evidence that any such consolidation, merger, sale, conveyance, transfer or lease and any such assumption and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture, complies with the provisions of this Article 11, that all conditions precedent thereto have been satisfied and that the Notes and such supplemental indenture are the legal, valid and binding obligations of the Successor Company, enforceable against it in accordance with its terms, subject to customary assumptions, qualifications, and exceptions.
ARTICLE 12
IMMUNITY OF INCORPORATORS, STOCKHOLDERS, OFFICERS AND DIRECTORS

Section 12.01 Indenture and Notes Solely Corporate Obligations. No recourse for the payment of the principal of or accrued and unpaid interest on any Note, nor for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company in this Indenture or in any supplemental indenture or in any Note, nor because of the creation of any indebtedness represented thereby, shall be had against any incorporator, stockholder, employee, agent, Officer or director or Subsidiary, as such, past, present or future, of the Company or any successor corporation, either directly or through the Company or any successor corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that all such liability is hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Indenture and the issue of the Notes.

ARTICLE 13
INTENTIONALLY OMITTED

ARTICLE 14
CONVERSION OF NOTES

Section 14.01 Conversion Privilege. Subject to and upon compliance with the provisions of this Article 14, each Holder of a Note shall have the right, at such Holder’s option, to convert all or any portion (if the portion to be converted is US$1,000 principal amount or an integral multiple thereof) of such Note at any time prior to the close of business on the second Business Day immediately preceding the Maturity Date into ADSs at an initial conversion rate of 40.4040 ADSs (subject to adjustment as provided in this Article 14, the “Conversion Rate”) per US$1,000 principal amount of Notes (subject to the settlement provisions of Section 14.02, the “Conversion Obligation”).

Section 14.02 Conversion Procedure; Settlement Upon Conversion.

(a) Upon conversion of any Note, the Company shall cause to be delivered to the converting Holder, in respect of each US$1,000 principal amount of Notes being converted, a number of ADSs equal to the Conversion Rate in effect immediately prior to the close of business on the relevant Conversion Date, together with a cash payment, if applicable, in lieu of any fractional ADSs (“Fractional ADSs”) (assuming delivery of the maximum number of ADSs due upon conversion that do not represent a fractional ADS) in accordance with subsection (j) of this Section 14.02, on the third Business Day immediately following the relevant Conversion Date; provided that, if a Conversion Date occurs (i) following the Regular Record Date immediately preceding the Maturity Date, subject to clause (ii) below, the Company shall cause such delivery (and payment, if applicable) to be made on the Maturity Date or (ii) after the Ordinary Shares have been replaced by the Reference Property consisting solely of cash in accordance with Section 14.07, the Company shall cause the consideration due in respect of the conversion to be paid to the converting Holder on the tenth Business Day immediately following the related Conversion Date. For the avoidance of doubt, neither the Trustee nor any Agent shall have any responsibility to deliver ADSs upon conversion of any Note to any person or deal with cash payments in relation to conversions, except for cash payments in lieu of any fractional ADS.
Subject to Section 14.02(e), before any Holder of a Note shall be entitled to convert a Note as set forth above, such Holder shall (i) in the case of a Global Note, comply with the procedures of the Depositary in effect at that time and, if required, pay funds equal to interest payable on the next Interest Payment Date to which such Holder is not entitled as set forth in Section 14.02(h), and complete, manually sign and deliver a duly completed irrevocable notice to the Conversion Agent as set forth in the Form of Notice of Conversion (or a facsimile thereof) (a “Notice of Conversion”) and (ii) in the case of a Physical Note (1) complete, manually sign and deliver a duly completed irrevocable Notice of Conversion to the Conversion Agent, the Company and the ADS Depositary at the specified office of the Conversion Agent and state in writing therein the principal amount of Notes to be converted and the name or names (with addresses) in which such Holder wishes the certificate or certificates for any ADSs to be delivered upon settlement of the Conversion Obligation to be registered, (2) surrender such Notes, duly endorsed to the Company or in blank (and accompanied by appropriate endorsement and transfer documents), at the specified office of the Conversion Agent, (3) if required, furnish appropriate endorsements and transfer documents and (4) if required, pay funds equal to interest payable on the next Interest Payment Date to which such Holder is not entitled as set forth in Section 14.02(h). The Trustee (and if different, the Conversion Agent) shall notify the Company of any conversion pursuant to this Article 14 on the Conversion Date for such conversion. No Notice of Conversion with respect to any Notes may be delivered and no Notes may be surrendered by a Holder for conversion thereof if such Holder has also delivered a Repurchase Notice or Fundamental Change Repurchase Notice to the Company in respect of such Notes and not validly withdrawn such Repurchase Notice or Fundamental Change Repurchase Notice in accordance with Section 15.03. A Notice of Conversion shall be deposited at the office of any Conversion Agent on any Business Day from 9:00 a.m. to 3:00 p.m. at the location of the Conversion Agent to which such Notice of Conversion is delivered. Any Notice of Conversion and any Physical Note (if issued) deposited outside the hours specified or on a day that is not a Business Day at the location of the Conversion Agent shall for all purposes be deemed to have been deposited with that Conversion Agent between 9:00 a.m. and 3:00 p.m. on the next Business Day.

If more than one Note shall be surrendered for conversion at one time by the same Holder, the Conversion Obligation with respect to such Notes shall be computed on the basis of the aggregate principal amount of the Notes (or specified portions thereof to the extent permitted thereby) so surrendered. None of the Agents of the Trustee shall have any responsibility whatsoever with respect to the issuance and delivery of the ADSs to the converting Holder.

(c) A Note shall be deemed to have been converted immediately prior to the close of business on the date (the “Conversion Date”) that the Holder has complied with the requirements set forth in subsection (b) above. The Company shall issue or cause to be issued, and deliver or cause to be delivered to such Holder, or such Holder’s nominee or nominees, certificates or a book-entry transfer through the Depositary for the full number of ADSs to which such Holder shall be entitled in satisfaction of the Company’s Conversion Obligation.

(d) In case any Note shall be surrendered for partial conversion, the Company shall execute and instruct the Trustee who shall authenticate and deliver to or upon the written order of the Holder of the Note so surrendered a new Note or Notes in authorized denominations in an aggregate principal amount equal to the unconverted portion of the surrendered Note, without payment of any service charge by the converting Holder but, if required by the Company or Trustee, with payment of a sum sufficient to cover any transfer tax or similar governmental charge required by law or that may be imposed in connection therewith as a result of the name of the Holder of the new Notes issued upon such conversion being different from the name of the Holder of the old Notes surrendered for such conversion.
(e) If a Holder submits a Note for conversion, the Company shall pay any documentary, stamp, issue, transfer or similar tax due on the delivery of the ADSs upon conversion of the Notes (or the issuance of the underlying Ordinary Shares), unless the tax is due because the Holder requests such ADSs (or such Ordinary Shares) to be issued in a name other than the Holder’s name, in which case the Holder shall pay that tax. The Conversion Agent may refuse to deliver the certificates representing the ADSs (or the Ordinary Shares) being issued in a name other than the Holder’s name until the Trustee receives a sum sufficient to pay any tax that is due by such Holder in accordance with the immediately preceding sentence. The Company shall pay the ADS Depositary’s fees for issuance of the ADSs.

(f) Except as provided in Section 14.04, no adjustment shall be made for dividends on any ADSs delivered upon the conversion of any Note as provided in this Article 14.

(g) Upon the conversion of an interest in a Global Note, the Trustee shall make a notation on such Global Note as to the reduction in the principal amount represented thereby. The Company shall notify the Trustee in writing of any conversion of Notes effected through any Conversion Agent other than the Trustee.

(h) Upon conversion, a Holder shall not receive any separate cash payment for accrued and unpaid interest, if any, except as set forth below. The Company’s settlement of the Conversion Obligation shall be deemed to satisfy in full its obligation to pay the principal amount of the Note and accrued and unpaid interest, if any, to, but not including, the relevant Conversion Date. As a result, accrued and unpaid interest, if any, to, but not including, the relevant Conversion Date shall be deemed to be paid in full rather than cancelled, extinguished or forfeited. Notwithstanding the foregoing, if Notes are converted after the close of business on a Regular Record Date, Holders of such Notes as of the close of business on such Regular Record Date will receive the full amount of interest payable on such Notes on the corresponding Interest Payment Date notwithstanding the conversion. Notes surrendered for conversion during the period from the close of business on any Regular Record Date to the open of business on the immediately following Interest Payment Date must be accompanied by funds equal to the amount of interest payable on the Notes so converted; provided that no such payment shall be required (1) for conversions following the Regular Record Date immediately preceding the Maturity Date; (2) if the Company has specified a Redemption Date that is after a Regular Record Date and on or prior to the third Business Day immediately succeeding the corresponding Interest Payment Date; (3) if the Company has specified a Fundamental Change Repurchase Date that is after a Regular Record Date and on or prior to the third Business Day immediately succeeding the corresponding Interest Payment Date; or (4) to the extent of any Defaulted Amounts, if any Defaulted Amounts exist at the time of conversion with respect to such Note. Therefore, for the avoidance of doubt, all Holders of record as of the close of business on the Regular Record Date immediately preceding the Maturity Date shall receive the full interest payment due on the Maturity Date in cash regardless of whether their Notes have been converted following such Regular Record Date.
(i) The Person in whose name the certificate for any ADSs delivered upon conversion is registered shall be treated as a holder of record of such ADSs as of the close of business on the relevant Conversion Date. Upon a conversion of Notes, such Person shall no longer be a Holder of such Notes surrendered for conversion.

(j) The Company shall not issue any Fractional ADS upon conversion of the Notes and shall instead pay cash in lieu of any Fractional ADS deliverable upon conversion based on the Last Reported Sale Price of the ADSs on the relevant Conversion Date (or if such Conversion Date is not a Trading Day, the immediately preceding Trading Day).

(k) In accordance with the Unrestricted Deposit Agreement or the Restricted Deposit Agreement, as applicable, the Company shall issue to the ADS Custodian such Ordinary Shares required for the issuance of the ADSs upon conversion of the Notes, plus written delivery instructions (if requested by the ADS Depositary or the ADS Custodian) for such ADSs, shall deliver such legal opinions and any other information or documentation and shall comply with the Unrestricted Deposit Agreement and the Restricted Deposit Agreement (as the case may be), in each case, as required by the ADS Depositary or the ADS Custodian in connection with each issue of Ordinary Shares and issuance and delivery of ADSs.

Section 14.03 Increased Conversion Rate Applicable to Certain Notes Surrendered in Connection with Make-Whole Fundamental Changes. (a) If a Make-Whole Fundamental Change occurs prior to the Maturity Date and a Holder elects to convert its Notes in connection with such Make-Whole Fundamental Change, the Company shall, under the circumstances described below, increase the Conversion Rate for the Notes so surrendered for conversion by a number of additional ADSs (the "Additional ADSs"), as described below. A conversion of Notes shall be deemed for these purposes to be "in connection with" such Make-Whole Fundamental Change if the relevant Notice of Conversion is received by the Conversion Agent from, and including, the Effective Date of the Make-Whole Fundamental Change up to, and including, the second Business Day immediately prior to the related Fundamental Change Repurchase Date (or, in the case of a Make-Whole Fundamental Change that would have been a Fundamental Change but for the proviso in clause (b) of the definition thereof, the 35th Trading Day immediately following the Effective Date of such Make-Whole Fundamental Change). The Company shall provide written notification to Holders and the Trustee (and the Conversion Agent, if other than the Trustee) of the Effective Date of any Make-Whole Fundamental Change and issue a press release announcing such Effective Date no later than five Business Days after such Effective Date.

(b) Upon surrender of Notes for conversion in connection with a Make-Whole Fundamental Change, the Company shall cause to be delivered ADSs, including the Additional ADSs, in accordance with Section 14.02; provided, however, that if, at the effective time of a Make-Whole Fundamental Change described in clause (b) of the definition of Fundamental Change, the Reference Property following such Make-Whole Fundamental Change is composed entirely of cash, for any conversion of Notes following the Effective Date of such Make-Whole Fundamental Change, the Conversion Obligation shall be calculated based solely on the ADS Price for the transaction and shall be deemed to be an amount of cash per US$1,000 principal amount of converted Notes equal to the Conversion Rate (including any adjustment for Additional ADSs), multiplied by such ADS Price.
(c) The number of Additional ADSs, if any, by which the Conversion Rate shall be increased shall be determined by reference to the table below, based on the date on which the Make-Whole Fundamental Change occurs or becomes effective (the “Effective Date”) and the price (the “ADS Price”) paid (or deemed to be paid) per ADS in the Make-Whole Fundamental Change. If the holders of the ADSs receive in exchange for their ADSs only cash in a Make-Whole Fundamental Change described in clause (b) of the definition of Fundamental Change, the ADS Price shall be the cash amount paid per ADS. Otherwise, the ADS Price shall be the average of the Last Reported Sale Prices of the ADSs over the five Trading Day period ending on, and including, the Trading Day immediately preceding the Effective Date of the Make-Whole Fundamental Change.

(d) The ADS Prices set forth in the column headings of the table below shall be adjusted as of any date on which the Conversion Rate of the Notes is otherwise adjusted. The adjusted ADS Prices shall equal the ADS Prices applicable immediately prior to such adjustment, multiplied by a fraction, the numerator of which is the Conversion Rate immediately prior to such adjustment giving rise to the ADS Price adjustment and the denominator of which is the Conversion Rate as so adjusted. The number of Additional ADSs set forth in the table below shall be adjusted in the same manner and at the same time as the Conversion Rate as set forth in Section 14.04.

(e) The following table sets forth the number of Additional ADSs to be received per US$1,000 principal amount of Notes pursuant to this Section 14.03 for each ADS Price and Effective Date set forth below:

<table>
<thead>
<tr>
<th>Effective Date</th>
<th>ADS Price</th>
<th>$18.00</th>
<th>$22.00</th>
<th>$24.75</th>
<th>$30.00</th>
<th>$35.00</th>
<th>$45.00</th>
<th>$60.00</th>
<th>$75.00</th>
<th>$90.00</th>
<th>$115.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 5, 2019</td>
<td>15.1515</td>
<td>10.6286</td>
<td>8.5354</td>
<td>5.8490</td>
<td>4.2351</td>
<td>2.3833</td>
<td>1.1047</td>
<td>0.5203</td>
<td>0.2192</td>
<td>0.0000</td>
<td>0.0000</td>
</tr>
<tr>
<td>April 1, 2020</td>
<td>15.1515</td>
<td>10.6286</td>
<td>8.5354</td>
<td>5.7373</td>
<td>4.0726</td>
<td>2.1536</td>
<td>0.9858</td>
<td>0.4492</td>
<td>0.1843</td>
<td>0.0000</td>
<td>0.0000</td>
</tr>
<tr>
<td>April 1, 2021</td>
<td>15.1515</td>
<td>10.6286</td>
<td>8.4174</td>
<td>5.4627</td>
<td>3.7754</td>
<td>1.9611</td>
<td>0.8237</td>
<td>0.3556</td>
<td>0.1371</td>
<td>0.0000</td>
<td>0.0000</td>
</tr>
<tr>
<td>April 1, 2022</td>
<td>15.1515</td>
<td>10.5800</td>
<td>8.0396</td>
<td>4.9980</td>
<td>3.3134</td>
<td>1.6262</td>
<td>0.6303</td>
<td>0.2503</td>
<td>0.0857</td>
<td>0.0000</td>
<td>0.0000</td>
</tr>
<tr>
<td>April 1, 2023</td>
<td>15.1515</td>
<td>9.9795</td>
<td>7.3160</td>
<td>4.2850</td>
<td>2.7206</td>
<td>1.2220</td>
<td>0.4235</td>
<td>0.1468</td>
<td>0.0387</td>
<td>0.0000</td>
<td>0.0000</td>
</tr>
<tr>
<td>April 1, 2024</td>
<td>15.1515</td>
<td>8.5795</td>
<td>6.1046</td>
<td>3.3290</td>
<td>1.9646</td>
<td>0.7116</td>
<td>0.2253</td>
<td>0.0621</td>
<td>0.0079</td>
<td>0.0000</td>
<td>0.0000</td>
</tr>
<tr>
<td>April 1, 2025</td>
<td>15.1515</td>
<td>7.4477</td>
<td>4.7075</td>
<td>2.0390</td>
<td>0.9991</td>
<td>0.3049</td>
<td>0.0702</td>
<td>0.0123</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
</tr>
<tr>
<td>April 1, 2026</td>
<td>15.1515</td>
<td>5.9505</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

The exact ADS Prices and Effective Dates may not be set forth in the table above, in which case:

(i) if the ADS Price is between two ADS Prices in the table above or the Effective Date is between two Effective Dates in the table, the number of Additional ADSs shall be determined by a straight-line interpolation between the number of Additional ADSs set forth for the higher and lower ADS Prices and the earlier and later Effective Dates, as applicable, based on a 365-day year;

(ii) if the ADS Price is greater than US$115.00 per ADS (subject to adjustment in the same manner as the ADS Prices set forth in the column headings of the table above pursuant to subsection (d) above), no Additional ADSs shall be added to the Conversion Rate; and
(iii) if the ADS Price is less than US$18.00 per ADS (subject to adjustment in the same manner as the ADS Prices set forth in the column headings of the table above pursuant to subsection (d) above), no Additional ADSs shall be added to the Conversion Rate.

Notwithstanding the foregoing, in no event shall the Conversion Rate per US$1,000 principal amount of Notes exceed 55.5555 ADSs, subject to adjustment in the same manner as the Conversion Rate pursuant to Section 14.04.

(f) Nothing in this Section 14.03 shall prevent an adjustment to the Conversion Rate pursuant to Section 14.04.

(g) If the Holder elects to convert its Notes in connection with the Company’s election to redeem the Notes in respect of a Change in Tax Law pursuant to Section 16.01, the Conversion Rate shall be increased by a number of additional ADSs determined pursuant to this Section 14.03(g). The Company shall settle conversions of Notes as described in Section 14.02 and, for the avoidance of doubt, pay Additional Amounts, if any, with respect to any such conversion.

A conversion shall be deemed to be in connection with the Company’s election to redeem the Notes in respect of a Change in Tax Law if such conversion occurs during the period from, and including, the date the Company provides the related notice of redemption to Holders until the close of business on the Business Day immediately preceding the Redemption Date (or, if the Company fails to pay the Redemption Price, such later date on which the Company pays the Redemption Price).

Simultaneously with providing such notice of redemption, the Company shall publish a notice containing this information in a newspaper of general circulation in The City of New York or publish the information on the Company’s website or through such other public medium as the Company may use at that time.

The number of additional ADSs by which the Conversion Rate will be increased in the event the Company elects to redeem the Notes in respect of a Change in Tax Law will be determined by reference to the table in clause (e) above based on the Redemption Reference Date and the Redemption Reference Price (each as defined below), but determined for purposes of this Section 14.03(g) as if (x) the Holder had elected to convert its Notes in connection with a Make-Whole Fundamental Change, (y) the applicable “Redemption Reference Date” were the “Effective Date” as specified in clause (c) above and (z) the applicable “Redemption Reference Price” were the “ADS price” as specified in clause (c) above (and subject, for the avoidance of doubt, to the two paragraphs immediately following such table). For this purpose, the date on which the Company delivers notice of redemption is the “Redemption Reference Date” and the average of the Last Reported Sale Prices of the ADSs over the five Trading Day period immediately preceding the date the Company delivers such notice of redemption is the “Redemption Reference Price.”
Section 14.04 Adjustment of Conversion Rate. If the number of Ordinary Shares represented by the ADSs is changed, after the date of this Indenture, for any reason other than one or more of the events described in this Section 14.04, the Company shall make an appropriate adjustment to the Conversion Rate such that the number of Ordinary Shares represented by the ADSs upon which conversion of the Notes is based remains the same.

Notwithstanding the adjustment provisions described in this Section 14.04, if the Company distributes to holders of the Ordinary Shares any cash, rights, options, warrants, shares of Capital Stock or similar equity interest, evidences of indebtedness or other assets or property of the Company (but excluding Expiring Rights) and a corresponding distribution is not made to holders of the ADSs, but, instead, the ADSs shall represent, in addition to Ordinary Shares, such cash, rights, options, warrants, shares of Capital Stock or similar equity interest, evidences of indebtedness or other assets or property of the Company, then an adjustment to the Conversion Rate described in this Section 14.04 shall not be made until and unless a corresponding distribution (if any) is made to holders of the ADSs, and such adjustment to the Conversion Rate shall be based on the distribution made to the holders of the ADSs and not on the distribution made to the holders of the Ordinary Shares. However, in the event that the Company issues or distributes to all holders of the Ordinary Shares any Expiring Rights, notwithstanding the immediately preceding sentence, the Company shall adjust the Conversion Rate pursuant to Section 14.04(b) (in the case of Expiring Rights entitling holders of the Ordinary Shares for a period of not more than 45 calendar days after the announcement date of such issuance to subscribe for or purchase Ordinary Shares or ADSs) or Section 14.04(c) (in the case of all other Expiring Rights).

For the avoidance of doubt, if any event described in this Section 14.04 results in a change to the number of Ordinary Shares represented by the ADSs, then such a change shall be deemed to satisfy the Company’s obligation to effect the relevant adjustment to the Conversion Rate on account of such an event to the extent such change reflects what a corresponding change to the Conversion Rate would have been on account of such event.

The Conversion Rate shall be adjusted from time to time by the Company if any of the following events occurs, except that the Company shall not make any adjustments to the Conversion Rate if Holders of the Notes participate (other than in the case of (x) a share split or share combination or (y) a tender or exchange offer), at the same time and upon the same terms as holders of the ADSs and solely as a result of holding the Notes, in any of the transactions described in this Section 14.04, without having to convert their Notes, as if they held a number of ADSs equal to the Conversion Rate, multiplied by the principal amount (expressed in thousands) of Notes held by such Holder. Neither the Trustee nor the Conversion Agent shall have any responsibility to monitor the accuracy of any calculation of any adjustment to the Conversion Rate and the same shall be conclusive and binding on the Holders, absent manifest error. Notice of such adjustment to the Conversion Rate shall be given by the Company promptly to the Holders, the Trustee and the Paying Agent and Conversion Agent and shall be conclusive and binding on the Holders, absent manifest error.
(a) If the Company exclusively issues Ordinary Shares as a dividend or distribution on the Ordinary Shares, or if the Company effects a share split or share combination, the Conversion Rate shall be adjusted based on the following formula:

\[
CR_1 = CR_0 \times \frac{OS_1}{OS_0}
\]

where,

- \( CR_0 \) = the Conversion Rate in effect immediately prior to the close of business on the Record Date of such dividend or distribution, or immediately prior to the open of business on the effective date of such share split or share combination, as applicable;
- \( CR_1 \) = the Conversion Rate in effect immediately after the close of business on such Record Date or immediately after the open of business on such effective date, as applicable;
- \( OS_0 \) = the number of Ordinary Shares outstanding immediately prior to the close of business on such Record Date or immediately prior to the open of business on such effective date, as applicable; and
- \( OS_1 \) = the number of Ordinary Shares outstanding immediately after giving effect to such dividend, distribution, share split or share combination.

Any adjustment made under this Section 14.04(a) shall become effective immediately after the close of business on the Record Date for such dividend or distribution, or immediately after the open of business on the effective date for such share split or share combination, as applicable. If any dividend or distribution of the type described in this Section 14.04(a) is declared but not so paid or made, the Conversion Rate shall be immediately readjusted, effective as of the date the Board of Directors determines not to pay such dividend or distribution, to the Conversion Rate that would then be in effect if such dividend or distribution had not been declared.

(b) If the Company issues to all or substantially all holders of the Ordinary Shares (directly or in the form of ADSs) any rights, options or warrants entitling them, for a period of not more than 45 calendar days after the announcement date of such issuance, to subscribe for or purchase Ordinary Shares (directly or in the form of ADSs) at a price per Ordinary Share that is less than the average of the Last Reported Sale Prices of the Ordinary Shares or the ADSs, as the case may be (divided by, in the case of the ADSs, the number of Ordinary Shares then represented by one ADS), for the 10 consecutive Trading Day period ending on, and including, the Trading Day immediately preceding the date of announcement of such issuance, the Conversion Rate shall be increased based on the following formula:

\[
CR_1 = CR_0 \times \frac{OS_0 + X}{OS_0 + Y}
\]
where,

\[
\begin{align*}
CR_0 & = \text{the Conversion Rate in effect immediately prior to the close of business on the Record Date for such issuance;} \\
CR_1 & = \text{the Conversion Rate in effect immediately after the close of business on such Record Date;} \\
OS_0 & = \text{the number of Ordinary Shares outstanding immediately prior to the close of business on such Record Date;} \\
X & = \text{the total number of Ordinary Shares (directly or in the form of ADSs) deliverable pursuant to such rights, options or warrants; and} \\
Y & = \text{the number of Ordinary Shares equal to (i) the aggregate price payable to exercise such rights, options or warrants, divided by (ii) the quotient of (a) the average of the Last Reported Sale Prices of the ADSs over the 10 consecutive Trading Day period ending on, and including, the Trading Day immediately preceding the date of announcement of the issuance of such rights, options or warrants divided by (b) the number of Ordinary Shares then represented by one ADS.}
\end{align*}
\]

Any increase made under this Section 14.04(b) shall be made successively whenever any such rights, options or warrants are issued and shall become effective immediately after the close of business on the Record Date for such issuance. To the extent that Ordinary Shares or ADSs are not delivered after the expiration of such rights, options or warrants, the Conversion Rate shall be decreased to the Conversion Rate that would then be in effect had the increase with respect to the issuance of such rights, options or warrants been made on the basis of delivery of only the number of Ordinary Shares actually delivered (directly or in the form of ADSs). If such rights, options or warrants are not so issued, the Conversion Rate shall be decreased to the Conversion Rate that would then be in effect if such the Record Date for such issuance had not occurred.

For purposes of this Section 14.04(b), in determining whether any rights, options or warrants entitle the holders to subscribe for or purchase Ordinary Shares (directly or in the form of ADSs) at a price per Ordinary Share that is less than such average of the Last Reported Sale Prices of the Ordinary Shares or the ADSs, as the case may be (divided by, in the case of the ADSs, the number of Ordinary Shares then represented by one ADS), for the 10 consecutive Trading Day period ending on, and including, the Trading Day immediately preceding the date of announcement for such issuance, and in determining the aggregate offering price of such Ordinary Shares or ADSs, there shall be taken into account any consideration received by the Company for such rights, options or warrants and any amount payable on exercise or conversion thereof, the value of such consideration, if other than cash, to be determined by the Board of Directors.
(c) If the Company distributes shares of its Capital Stock, evidences of its indebtedness, other assets or property of the Company or rights, options or warrants to acquire its Capital Stock or other securities, to all or substantially all holders of the Ordinary Shares (directly or in the form of ADSs), excluding (i) dividends, distributions or issuances as to which an adjustment was effected pursuant to Section 14.04(a) or Section 14.04(b), (ii) dividends or distributions paid exclusively in cash as to which an adjustment was effected pursuant to Section 14.04(d), and (iii) Spin-Offs as to which the provisions set forth below in this Section 14.04(c) shall apply (any of such shares of Capital Stock, evidences of indebtedness, other assets or property or rights, options or warrants to acquire Capital Stock or other securities of the Company, the “Distributed Property”), then the Conversion Rate shall be increased based on the following formula:

\[
CR_1 = CR_0 \times \frac{SP_0}{SP_0 - FMV}
\]

where,

- \( CR_0 \) = the Conversion Rate in effect immediately prior to the close of business on the Record Date for such distribution;
- \( CR_1 \) = the Conversion Rate in effect immediately after the close of business on such Record Date;
- \( SP_0 \) = the average of the Last Reported Sale Prices of the ADSs (divided by the number of Ordinary Shares then represented by one ADS) over the 10 consecutive Trading Day period ending on, and including, the Trading Day immediately preceding the Ex-Dividend Date for such distribution; and
- \( FMV \) = the fair market value (as determined by the Board of Directors) of the Distributed Property with respect to each outstanding Ordinary Share (directly or in the form of ADSs) on the Record Date for such distribution.

Any increase made under the foregoing portion of this Section 14.04(c) above shall become effective immediately after the close of business on the Record Date for such distribution. If such distribution is not so paid or made, the Conversion Rate shall be decreased to the Conversion Rate that would then be in effect if such distribution had not been declared. Notwithstanding the foregoing, if “FMV” (as defined above) is equal to or greater than “\( SP_0 \)” (as defined above), in lieu of the foregoing increase, each Holder of a Note shall receive, in respect of each US$1,000 principal amount thereof, at the same time and upon the same terms as holders of the ADSs receive the Distributed Property, the amount and kind of Distributed Property such Holder would have received if such Holder owned a number of ADSs equal to the Conversion Rate in effect on the Record Date for the distribution.
With respect to an adjustment pursuant to this Section 14.04(c) where there has been a payment of a dividend or other distribution on the Ordinary Shares (directly or in the form of ADSs) of shares of Capital Stock of any class or series, or similar equity interest, of or relating to a Subsidiary or other business unit of the Company, that are, or, when issued, will be, listed or admitted for trading on a U.S. national securities exchange (a “Spin-Off”), the Conversion Rate shall be increased based on the following formula:

\[
CR'_1 = CR_0 \times \frac{FMV_0 + MP_0}{MP_0}
\]

where,

- \(CR_0\) = the Conversion Rate in effect immediately prior to the close of business on the last Trading Day of the Valuation Period;
- \(CR'_1\) = the Conversion Rate in effect immediately after the close of business on the last Trading Day of the Valuation Period;
- \(FMV_0\) = the average of the Last Reported Sale Prices of the Capital Stock or similar equity interest distributed to holders of the Ordinary Shares (directly or in the form of ADSs) applicable to one Ordinary Share (determined by reference to the definition of Last Reported Sale Price as set forth in Section 1.01 as if references therein to the ADSs were to such Capital Stock or similar equity interest) over the first 10 consecutive Trading Day period after, and including, the Ex-Dividend Date of the Spin-Off (the “Valuation Period”); and
- \(MP_0\) = the average of the Last Reported Sale Prices of the ADSs (divided by the number of Ordinary Shares then represented by one ADS) over the Valuation Period.

The adjustment to the Conversion Rate under the preceding paragraph shall occur immediately after the close of business on the last Trading Day of the Valuation Period; provided that in respect of any conversion during the Valuation Period, references in the portion of this Section 14.04(c) related to Spin-Offs to 10 Trading Days shall be deemed to be replaced with such lesser number of Trading Days as have elapsed from, and including, the Ex-Dividend Date of such Spin-Off to, and including, the Conversion Date in determining the Conversion Rate.

For purposes of this Section 14.04(c) (and subject in all respect to Section 14.11), rights, options or warrants distributed by the Company to all holders of the Ordinary Shares (directly or in the form of ADSs) entitling them to subscribe for or purchase shares of the Company’s Capital Stock, including Ordinary Shares (either initially or under certain circumstances), which rights, options or warrants, until the occurrence of a specified event or events (“Trigger Event”): (i) are deemed to be transferred with such Ordinary Shares (directly or in the form of ADSs); (ii) are not exercisable; and (iii) are also issued in respect of future issuances of the Ordinary Shares (directly or in the form of ADSs), shall be deemed not to have been distributed for purposes of this Section 14.04(c) (and no adjustment to the Conversion Rate under this Section 14.04(c) will be required) until the occurrence of the earliest Trigger Event, whereupon such rights, options or warrants shall be deemed to have been distributed and an appropriate adjustment (if any is required) to the Conversion Rate shall be made under this Section 14.04(c). If any such right, option or warrant, including any such existing rights, options or warrants distributed prior to the date of this Indenture, are subject to events, upon the occurrence of which such rights, options or warrants become exercisable to purchase different securities, evidences of indebtedness or other assets, then the date of the occurrence of any and each such event shall be deemed to be the date of distribution and Record Date with respect to new rights, options or warrants with such rights (in which case the existing rights, options or warrants shall be deemed to terminate and expire on such date without exercise by any of the holders thereof). In addition, in the event of any distribution (or deemed distribution) of rights, options or warrants, or any Trigger Event or other event (of the type described in the immediately preceding sentence) with respect thereto that was counted for purposes of calculating a distribution amount for which an adjustment to the Conversion Rate under this Section 14.04(c) was made, (1) in the case of any such rights, options or warrants that shall all have been redeemed or purchased without exercise by any holders thereof, upon such final redemption or purchase (x) the Conversion Rate shall be readjusted as if such rights, options or warrants had not been issued and (y) the Conversion Rate shall then again be readjusted to give effect to such distribution, deemed distribution or Trigger Event, as the case may be, as though it were a cash distribution, equal to the per Ordinary Share redemption or purchase price received by a holder or holders of Ordinary Shares (directly or in the form of ADSs) with respect to such rights, options or warrants (assuming such holder had retained such rights, options or warrants), made to all holders of Ordinary Shares (directly or in the form of ADSs) as of the date of such redemption or purchase, and (2) in the case of such rights, options or warrants that shall have expired or been terminated without exercise by any holders thereof, the Conversion Rate shall be readjusted as if such rights, options and warrants had not been issued.
For purposes of Section 14.04(a), Section 14.04(b) and this Section 14.04(c), if any dividend or distribution to which this Section 14.04(c) is applicable also includes one or both of:

(A) a dividend or distribution of Ordinary Shares (directly or in the form of ADSs) to which Section 14.04(a) is applicable (the “Clause A Distribution”); or

(B) a dividend or distribution of rights, options or warrants to which Section 14.04(b) is applicable (the “Clause B Distribution”),

then (1) such dividend or distribution, other than the Clause A Distribution and the Clause B Distribution, shall be deemed to be a dividend or distribution to which this Section 14.04(c) is applicable (the “Clause C Distribution”) and any Conversion Rate adjustment required by this Section 14.04(c) with respect to such Clause C Distribution shall then be made, and (2) the Clause A Distribution and Clause B Distribution shall be deemed to immediately follow the Clause C Distribution and any Conversion Rate adjustment required by Section 14.04(a) and Section 14.04(b) with respect thereto shall then be made, except that, if determined by the Company (I) the “Record Date” of the Clause A Distribution and the Clause B Distribution shall be deemed to be the Record Date of the Clause C Distribution and (II) any Ordinary Shares (directly or in the form of ADSs) included in the Clause A Distribution or Clause B Distribution shall be deemed not to be “outstanding immediately prior to the close of business on such Record Date or immediately after the open of business on such effective date, as applicable” within the meaning of Section 14.04(a) or “outstanding immediately prior to the close of business on such Record Date” within the meaning of Section 14.04(b).

(d) If any cash dividend or distribution is made to all or substantially all holders of the Ordinary Shares (directly or in the form of ADSs), the Conversion Rate shall be adjusted based on the following formula:

\[ CR_t = CR_i \times \frac{SP_0}{SP_0 - C} \]
where,

\[ CR_0 = \text{the Conversion Rate in effect immediately prior to the close of business on the Record Date for such dividend or distribution;} \]

\[ CR_1 = \text{the Conversion Rate in effect immediately after the close of business on such Record Date;} \]

\[ SP_0 = \text{the Last Reported Sale Price of the ADSs (divided by the number of Ordinary Shares then represented by one ADS) on the Trading Day immediately preceding the Ex-Dividend Date for such dividend or distribution; and} \]

\[ C = \text{the amount in cash per Ordinary Share the Company distributes to all or substantially all holders of the Ordinary Shares (directly or in the form of ADSs).} \]

Any increase pursuant to this Section 14.04(d) shall become effective immediately after the close of business on the Record Date for such dividend or distribution. If such dividend or distribution is not so paid, the Conversion Rate shall be decreased, effective as of the date the Board of Directors determines not to make or pay such dividend or distribution, to be the Conversion Rate that would then be in effect if such dividend or distribution had not been declared. Notwithstanding the foregoing, if “C” (as defined above) is equal to or greater than “SP_0” (as defined above), in lieu of the foregoing increase, each Holder of a Note shall receive, for each US$1,000 principal amount of Notes, at the same time and upon the same terms as holders of the ADSs, the amount of cash that such Holder would have received if such Holder owned a number of ADSs equal to the Conversion Rate on the Record Date for such cash dividend or distribution.

(e) If the Company or any of its Subsidiaries or Consolidated Affiliated Entities makes a payment in respect of a tender or exchange offer for the Ordinary Shares (directly or in the form of ADSs), to the extent that the cash and value of any other consideration included in the payment per Ordinary Share exceeds the average of the Last Reported Sale Prices of the ADSs (divided by the number of Ordinary Shares then represented by one ADS) over the 10 consecutive Trading Day period commencing on, and including, the Trading Day next succeeding the date such tender or exchange offer expires, the Conversion Rate shall be increased based on the following formula:

\[ CR_i = CR_0 \times \frac{AC + (SP_1 \times OS_{1/0})}{OS_{n/0} \times SP_1} \]

where,

\[ CR_0 = \text{the Conversion Rate in effect immediately prior to the close of business on the 10th Trading Day immediately following, and including, the Trading Day next succeeding the date such tender or exchange offer expires;} \]

\[ CR_1 = \text{the Conversion Rate in effect immediately after the close of business on the 10th Trading Day immediately following, and including, the Trading Day next succeeding the date such tender or exchange offer expires;} \]
AC = the aggregate value of all cash and any other consideration (as determined by the Board of Directors) paid or payable for Ordinary Shares or ADSs, as the case may be, purchased in such tender or exchange offer;

OS₀ = the number of Ordinary Shares outstanding immediately prior to the date such tender or exchange offer expires (prior to giving effect to the purchase of all Ordinary Shares or ADSs, as the case may be, accepted for purchase or exchange in such tender or exchange offer);

OS₁ = the number of Ordinary Shares outstanding immediately after the date such tender or exchange offer expires (after giving effect to the purchase of all Ordinary Shares or ADSs, as the case may be, accepted for purchase or exchange in such tender or exchange offer); and

SP₁ = the average of the Last Reported Sale Prices of the ADSs (divided by the number of Ordinary Shares then represented by one ADS) over the 10 consecutive Trading Day period commencing on, and including, the Trading Day next succeeding the date such tender or exchange offer expires.

The adjustment to the Conversion Rate under this Section 14.04(e) shall occur at the close of business on the 10th Trading Day immediately following, and including, the Trading Day next succeeding the date such tender or exchange offer expires; provided that in respect of any conversion within the 10 Trading Days immediately following, and including, the Trading Day next succeeding the expiration date of any tender or exchange offer, references in this Section 14.04(e) with respect to 10 Trading Days shall be deemed replaced with such lesser number of Trading Days as have elapsed from, and including, the Trading Day next succeeding the expiration date of such tender or exchange offer to, and including, the Conversion Date in determining the Conversion Rate. For the avoidance of doubt, no adjustment to the Conversion Rate under this Section 14.04(e) shall be made if such adjustment would result in a decrease in the Conversion Rate.

(f) [RESERVED]

(g) Except as stated herein, the Company shall not adjust the Conversion Rate for the issuance of Ordinary Shares or ADSs or any securities convertible into or exchangeable for Ordinary Shares or ADSs or the right to purchase Ordinary Shares or ADSs or such convertible or exchangeable securities.

(h) In addition to those adjustments required by clauses (a), (b), (c), (d) and (e) of this Section 14.04, and to the extent permitted by applicable law and subject to the applicable rules of The NASDAQ Global Select Market and any other securities exchange on which any of the Company’s securities are then listed, the Company from time to time may increase the Conversion Rate by any amount for a period of at least 20 Business Days if the Board of Directors determines that such increase would be in the Company’s best interest, and the Company may (but is not required to) increase the Conversion Rate to avoid or diminish any income tax to holders of the Ordinary Shares or the ADSs or rights to purchase Ordinary Shares or ADSs in connection with a dividend or distribution of Ordinary Shares or ADSs (or rights to acquire Ordinary Shares or ADSs) or similar event.
(i) Notwithstanding anything to the contrary in this Article 14, the Conversion Rate shall not be adjusted:

   (i) upon the issuance of any Ordinary Shares or ADSs pursuant to any present or future plan providing for the reinvestment of dividends or interest payable on the Company’s securities and the investment of additional optional amounts in Ordinary Shares or ADSs under any plan;

   (ii) upon the issuance of any Ordinary Shares or ADSs or options or rights to purchase those Ordinary Shares or ADSs pursuant to any present or future employee, director or consultant benefit plan or program of or assumed by the Company or any of the Company’s Subsidiaries or Consolidated Affiliated Entities;

   (iii) upon the issuance of any Ordinary Shares or ADSs pursuant to any option, warrant, right or exercisable, exchangeable or convertible security not described in clause (ii) of this subsection and outstanding as of the date the Notes were first issued;

   (iv) solely for a change in the par value of the Ordinary Shares; or

   (v) for accrued and unpaid interest, if any.

(j) All calculations and other determinations under this Article 14 shall be made by the Company and shall be made to the nearest one-tenth thousandth (1/10,000) of an ADS.

(k) Whenever the Conversion Rate is adjusted as herein provided, the Company shall promptly file with the Trustee (and the Conversion Agent if not the Trustee) an Officers’ Certificate setting forth the Conversion Rate after such adjustment and setting forth a brief statement of the facts requiring such adjustment. Unless and until a Responsible Officer of the Trustee shall have received such Officers’ Certificate, the Trustee shall not be deemed to have knowledge of any adjustment of the Conversion Rate and may assume without inquiry that the last Conversion Rate of which it has knowledge is still in effect. Promptly after delivery of such certificate, the Company shall prepare a notice of such adjustment of the Conversion Rate setting forth the adjusted Conversion Rate and the date on which each adjustment becomes effective and shall mail such notice of such adjustment of the Conversion Rate to each Holder at its last address appearing on the Note Register of this Indenture. Failure to deliver such notice shall not affect the legality or validity of any such adjustment.

(l) For purposes of this Section 14.04, the number of Ordinary Shares at any time outstanding shall not include Ordinary Shares held in the treasury of the Company (directly or in the form of ADSs) so long as the Company does not pay any dividend or make any distribution on Ordinary Shares held in the treasury of the Company (directly or in the form of ADSs), but shall include Ordinary Shares issuable in respect of scrip certificates issued in lieu of fractions of Ordinary Shares.
(m) For purposes of this Section 14.04, the “effective date” means the first date on which the ADSs trade on the applicable exchange or in the applicable market, regular way, reflecting the relevant share split or share combination, as applicable.

Section 14.05 Adjustments of Prices. Whenever any provision of this Indenture requires the Company to calculate the Last Reported Sale Prices, the ADS Price for purposes of a Make-Whole Fundamental Change or the Redemption Reference Price for purposes of a redemption of the Notes in connection with a Change in Tax Law over a span of multiple days, the Board of Directors shall make appropriate adjustments to each to account for any adjustment to the Conversion Rate that becomes effective pursuant to Section 14.04, or any event requiring an adjustment to the Conversion Rate pursuant to Section 14.04 where the Record Date, effective date or expiration date, as the case may be, of the event occurs, at any time during the period when such Last Reported Sale Prices or ADS Prices are to be calculated.

Section 14.06 Ordinary Shares to Be Fully Paid. The Company shall provide, free from preemptive rights, out of its authorized but unissued Ordinary Shares or Ordinary Shares held in treasury, a sufficient number of Ordinary Shares that corresponds to the number of ADSs due upon conversion of the Notes from time to time as such Notes are presented for conversion (assuming that at the time of computation of such number of Ordinary Shares, all such Notes would be converted by a single Holder).

Section 14.07 Effect of Recapitalizations, Reclassifications and Changes of the Ordinary Shares.

(a) In the case of:

(i) any recapitalization, reclassification or change of the Ordinary Shares (other than changes resulting from a subdivision or combination),

(ii) any consolidation, merger, combination or similar transaction involving the Company,

(iii) any sale, lease or other transfer to a third party of the consolidated assets of the Company and the Company’s Subsidiaries and Consolidated Affiliated Entities substantially as an entirety or

(iv) any statutory share exchange,

in each case, as a result of which the Ordinary Shares would be converted into, or exchanged for, stock, other securities, other property or assets (including cash or any combination thereof) (any such event, a “Merger Event”), then, prior to or at the effective time of such Merger Event, the Company or the successor or purchasing Person, as the case may be, shall execute with the Trustee a supplemental indenture permitted under Section 10.01(f) providing that, at and after the effective time of such Merger Event, the right to convert each US$1,000 principal amount of Notes shall be changed into a right to convert such principal amount of Notes into the kind and amount of stock, other securities or other property or assets (including cash or any combination thereof) that a holder of a number of ADSs equal to the Conversion Rate immediately prior to such Merger Event would have owned or been entitled to receive (the “Reference Property,” with each “unit of Reference Property” meaning the kind and amount of Reference Property that a holder of one ADS is entitled to receive) upon such Merger Event; provided, however, that at and after the effective time of the Merger Event the number of ADSs otherwise deliverable upon conversion of the Notes in accordance with Section 14.02 shall instead be deliverable in the amount and type of Reference Property that a holder of that number of ADSs would have been entitled to receive in such Merger Event.
If the Merger Event causes the Ordinary Shares to be converted into, or exchanged for, the right to receive more than a single type of consideration (determined based in part upon any form of holder election), then (i) the Reference Property into which the Notes will be convertible shall be deemed to be the weighted average of the types and amounts of consideration actually received by the holders of the ADSs and (ii) the unit of Reference Property for purposes of the immediately preceding paragraph shall refer to the consideration referred to in clause (i) attributable to one ADS. The Company shall provide written notice to Holders, the Trustee and the Conversion Agent (if other than the Trustee) of such weighted average as soon as practicable after such determination is made.

Such supplemental indenture described in the second immediately preceding paragraph shall provide for anti-dilution and other adjustments that shall be as nearly equivalent as is practicable to the adjustments provided for in this Article 14 (it being understood that no such adjustments shall be required with respect to any portion of the Reference Property that does not consist of shares of Common Equity (however evidenced) or depositary receipts in respect thereof). If, in the case of any Merger Event, the Reference Property includes shares of stock, securities or other property or assets (including cash or any combination thereof) of a Person other than the Company or the successor or purchasing Person, as the case may be, in such Merger Event, then such other Person shall also execute such supplemental indenture, and such supplemental indenture shall contain such additional provisions to protect the interests of the Holders of the Notes, including the right of Holders to require the Company to repurchase their Notes upon a Fundamental Change pursuant to Section 15.02 and the right of Holders to require the Company to repurchase their Notes on the Repurchase Date pursuant to Section 15.01, as the Board of Directors shall reasonably consider necessary by reason of the foregoing.

(b) [RESERVED]

c) The Company shall not become a party to any Merger Event unless its terms are consistent with this Section 14.07. None of the foregoing provisions shall affect the right of a holder of Notes to convert its Notes into ADSs as set forth in Section 14.01 and Section 14.02 prior to the effective date of such Merger Event.

d) The above provisions of this Section shall similarly apply to successive Merger Events.

Section 14.08 Certain Covenants. (a) The Company covenants that all ADSs delivered upon conversion of Notes, and all Ordinary Shares represented by such ADSs, will be fully paid and non-assessable by the Company and free from all taxes, liens and charges with respect to the issue thereof.

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(b) The Company covenants that, if any ADSs to be provided for the purpose of conversion of Notes hereunder, or any Ordinary Shares represented by such ADSs, require registration with or approval of any governmental authority under any federal or state law before such ADSs may be validly issued upon conversion, the Company will, to the extent then permitted by the rules and interpretations of the Commission, secure such registration or approval, as the case may be.

(c) The Company further covenants that if at any time the ADSs shall be listed on any national securities exchange or automated quotation system the Company will list and keep listed, so long as the ADSs shall be so listed on such exchange or automated quotation system, any ADSs deliverable upon conversion of the Notes.

(d) The Company further covenants to take all actions and obtain all approvals and registrations required with respect to the conversion of the Notes into ADSs and the issuance, and deposit into the ADS facility, of the Ordinary Shares represented by such ADSs. The Company also undertakes to maintain, as long as any Notes are outstanding, the effectiveness of a registration statement on Form F-6 relating to the ADSs and an adequate number of ADSs available for issuance thereunder such that ADSs can be delivered in accordance with the terms of this Indenture, the Notes and the Unrestricted Deposit Agreement or the Restricted Deposit Agreement, as applicable, upon conversion of the Notes. In addition, the Company further covenants to provide Holders with a reasonably detailed description of the mechanics for the delivery of ADSs upon conversion of the Notes as set forth in the Unrestricted Deposit Agreement or the Restricted Deposit Agreement (including pursuant to a certain procedures letter for the issuance of restricted ADSs contemplated by Section 11 of the Restricted Deposit Agreement) upon request.

Section 14.09 Responsibility of Trustee. The Trustee and any other Conversion Agent shall not at any time be under any duty or responsibility to any Holder to determine the Conversion Rate (or any adjustment thereto) or whether any facts exist that may require any adjustment (including any increase) of the Conversion Rate, or with respect to the nature or extent or calculation of any such adjustment when made, or with respect to the method employed, or herein or in any supplemental indenture provided to be employed, in making the same. The Trustee and any other Conversion Agent shall not be accountable with respect to the validity or value (or the kind or amount) of any ADSs, or of any securities, property or cash that may at any time be issued or delivered upon the conversion of any Note; and the Trustee and any other Conversion Agent make no representations with respect thereto. Neither the Trustee nor any Conversion Agent shall be responsible for any failure of the Company to issue, transfer or deliver any ADSs or stock certificates or other securities or property or cash upon the surrender of any Note for the purpose of conversion, the accuracy or inaccuracy of any mathematical calculation or formulae under this Indenture, whether by the Company or any Person so authorized by the Company for such purpose under this Indenture or the failure by the Company to comply with any of the duties, responsibilities or covenants of the Company contained in this Article. Without limiting the generality of the foregoing, neither the Trustee nor any Conversion Agent shall be under any responsibility to determine the correctness of any provisions contained in any supplemental indenture entered into pursuant to Section 14.07 relating either to the kind or amount of ADSs or securities or property (including cash) receivable by Holders upon the conversion of their Notes after any event referred to in such Section 14.07 or to any adjustment to be made with respect thereto, but, subject to the provisions of Section 7.01, may accept (without any independent investigation) as conclusive evidence of the correctness of any such provisions, and shall be protected in relying upon, the Officers’ Certificate (which the Company shall be obligated to file with the Trustee prior to the execution of any such supplemental indenture) with respect thereto.
Section 14.10 Notice to Holders Prior to Certain Actions. In case of any:

(a) action by the Company or one of its Subsidiaries that would require an adjustment in the Conversion Rate pursuant to Section 14.04 or Section 14.11;

(b) Merger Event; or

(c) voluntary or involuntary dissolution, liquidation or winding-up of the Company or any of its Subsidiaries;

then, in each case (unless notice of such event is otherwise required pursuant to another provision of this Indenture), the Company shall cause to be filed with the Trustee and the Conversion Agent (if other than the Trustee) and to be mailed to each Holder at its address appearing on the Note Register, as promptly as possible but in any event at least 20 days prior to the applicable date hereinafter specified, a notice stating (i) the date on which a record is to be taken for the purpose of such action by the Company or one of its Subsidiaries or, if a record is not to be taken, the date as of which the holders of Ordinary Shares or ADSs, as the case may be, of record are to be determined for the purposes of such action by the Company or one of its Subsidiaries, or (ii) the date on which such Merger Event, dissolution, liquidation or winding-up is expected to become effective or occur, and the date as of which it is expected that holders of Ordinary Shares or ADSs, as the case may be, of record shall be entitled to exchange their Ordinary Shares or ADSs, as the case may be, for securities or other property deliverable upon such Merger Event, dissolution, liquidation or winding-up. Failure to give such notice, or any defect therein, shall not affect the legality or validity of such action by the Company or one of its Subsidiaries, Merger Event, dissolution, liquidation or winding-up.

Section 14.11 Stockholder Rights Plans. To the extent that the Company has a rights plan in effect upon conversion of the Notes, each ADS delivered upon such conversion shall be entitled to receive (either directly or in respect of the Ordinary Shares underlying such ADSs) the appropriate number of rights, if any, and the certificates representing the ADSs delivered upon such conversion shall bear such legends, if any, in each case as may be provided by the terms of any such stockholder rights plan, as the same may be amended from time to time. However, if, prior to any conversion, the rights have separated from the Ordinary Shares underlying the ADSs in accordance with the provisions of the applicable stockholder rights plan, the Conversion Rate shall be adjusted at the time of separation as if the Company distributed to all or substantially all holders of the Ordinary Shares Distributed Property as provided in Section 14.04(c), subject to readjustment in the event of the expiration, termination or redemption of such rights.
Section 14.12 Termination of Depositary Receipt Program. If the Ordinary Shares cease to be represented by American Depositary Shares issued under a depositary receipt program sponsored by the Company, all references in this Indenture to the ADSs shall be deemed to have been replaced by a reference to the number of Ordinary Shares (and other property, if any) represented by the ADSs on the last day on which the ADSs represented the Ordinary Shares and as if the Ordinary Shares and the other property had been distributed to holders of the ADSs on that day. In addition, all references to the Last Reported Sale Price of the ADSs will be deemed to refer to the Last Reported Sale Price of the Ordinary Shares, and other appropriate adjustments, including adjustments to the Conversion Rate, will be made to reflect such change. In making such adjustments, where currency translations between U.S. dollars and any other currency are required, the exchange rate in effect on the date of determination will apply.

ARTICLE 15
REPURCHASE OF NOTES AT OPTION OF HOLDERS

Section 15.01 Repurchase at Option of Holders.

(a) Each Holder shall have the right, at such Holder’s option, to require the Company to repurchase for cash on April 1, 2024 (the “Repurchase Date”), all of such Holder’s Notes, or any portion thereof that is an integral multiple of US$1,000 principal amount, at a repurchase price (the “Repurchase Price”) that is equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the Repurchase Date; provided that any such accrued and unpaid interest shall be paid not to the Holders submitting the Notes for repurchase on the Repurchase Date but instead to the Holders of such Notes at the close of business on the Regular Record Date immediately preceding the Repurchase Date. Not later than 20 Business Days prior to the Repurchase Date, the Company shall mail a notice (the “Company Notice”) by first class mail to the Trustee, to the Paying Agent and to each Holder at its address shown in the Note Register of the Note Registrar (and to beneficial owners as required by applicable law and to the Conversion Agent if other than the Trustee). The Company Notice shall include a Form of Repurchase Notice to be completed by a holder and shall state:

(i) the last date on which a Holder may exercise its repurchase right pursuant to this Section 15.01 (the “Repurchase Expiration Time”);
(ii) the Repurchase Price;
(iii) the Repurchase Date;
(iv) the name and address of the Conversion Agent and Paying Agent;
(v) that the Notes with respect to which a Repurchase Notice has been delivered by a Holder may be converted only if the Holder withdraws the Repurchase Notice in accordance with the terms of this Indenture;
(vi) that the Holder shall have the right to withdraw any Notes surrendered prior to the Repurchase Expiration Time; and
(vii) the procedures a Holder must follow to exercise its repurchase rights under this Section 15.01 and a brief description of those rights.
At the Company’s request, the Trustee shall give such notice in the Company’s name and at the Company’s expense; provided, however, that, in all cases, the text of such Company Notice shall be prepared by the Company.

Simultaneously with providing the Company Notice, the Company shall publish a notice containing the information included in the Company Notice in a newspaper of general circulation in The City of New York or publish such information on the Company’s website or through such other public medium as the Company may use at that time.

No failure of the Company to give the foregoing notices and no defect therein shall limit the Holders’ repurchase rights or affect the validity of the proceedings for the repurchase of the Notes pursuant to this Section 15.01.

Repurchases of Notes under this Section 15.01 shall be made, at the option of the Holder thereof, upon:

(A) delivery to the Paying Agent (or other agent appointed for such purpose) by the Holder of a duly completed notice (the “Repurchase Notice”) in the form set forth in Attachment 3 to the Form of Note attached hereto as Exhibit A, if the Notes are Physical Notes, or in compliance with the Depositary’s procedures for surrendering interests in global notes, if the Notes are Global Notes, in each case during the period beginning at any time from the open of business on the date that is 20 Business Days prior to the Repurchase Date until the close of business on the second Business Day immediately preceding the Repurchase Date; and

(B) delivery of the Notes, if the Notes are Physical Notes, to the Trustee at any time after delivery of the Repurchase Notice (together with all necessary endorsements) at the Corporate Trust Office of the Trustee, or book-entry transfer of the Notes, if the Notes are Global Notes, in compliance with the procedures of the Depositary, in each case such delivery being a condition to receipt by the Holder of the Repurchase Price therefor.

Each Repurchase Notice shall state:

(A) in the case of Physical Notes, the certificate numbers of the Notes to be delivered for repurchase;

(B) the portion of the principal amount of the Notes to be repurchased, which must be US$1,000 or an integral multiple thereof; and

(C) that the Notes are to be repurchased by the Company pursuant to the applicable provisions of the Notes and this Indenture;

provided, however, that if the Notes are Global Notes, the Repurchase Notice must comply with appropriate Depositary procedures.
Notwithstanding anything herein to the contrary, any Holder delivering to the Trustee the Repurchase Notice contemplated by this Section 15.01 shall have the right to withdraw, in whole or in part, such Repurchase Notice at any time prior to the close of business on the second Business Day immediately preceding the Repurchase Date by delivery of a duly completed written notice of withdrawal to the Trustee in accordance with Section 15.03.

The Trustee shall promptly notify the Company of the receipt by it of any Repurchase Notice or written notice of withdrawal thereof.

No Repurchase Notice with respect to any Notes may be delivered and no Note may be surrendered for repurchase pursuant to this Section 15.01 by a Holder thereof to the extent such Holder has also delivered a Fundamental Change Repurchase Notice with respect to such Note in accordance with Section 15.02 and not validly withdrawn such Fundamental Change Repurchase Notice in accordance with Section 15.03.

(b) Notwithstanding the foregoing, no Notes may be repurchased by the Company at the option of the Holders on the Repurchase Date if the principal amount of the Notes has been accelerated, and such acceleration has not been rescinded, on or prior to such Repurchase Date (except in the case of an acceleration resulting from a default by the Company in the payment of the Repurchase Price with respect to such Notes). The Trustee will promptly return to the respective Holders thereof any Physical Notes held by it during the acceleration of the Notes (except in the case of an acceleration resulting from a default by the Company in the payment of the Repurchase Price with respect to such Notes), or any instructions for book-entry transfer of the Notes in compliance with the procedures of the Depositary shall be deemed to have been cancelled, and, upon such return or cancellation, as the case may be, the Repurchase Notice with respect thereto shall be deemed to have been withdrawn.

Section 15.02 Repurchase at Option of Holders Upon a Fundamental Change. (a)If a Fundamental Change occurs at any time, each Holder shall have the right, at such Holder’s option, to require the Company to repurchase for cash all of such Holder’s Notes, or any portion thereof that is equal to US$1,000 or an integral multiple of US$1,000, on the Business Day (the "Fundamental Change Repurchase Date") notified in writing by the Company as set forth in Section 15.02(c) that is not less than 20 Business Days or more than 35 Business Days following the date of the Fundamental Change Company Notice at a repurchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest thereon to, but excluding, the Fundamental Change Repurchase Date (the "Fundamental Change Repurchase Price"), unless the Fundamental Change Repurchase Date falls after a Regular Record Date but on or prior to the Interest Payment Date to which such Regular Record Date relates, in which case the Company shall instead pay the full amount of accrued and unpaid interest to Holders of record as of such Regular Record Date, and the Fundamental Change Repurchase Price shall be equal to 100% of the principal amount of Notes to be repurchased pursuant to this Article 15. The Trustee and the Conversion Agent, Paying Agent or any other agent appointed for such purpose shall have no responsibility to determine the Fundamental Change Repurchase Price.
(b) Repurchases of Notes under this Section 15.02 shall be made, at the option of the Holder thereof, upon:

(i) delivery to the Paying Agent (or other agent appointed for this purpose) by a Holder of a duly completed notice (the “Fundamental Change Repurchase Notice”) in the form set forth in Attachment 2 to the Form of Note attached hereto as Exhibit A, if the Notes are Physical Notes, or in compliance with the Depositary’s procedures for surrendering interests in global notes, if the Notes are Global Notes, in each case on or before the close of business on the second Business Day immediately preceding the Fundamental Change Repurchase Date; and

(ii) delivery of the Notes, if the Notes are Physical Notes, to the Trustee at any time after delivery of the Fundamental Change Repurchase Notice (together with all necessary endorsements for transfer) at the Corporate Trust Office, or book-entry transfer of the Notes, if the Notes are Global Notes, in compliance with the procedures of the Depositary, in each case such delivery being a condition to receipt by the Holder of the Fundamental Change Repurchase Price therefor.

The Fundamental Change Repurchase Notice in respect of any Notes to be repurchased shall state:

(i) in the case of Physical Notes, the certificate numbers of the Notes to be delivered for repurchase;

(ii) the portion of the principal amount of Notes to be repurchased, which must be US$1,000 or an integral multiple thereof; and

(iii) that the Notes are to be repurchased by the Company pursuant to the applicable provisions of the Notes and this Indenture;

provided, however, that if the Notes are Global Notes, the Fundamental Change Repurchase Notice must comply with appropriate Depositary procedures.

Notwithstanding anything herein to the contrary, any Holder delivering to the Trustee the Fundamental Change Repurchase Notice contemplated by this Section 15.02 shall have the right to withdraw, in whole or in part, such Fundamental Change Repurchase Notice at any time prior to the close of business on the second Business Day immediately preceding the Fundamental Change Repurchase Date by delivery of a duly completed written notice of withdrawal to the Trustee in accordance with Section 15.03.

The Trustee shall promptly notify the Company of the receipt by it of any Fundamental Change Repurchase Notice or written notice of withdrawal thereof.

No Fundamental Change Repurchase Notice with respect to any Notes may be delivered and no Note may be surrendered by a Holder for repurchase thereof if such Holder has also surrendered a Repurchase Notice in accordance with Section 15.01 and not validly withdrawn such Repurchase Notice in accordance with Section 15.03.
(c) On or before the 20th calendar day after the occurrence of the effective date of a Fundamental Change, the Company shall provide to all Holders, the Trustee (and the Conversion Agent, Paying Agent and any other agent appointed for this purpose, in each case, if other than the Trustee) a written notice (the “Fundamental Change Company Notice”) of the occurrence of the effective date of the Fundamental Change and of the repurchase right at the option of the Holders arising as a result thereof. In the case of Physical Notes, such notice shall be by first class mail or, in the case of Global Notes, such notice shall be delivered in accordance with the applicable procedures of the Depositary. Simultaneously with providing such notice, the Company shall publish a notice containing the information set forth in the Fundamental Change Company Notice in a newspaper of general circulation in The City of New York or publish such information on the Company’s website or through such other public medium as the Company may use at that time. Each Fundamental Change Company Notice shall specify:

(i) the events causing the Fundamental Change and whether such events also constitute a Make-Whole Fundamental Change;
(ii) the effective date of the Fundamental Change;
(iii) the last date on which a Holder may exercise the repurchase right pursuant to this Article 15;
(iv) the Fundamental Change Repurchase Price;
(v) the Fundamental Change Repurchase Date;
(vi) the name and address of the Trustee, the Paying Agent, the Conversion Agent or any other agent appointed for repurchase, if applicable;
(vii) if applicable, the Conversion Rate and any adjustments to the Conversion Rate as a result of such Fundamental Change if it is a Make-Whole Fundamental Change;
(viii) if applicable, that the Notes with respect to which a Fundamental Change Repurchase Notice has been delivered by a Holder may be converted only if the Holder withdraws the Fundamental Change Repurchase Notice in accordance with the terms of this Indenture; and
(ix) the procedures that Holders must follow to require the Company to repurchase their Notes.

No failure of the Company to give the foregoing notices and no defect therein shall limit the Holders’ repurchase rights or affect the validity of the proceedings for the repurchase of the Notes pursuant to this Section 15.02.

At the Company’s request, the Trustee shall give such notice in the Company’s name and at the Company’s expense; provided, however, that, in all cases, the text of such Fundamental Change Company Notice shall be prepared by the Company.
(d) Notwithstanding the foregoing, no Notes may be repurchased by the Company on any date at the option of the Holders upon a Fundamental Change if the principal amount of the Notes has been accelerated, and such acceleration has not been rescinded, on or prior to such date (except in the case of an acceleration resulting from a default by the Company in the payment of the Fundamental Change Repurchase Price with respect to such Notes). The Trustee will promptly return to the respective Holders thereof any Physical Notes held by it during the acceleration of the Notes (except in the case of an acceleration resulting from a default by the Company in the payment of the Fundamental Change Repurchase Price with respect to such Notes), or any instructions for book-entry transfer of the Notes in compliance with the procedures of the Depositary shall be deemed to have been cancelled, and, upon such return or cancellation, as the case may be, the Fundamental Change Repurchase Notice with respect thereto shall be deemed to have been withdrawn.

Section 15.03 Withdrawal of Repurchase Notice or Fundamental Change Repurchase Notice. (a) A Repurchase Notice or Fundamental Change Repurchase Notice may be withdrawn (in whole or in part) by means of a duly completed written notice of withdrawal delivered to the Paying Agent (or other agent appointed for such purpose) in accordance with this Section 15.03 at any time prior to the close of business on the second Business Day immediately preceding the Repurchase Date or prior to the close of business on the second Business Day immediately preceding the Fundamental Change Repurchase Date, as the case may be, specifying:

(i) the principal amount of the Notes with respect to which such notice of withdrawal is being submitted,

(ii) if Physical Notes have been issued, the certificate number of the Note in respect of which such notice of withdrawal is being submitted, and

(iii) the principal amount, if any, of such Note that remains subject to the original Repurchase Notice or Fundamental Change Repurchase Notice, as the case may be, which portion must be in principal amounts of US$1,000 or an integral multiple of US$1,000;

provided, however, that if the Notes are Global Notes, the notice must comply with appropriate procedures of the Depositary.

Section 15.04 Deposit of Repurchase Price or Fundamental Change Repurchase Price. (a) The Company will deposit with the Paying Agent (or any other agent appointed for this purpose by the Company), or if the Company is acting as its own Paying Agent, set aside, segregate and hold in trust as provided in Section 4.04) on or prior to 10:00 a.m., New York City time, one Business Day prior to the Repurchase Date or Fundamental Change Repurchase Date, as the case may be, an amount of money sufficient to repurchase all of the Notes to be repurchased at the appropriate Repurchase Price or Fundamental Change Repurchase Price. Subject to receipt of funds and/or Notes by the Paying Agent (or other agent appointed for this purpose by the Company) and the Trustee, as applicable, payment for Notes surrendered for repurchase (and not withdrawn in accordance with Section 15.03) will be made on the later of (i) the Repurchase Date or Fundamental Change Repurchase Date, as the case may be, (provided the Holder has satisfied the conditions in Section 15.01 or Section 15.02, as the case may be) and (ii) the time of book-entry transfer or the delivery of such Note to the Trustee (or other Paying Agent appointed by the Company) by the Holder thereof in the manner required by Section 15.01 or Section 15.02, as applicable, by mailing checks for the amount payable to the Holders of such Notes entitled thereto as they shall appear in the Note Register; provided, however, that payments to the Depositary shall be made by wire transfer of immediately available funds to the account of the Depositary or its nominee. The Paying Agent (or other agent appointed for this purpose by the Company) shall, promptly after such payment and upon written demand by the Company, return to the Company any funds in excess of the Repurchase Price or Fundamental Change Repurchase Price, as the case may be.
(b) If by 10:00 a.m., New York City time, on the Repurchase Date or Fundamental Change Repurchase Date, as the case may be, the Paying Agent (or other agent appointed for this purpose by the Company) holds money sufficient to make payment on all the Notes or portions thereof that are to be repurchased on such Repurchase Date or Fundamental Change Repurchase Date, as the case may be, then, with respect to the Notes that have been properly surrendered for repurchase and not validly withdrawn, on such Repurchase Date or Fundamental Change Repurchase Date, as the case may be, (i) such Notes will cease to be outstanding, (ii) interest will cease to accrue on such Notes (whether or not book-entry transfer of the Notes has been made or the Notes have been delivered to the Trustee) and (iii) all other rights of the Holders of such Notes will terminate (other than the right to receive the Repurchase Price or Fundamental Change Repurchase Price, as the case may be, and previously accrued and unpaid interest upon delivery or transfer of the Notes to the extent not included in the Repurchase Price or Fundamental Change Repurchase Price, as the case may be).

(c) Upon surrender of a Note that is to be repurchased in part pursuant to Section 15.01 or Section 15.02, the Company shall execute and the Trustee, upon receipt of a Company Order, shall authenticate and deliver to the Holder a new Note in an authorized denomination equal in principal amount to the unrepurchased portion of the Note surrendered.

Section 15.05 Covenant to Comply with Applicable Laws Upon Repurchase of Notes. In connection with any repurchase offer, the Company will, if required:

(a) comply with the provisions of Rule 13e-4, Rule 14e-1 and any other tender offer rules under the Exchange Act;

(b) file a Schedule TO or other required schedule under the Exchange Act; and

(c) otherwise comply with all federal and state securities laws in connection with any offer by the Company to repurchase the Notes;

in each case, so as to permit the rights and obligations under this Article 15 to be exercised in the time and in the manner specified in this Article 15.

ARTICLE 16
OPTIONAL REDEMPTION

Section 16.01 Optional Redemption for Changes in the Tax Law of the Relevant Jurisdiction. Other than as described in this Article 16, the Notes may not be redeemed by the Company at its option prior to maturity. If the Company has, or on the next Interest Payment Date would, become obligated to pay to the Holder of any Note Additional Amounts that are more than a de minimis amount, as a result of:

(a) any change or amendment that is publicly announced and becomes effective on or after April 2, 2019 (or, in the case of a jurisdiction that becomes a Relevant Jurisdiction after such date, after such later date) in the laws or any rules or regulations of a Relevant Jurisdiction; or
(b) any change that is publicly announced and becomes effective on or after April 2, 2019 (or, in the case of a jurisdiction that becomes a Relevant Jurisdiction after such date, after such later date) in an interpretation, administration or application of such laws, rules or regulations by any legislative body, court, governmental agency, taxing authority or regulatory or administrative authority of such Relevant Jurisdiction (including the enactment of any legislation and the announcement or publication of any judicial decision or regulatory or administrative interpretation or determination);

(each, a “Change in Tax Law”), the Company may, at its option, redeem all but not part of the Notes (except in respect of certain Holders that elect otherwise as described below) at a redemption price equal to 100% of the principal amount thereof (the “Redemption Price”), plus accrued and unpaid interest, if any, to, but not including the date fixed by the Company for redemption (the “Redemption Date”), including, for the avoidance of doubt, any Additional Amounts with respect to such Redemption Price; provided that the Company may only redeem the Notes if: (i) the Company cannot avoid such obligations by taking commercially reasonable measures available to the Company (provided that changing the jurisdiction of incorporation of the Company shall be deemed not to be a commercially reasonable measure); and (ii) the Company delivers to the Trustee an opinion of outside legal counsel of recognized standing in the Relevant Jurisdiction and an Officers’ Certificate attesting to such Change in Tax Law and obligation to pay Additional Amounts. The Trustee shall and is entitled to rely upon such opinion and Officers’ Certificate (without further investigation and enquiry) and it shall be conclusive and binding on the Holders.

Notwithstanding anything to the contrary in this Article 16, neither the Company nor any successor Person may redeem any of the Notes in the case that Additional Amounts are payable in respect of PRC withholding tax and any other tax collected at source at the Applicable PRC Rate or less solely as a result of the Company or its successor Person being considered a PRC tax resident under the PRC Enterprise Income Tax law.

If the Redemption Date occurs after a Regular Record Date and on or prior to the corresponding Interest Payment Date, the Company shall pay or cause the Paying Agent to pay, on or at its election, before such Interest Payment Date, the full amount of accrued and unpaid interest, if any, and any Additional Amounts with respect to such interest, due on such Interest Payment Date to the record holder of the Notes on the Regular Record Date corresponding to such Interest Payment Date, and the Redemption Price payable to any Holder (other than a Holder that elects to not have its Notes redeemed pursuant to the provisions described below) shall be equal to 100% of the principal amount of such Note to be redeemed, including, for the avoidance of doubt, any Additional Amounts with respect to such Redemption Price. The Company shall notify the Trustee in writing of its election and the date on which such interest and any Additional Amounts with respect to such interest shall be paid at the time the Company provides notice of such redemption.
The Company shall give the Trustee and Holders of Notes not less than 30 days’ but no more than 60 days’ notice of redemption prior to the Redemption Date. Simultaneously with providing such notice, the Company shall publish a notice containing this information in a newspaper of general circulation in The City of New York or publish the information on the Company’s website or through such other public medium as the Company may use at that time. The Redemption Date must be a Business Day.

Upon receiving such notice of redemption, each Holder shall have the right to elect to not have its Notes redeemed, provided that (i) the Company shall not be obligated to pay any Additional Amounts on any payment with respect to such Notes solely as a result of such Change in Tax Law that resulted in the obligation to pay such Additional Amounts (whether upon conversion, required repurchase in connection with a Fundamental Change or on the Repurchase Date, at maturity or otherwise, and whether in ADSs, Reference Property or otherwise) after the Redemption Date (or, if the Company fails to pay the Redemption Price on the Redemption Date, such later date on which the Company pays the Redemption Price), and (ii) all future payments with respect to such Notes shall be subject to the deduction or withholding of such Relevant Taxing Jurisdiction and taxes required by law to be deducted or withheld as a result of such Change in Tax Law; provided further that, notwithstanding the foregoing, if a Holder electing not to have its Notes redeemed converts its Notes in connection with the Company’s election to redeem the Notes in respect of such Change in Tax Law pursuant to Section 14.03(g), the Company shall be obligated to pay Additional Amounts, if any, with respect to such conversion.

A Holder electing to not have its Notes redeemed must deliver to the Paying Agent a written notice of election so as to be received by the Paying Agent no later than the close of business on the second Business Day immediately preceding the Redemption Date; provided that, a Holder that complies with the requirements for conversion in Section 14.02(b) shall be deemed to have delivered a notice of its election to not have its Notes so redeemed. A Holder may withdraw any notice of election (other than such a deemed notice of election in connection with a conversion) by delivering to the Paying Agent a written notice of withdrawal prior to the close of business on the Business Day immediately preceding the Redemption Date (or, if the Company fails to pay the Redemption Price on the Redemption Date, such later date on which the Company pays the Redemption Price). If no election is made or deemed to have been made, the Holder shall have its Notes redeemed without any further action.

No Notes may be redeemed by the Company or its successor if the principal amount of the Notes has been accelerated, and such acceleration has not been rescinded, on or prior to the Redemption Date.

ARTICLE 17
MISCELLANEOUS PROVISIONS

Section 17.01 Provisions Binding on Company’s Successors. All the covenants, stipulations, promises and agreements of the Company contained in this Indenture shall bind its successors and assigns whether so expressed or not.

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Section 17.02 Official Acts by Successor Corporation. Any act or proceeding by any provision of this Indenture authorized or required to be done or performed by any board, committee or Officer of the Company shall and may be done and performed with like force and effect by the like board, committee or officer of any corporation or other entity that shall at the time be the lawful sole successor of the Company.

Section 17.03 Addresses for Notices, Etc. Any notice or demand that by any provision of this Indenture is required or permitted to be given or served by the Trustee or by the Holders on the Company shall be deemed to have been sufficiently given or made, for all purposes if given or served by being deposited postage prepaid by registered or certified mail in a post office letter box addressed (until another address is filed by the Company with the Trustee) to Building 3, Guozheng Center, No. 485 Zhengli Road, Yangpu District, Shanghai, People’s Republic of China. Any notice, direction, request or demand hereunder to or upon the Trustee shall be given or served by being deposited postage prepaid by registered or certified mail in a post office letter box addressed to Deutsche Bank Trust Company Americas, Trust and Agency Services, 60 Wall Street, 16th Floor, Mail Stop: NYC60-1630, New York, New York 10005, Attn: Corporates Team, [BILIBILI INC. DEAL ID AT4020], Facsimile: (732) 578-4635; with a copy to: Deutsche Bank Trust Company Americas, c/o Deutsche Bank National Trust Company, Trust and Agency Services, 100 Plaza One – 8th Floor, Mail Stop: JCY03-0801, Jersey City, NJ 07311-3901, Attn: Corporates Team, [BILIBILI INC. DEAL ID AT4020], Facsimile: (732) 578-4635.

All notices and other communications under this Indenture shall be in writing in English.

So long as and to the extent that the Notes are represented by Global Notes and such Global Notes are held by DTC, notices to owners of beneficial interests in the Global Notes may be given by delivery of the relevant notice to DTC for communication by it to entitled account holders.

The Company hereby acknowledges that it is fully aware of the risks associated with transmitting instructions via electronic methods (including facsimile), and being aware of these risks, authorizes the Trustee to accept and act upon any instruction sent to it or any Paying Agent, Transfer Agent, Conversion Agent or Note Registrar in the Company’s name or in the name of one or more appropriate authorized signers of the Company via electronic methods (including facsimile). The Trustee shall be entitled to rely on Section 7.06 of this Indenture when accepting or acting upon any instructions, communications or documents transmitted by facsimile, and shall not be liable in the event any facsimile transmission is not received, or is mutilated, illegible, interrupted, duplicated, incomplete, unauthorized or delayed for any reason, including (but not limited to) electronic or telecommunications failure.

Furthermore, notwithstanding the above, if any Trustee receives information or instructions delivered by electronic mail, other electronic method or other unsecured method of communication believed by it to be genuine and to have been sent by the proper person or persons, the Trustee or any Paying Agent, Transfer Agent, Conversion Agent or Note Registrar shall have (i) no duty or obligation to verify or confirm that the person who sent such instructions is in fact a person authorized to give instructions or directions on behalf of the Company and (ii) absent its or their gross negligence or willful misconduct, no liability for any losses, liabilities, costs or expenses incurred or sustained by any holder, the Company or any other person as a result of such reliance on or compliance with such information or instructions.
The Trustee, by notice to the Company, may designate additional or different addresses for subsequent notices or communications.

Any notice or communication mailed to a Holder shall be mailed to it by first class mail, postage prepaid, at its address as it appears on the Note Register and shall be sufficiently given to it if so mailed within the time prescribed.

Failure to mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice to Holders by mail, then such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder.

Section 17.04 Governing Law; Jurisdiction. THIS INDENTURE AND EACH NOTE, AND ANY CLAIM, CONTROVERSY OR DISPUTE ARISING UNDER OR RELATED TO THIS INDENTURE AND EACH NOTE, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

The Company irrevocably consents and agrees, for the benefit of the Holders from time to time of the Notes and the Trustee, that any legal action, suit or proceeding against it with respect to obligations, liabilities or any other matter arising out of or in connection with this Indenture or the Notes may be brought in the courts of the State of New York or the courts of the United States located in the Borough of Manhattan, New York City, New York and, until amounts due and to become due in respect of the Notes have been paid, hereby irrevocably consents and submits to the non-exclusive jurisdiction of each such court in personam, generally and unconditionally with respect to any action, suit or proceeding for itself in respect of its properties, assets and revenues.

The Company irrevocably and unconditionally waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of venue of any of the aforesaid actions, suits or proceedings arising out of or in connection with this Indenture brought in the courts of the State of New York or the courts of the United States located in the Borough of Manhattan, New York City, New York and hereby further irrevocably and unconditionally waives and agrees not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.
Section 17.05 Submission to Jurisdiction; Service of Process. The Company irrevocably appoints Law Debenture Corporate Service Inc. as its authorized agent in the Borough of Manhattan in the City of New York upon which process may be served in any such suit or proceeding, and agrees that service of process upon such agent, and written notice of said service to the Company by the person serving the same to Building 20, No. 56 AnTu Road, Jiading District, Shanghai, 201804, People’s Republic of China, Facsimile No. +86 (21) 3913 0192, shall be deemed in every respect effective service of process upon the Company in any such suit or proceeding. The Company further agrees to take any and all action as may be necessary to maintain such designation and appointment of such agent in full force and effect for a period of seven years from the date of this Indenture. If for any reason such agent shall cease to be such agent for service of process, the Company shall forthwith appoint a new agent of recognized standing for service of process in the State of New York and deliver to the Trustee a copy of the new agent’s acceptance of that appointment within ten Business Days of such acceptance. Nothing herein shall affect the right of the Trustee, any agent or any Holder to serve process in any other manner permitted by law or to commence legal proceedings or otherwise proceed against the Company in any other court of competent jurisdiction. To the extent that the Company has or hereafter may acquire any sovereign or other immunity from jurisdiction of any court or from any legal process with respect to itself or its property, the Company irrevocably waives such immunity in respect of its obligations hereunder or under any Note.

Section 17.06 Evidence of Compliance with Conditions Precedent; Certificates and Opinions of Counsel to Trustee. Upon any application or demand by the Company to the Trustee to take any action under any of the provisions of this Indenture, the Company shall, if requested by the Trustee, furnish to the Trustee an Officers’ Certificate stating that such action is permitted by the terms of this Indenture.

Each Officers’ Certificate provided for, by or on behalf of the Company in this Indenture and delivered to the Trustee with respect to compliance with this Indenture (other than the Officers’ Certificates provided for in Section 4.09) shall include (a) a statement that the person making such certificate is familiar with the requested action and this Indenture; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statement contained in such certificate is based; (c) a statement that, in the judgment of such person, he or she has made such examination or investigation as is necessary to enable him or her to express an informed judgment as to whether or not such action is permitted by this Indenture; and (d) a statement as to whether or not, in the judgment of such person, such action is permitted by this Indenture.

Notwithstanding anything to the contrary in this Section 17.06, if any provision in this Indenture specifically provides that the Trustee shall or may receive an Opinion of Counsel in connection with any action to be taken by the Trustee or the Company hereunder, the Trustee shall be entitled to, or entitled to request, such Opinion of Counsel.

Section 17.07 Legal Holidays. In any case where any Interest Payment Date, Redemption Date, Fundamental Change Repurchase Date, Conversion Date, Repurchase Date or Maturity Date is not a Business Day, then any action to be taken on such date need not be taken on such date, but may be taken on the next succeeding Business Day with the same force and effect as if taken on such date, and no interest shall accrue in respect of the delay.

Section 17.08 No Security Interest Created. Nothing in this Indenture or in the Notes, expressed or implied, shall be construed to constitute a security interest under the Uniform Commercial Code or similar legislation, as now or hereafter enacted and in effect, in any jurisdiction.
Section 17.09 Benefits of Indenture. Nothing in this Indenture or in the Notes, expressed or implied, shall give to any Person, other than the Holders, the parties hereto, any Paying Agent, any Conversion Agent, any Note Registrar and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Indenture.

Section 17.10 Table of Contents, Headings, Etc. The table of contents and the titles and headings of the articles and sections of this Indenture have been inserted for convenience of reference only, are not to be considered a part hereof, and shall in no way modify or restrict any of the terms or provisions hereof.

Section 17.11 Execution in Counterparts. This Indenture may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute but one and the same instrument.

Section 17.12 Severability. In the event any provision of this Indenture or in the Notes shall be invalid, illegal or unenforceable, then (to the extent permitted by law) the validity, legality or enforceability of the remaining provisions shall not in any way be affected or impaired.

Section 17.13 Waiver of Jury Trial. EACH OF THE COMPANY AND THE TRUSTEE HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS INDENTURE, THE NOTES OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 17.14 Force Majeure. In no event shall the Trustee or the Agents be responsible or liable for any failure or delay in the performance of its obligations hereunder arising out of or caused by, directly or indirectly, forces beyond its control, including, without limitation, strikes, work stoppages, accidents, acts of war or terrorism, civil or military disturbances, nuclear or natural catastrophes or acts of God, and interruptions, loss or malfunctions of utilities, communications or computer (software and hardware) services; it being understood that the Trustee or the Agents, as the case may be, shall use reasonable efforts that are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

Section 17.15 Calculations. Except as otherwise provided herein, the Company shall be responsible for making all calculations called for under the Notes. These calculations include, but are not limited to, determinations of the Last Reported Sale Prices of the ADSs, accrued interest payable on the Notes, the number of Additional ADSs to be added to the Conversion Rate upon a Make-Whole Fundamental Change, if any, the Conversion Rate of the Notes and any adjustments thereto. The Company shall make all these calculations in good faith and, absent manifest error, the Company’s calculations shall be final and binding on Holders. The Company shall provide a schedule of its calculations to each of the Trustee, the Paying Agent and the Conversion Agent, and each of the Trustee, the Paying Agent and the Conversion Agent is entitled to rely conclusively and without liability upon the accuracy of the Company’s calculations without independent verification. The Trustee will forward the Company’s calculations to any Holder of Notes upon the prior written request of that Holder at the sole cost and expense of the Company.
Section 17.16 U.S.A. Patriot Act. The parties hereto acknowledge that in accordance with Section 326 of the U.S.A. Patriot Act, the Trustee, like all financial institutions and in order to help fight the funding of terrorism and money laundering, is required to obtain, verify, and record information that identifies each person or legal entity that establishes a relationship or opens an account with the Trustee. The Company agrees that it will provide the Trustee with such information as it may request in order for the Trustee to satisfy the requirements of the U.S.A. Patriot Act.

[Remainder of page intentionally left blank]
IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed as of the date first above written.

BILIBILI INC.

By: /s/ Rui Chen

Name: Rui Chen
Title: Chairman of the Board of Directors
and Chief Executive Officer

Signature Page to Indenture
DEUTSCHE BANK TRUST COMPANY
AMERICAS as Trustee

By: Deutsche Bank National Trust Company

By: /s/ Bridgette Casasnovas
   Name: Bridgette Casasnovas
   Title: Vice President

By: /s/ Irina Golovashchuk
   Name: Irina Golovashchuk
   Title: Vice President
ARTICLE 1

PURPOSE

The purpose of this Amended and Restated 2018 Share Incentive Plan (the “Plan”) is to promote the success and enhance the value of Bilibili Inc., an exempted company formed under the laws of the Cayman Islands (the “Company”), by linking the personal interests of the Directors, Employees, and Consultants to those of the Company’s shareholders and by providing such individuals with an incentive for outstanding performance to generate superior returns to the Company’s shareholders. The Plan is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of the Directors, Employees, and Consultants upon whose judgment, interest, and special effort the successful conduct of the Company’s operation is largely dependent.

ARTICLE 2

DEFINITIONS AND CONSTRUCTION

Wherever the following terms are used in the Plan they shall have the meanings specified below, unless the context clearly indicates otherwise. The singular pronoun shall include the plural where the context so indicates.

2.1 “Applicable Laws” means the legal requirements relating to the Plan and the Awards under applicable provisions of the corporate, securities, tax and other laws, rules, regulations and government orders, and the rules of any applicable stock exchange or national market system, of any jurisdiction applicable to Awards granted to residents therein.

2.2 “Award” means an Option, Restricted Share or Restricted Share Unit award granted to a Participant pursuant to the Plan.

2.3 “Award Agreement” means any written agreement, contract, or other instrument or document evidencing an Award, including through electronic medium.

2.4 “Board” means the Board of Directors of the Company.

2.5 “Cause” with respect to a Participant means (unless otherwise expressly provided in the applicable Award Agreement, or another applicable contract with the Participant that defines such term for purposes of determining the effect that a “for cause” termination has on the Participant’s Awards) a termination of employment or service based upon a finding by the Service Recipient, acting in good faith and based on its reasonable belief at the time, that the Participant:
(a) has been negligent in the discharge of his or her duties to the Service Recipient, has refused to perform stated or assigned duties or is incompetent in or (other than by reason of a disability or analogous condition) incapable of performing those duties;

(b) has been dishonest or committed or engaged in an act of theft, embezzlement or fraud, a breach of confidentiality, an unauthorized disclosure or use of inside information, customer lists, trade secrets or other confidential information;

(c) has breached a fiduciary duty, or willfully and materially violated any other duty, law, rule, regulation or policy of the Service Recipient; or has been convicted of, or plead guilty or nolo contendere to, a felony or misdemeanor (other than minor traffic violations or similar offenses);

(d) has materially breached any of the provisions of any agreement with the Service Recipient;

(e) has engaged in unfair competition with, or otherwise acted intentionally in a manner injurious to the reputation, business or assets of, the Service Recipient; or

(f) has improperly induced a vendor or customer to break or terminate any contract with the Service Recipient or induced a principal for whom the Service Recipient acts as agent to terminate such agency relationship.

A termination for Cause shall be deemed to occur (subject to reinstatement upon a contrary final determination by the Committee) on the date on which the Service Recipient first delivers written notice to the Participant of a finding of termination for Cause.


2.7 “Committee” means a committee of the Board described in Article 10.

2.8 “Consultant” means any consultant or adviser if: (a) the consultant or adviser renders bona fide services to a Service Recipient; (b) the services rendered by the consultant or adviser are not in connection with the offer or sale of securities in a capital-raising transaction and do not directly or indirectly promote or maintain a market for the Company’s securities; and (c) the consultant or adviser is a natural person who has contracted directly with the Service Recipient to render such services.

2.9 “Corporate Transaction”, unless otherwise defined in an Award Agreement, means any of the following transactions, provided, however, that the Committee shall determine under (d) and (e) whether multiple transactions are related, and its determination shall be final, binding and conclusive:
(a) an amalgamation, arrangement or consolidation or scheme of arrangement (i) in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the jurisdiction in which the Company is incorporated or (ii) following which the holders of the voting securities of the Company do not continue to hold more than 50% of the combined voting power of the voting securities of the surviving entity;

(b) the sale, transfer or other disposition of all or substantially all of the assets of the Company;

(c) the complete liquidation or dissolution of the Company;

(d) any reverse takeover or series of related transactions culminating in a reverse takeover (including, but not limited to, a tender offer followed by a reverse takeover) in which the Company is the surviving entity but (A) the Company’s equity securities outstanding immediately prior to such takeover are converted or exchanged by virtue of the takeover into other property, whether in the form of securities, cash or otherwise, or (B) in which securities possessing more than fifty percent (50%) of the total combined voting power of the Company’s outstanding securities are transferred to a person or persons different from those who held such securities immediately prior to such takeover or the initial transaction culminating in such takeover, but excluding any such transaction or series of related transactions that the Committee determines shall not be a Corporate Transaction; or

(e) acquisition in a single or series of related transactions by any person or related group of persons (other than the Company or by a Company-sponsored employee benefit plan) of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company’s outstanding securities but excluding any such transaction or series of related transactions that the Committee determines shall not be a Corporate Transaction.

2.10 “Director”, means a member of the Board or a member of the board of directors of any Subsidiary of the Company.

2.11 “Disability”, unless otherwise defined in an Award Agreement, means that the Participant qualifies to receive long-term disability payments under the Service Recipient’s long-term disability insurance program, as it may be amended from time to time, to which the Participant provides services regardless of whether the Participant is covered by such policy. If the Service Recipient to which the Participant provides service does not have a long-term disability plan in place, “Disability” means that a Participant is unable to carry out the responsibilities and functions of the position held by the Participant by reason of any medically determinable physical or mental impairment for a period of not less than ninety (90) consecutive days. A Participant will not be considered to have incurred a Disability unless he or she furnishes proof of such impairment sufficient to satisfy the Committee in its discretion.

2.12 “Effective Date” shall have the meaning set forth in Section 11.1.

2.13 “Employee” means any person, including an officer or a Director, who is in the employment of a Service Recipient, subject to the control and direction of the Service Recipient as to both the work to be performed and the manner and method of performance. The payment of a director’s fee by a Service Recipient shall not be sufficient to constitute “employment” by the Service Recipient.

2.15 “Fair Market Value” means, as of any date, the value of Shares determined as follows:

(a) If the Shares are listed on one or more established stock exchanges or national market systems, including without limitation, the New York Stock Exchange or the Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such shares (or the closing bid, if no sales were reported) as quoted on the principal exchange or system on which the Shares are listed (as determined by the Committee) on the date of determination (or, if no closing sales price or closing bid was reported on that date, as applicable, on the last trading date such closing sales price or closing bid was reported), as reported on the website maintained by such exchange or market system or such other source as the Committee deems reliable;

(b) If the Shares are regularly quoted on an automated quotation system (including the OTC Bulletin Board) or by a recognized securities dealer, its Fair Market Value shall be the closing sales price for such Shares as quoted on such system or by such securities dealer on the date of determination, but if selling prices are not reported, the Fair Market Value of a Share shall be the mean between the high bid and low asked prices for the Shares on the date of determination (or, if no such prices were reported on that date, on the last date such prices were reported), as reported in The Wall Street Journal or such other source as the Committee deems reliable; or

(c) In the absence of an established market for the Shares of the type described in (a) and (b) above, the Fair Market Value thereof shall be determined by the Committee in good faith and in its discretion by reference to (i) the placing price of the latest private placement of the Shares and the development of the Company’s business operations and the general economic and market conditions since such latest private placement, (ii) other third party transactions involving the Shares and the development of the Company’s business operation and the general economic and market conditions since such transaction, (iii) an independent valuation of the Shares, or (iv) such other methodologies or information as the Committee determines to be indicative of Fair Market Value.

2.16 “Group Entity” means any of the Company and Subsidiaries of the Company.

2.17 “Incentive Share Option” means an Option that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.

2.18 “Independent Director” means (i) if the Shares or other securities representing the Shares are not listed on a stock exchange, a Director of the Company who is a Non-Employee Director; and (ii) if the Shares or other securities representing the Shares are listed on one or more stock exchange, a Director of the Company who meets the independence standards under the applicable corporate governance rules of the stock exchange(s).
2.19 “IPO” means the initial public offering of the Shares of the Company.

2.20 “Non-Employee Director” means a member of the Board who qualifies as a “Non-Employee Director” as defined in Rule 16b-3(b)(3) of the Exchange Act, or any successor definition adopted by the Board.

2.21 “Non-Qualified Share Option” means an Option that is not intended to be an Incentive Share Option.

2.22 “Option” means a right granted to a Participant pursuant to Article 5 of the Plan to purchase a specified number of Shares at a specified price during specified time periods. An Option may be either an Incentive Share Option or a Non-Qualified Share Option.

2.23 “Participant” means a person who, as a Director, Consultant or Employee, has been granted an Award pursuant to the Plan.

2.24 “Parent” means a parent corporation under Section 424(e) of the Code.

2.25 “Plan” means this Amended and Restated 2018 Share Incentive Plan of Bilibili Inc., as amended and/or restated from time to time.

2.26 “Related Entity” means any business, corporation, partnership, limited liability company or other entity in which the Company, a Parent or Subsidiary of the Company holds a substantial ownership interest, directly or indirectly, or controls through contractual arrangements and consolidates the financial results according to applicable accounting standards, but which is not a Subsidiary and which the Board designates as a Related Entity for purposes of the Plan.

2.27 “Restricted Share” means a Share awarded to a Participant pursuant to Article 6 that is subject to certain restrictions and may be subject to risk of forfeiture.

2.28 “Restricted Share Unit” means an Award granted pursuant to Article 7.

2.29 “Securities Act” means the Securities Act of 1933 of the United States, as amended.

2.30 “Service Recipient” means the Company or Subsidiary of the Company to which a Participant provides services as an Employee, a Consultant or a Director.

2.31 “Share” means the ordinary shares of the Company, par value US$0.001 per share, and such other securities of the Company that may be substituted for Shares pursuant to Article 9.

2.32 “Subsidiary” means any corporation or other entity of which a majority of the outstanding voting shares or voting power is beneficially owned directly or indirectly by the Company.
2.33 “Trading Date” means the closing of the first sale to the general public of the Shares pursuant to a registration statement filed with and declared effective by the U.S. Securities and Exchange Commission under the Securities Act.

ARTICLE 3
SHARES SUBJECT TO THE PLAN

3.1 Number of Shares.

(a) Subject to the provisions of Article 9 and Section 3.1(b), the maximum aggregate number of Shares which may be issued pursuant to all Awards (including Incentive Share Options) (the “Award Pool”) shall initially be 2.5% of the total outstanding number of ordinary shares as reflected on the register of members of the Company immediately following the completion of the IPO, (such number, the “Initial Pool”); provided that, after the Effective Date, in the event that the aggregate number of Shares which may be issued pursuant to all granted Awards (including Incentive Share Options) reaches the Initial Pool, thereafter the Award Pool shall be increased automatically if and whenever the unissued Shares reserved accounts for less than 0.5% of the total number of shares of the Company issued and outstanding on the last day of the immediately preceding fiscal year (excluding issued shares reserved for future option exercise and restricted share unit vesting), as a result of which increase the Shares unissued and reserved in the Award Pool immediately after each such increase shall equal to 2.5% of the total number of shares of the Company issued and outstanding on the last day of the immediately preceding fiscal year (excluding issued shares reserved for future option exercise and restricted share unit vesting).

(b) To the extent that an Award terminates, expires, or lapses for any reason, any Shares subject to the Award shall again be available for the grant of an Award pursuant to the Plan. To the extent permitted by Applicable Laws, Shares issued in assumption of, or in substitution for, any outstanding awards of any entity acquired in any form or combination by a Group Entity shall not be counted against Shares available for grant pursuant to the Plan. Shares delivered by the Participant or withheld by the Company upon the exercise of any Award under the Plan, in payment of the exercise price thereof or tax withholding thereon, may again be optioned, granted or awarded hereunder, subject to the limitations of Section 3.1(a). If any Restricted Shares are forfeited by the Participant or repurchased by the Company, such Shares may again be optioned, granted or awarded hereunder, subject to the limitations of Section 3.1(a). Notwithstanding the provisions of this Section 3.1(b), no Shares may again be optioned, granted or awarded if such action would cause an Incentive Share Option to fail to qualify as an incentive share option under Section 422 of the Code.

3.2 Shares Distributed. Any Shares distributed pursuant to an Award may consist, in whole or in part, of authorized and unissued Shares, treasury Shares (subject to Applicable Laws) or Shares purchased on the open market. Additionally, at the discretion of the Committee, any Shares distributed pursuant to an Award may be represented by American Depository Shares. If the number of Shares represented by an American Depository Share is other than on a one-to-one basis, the limitations of Section 3.1 shall be adjusted to reflect the distribution of American Depository Shares in lieu of Shares.
ARTICLE 4

ELIGIBILITY AND PARTICIPATION

4.1 Eligibility. Persons eligible to participate in this Plan include Employees, Consultants, and Directors, as determined by the Committee.

4.2 Participation. Subject to the provisions of the Plan, the Committee may, from time to time, select from among all eligible individuals, those to whom Awards shall be granted and shall determine the nature and amount of each Award. No individual shall have any right to be granted an Award pursuant to this Plan.

4.3 Jurisdictions. In order to assure the viability of Awards granted to Participants employed in various jurisdictions, the Committee may provide for such special terms as it may consider necessary or appropriate to accommodate differences in local law, tax policy, or custom applicable in the jurisdiction in which the Participant resides, is employed, operates or is incorporated. Moreover, the Committee may approve such supplements to, or amendments, restatements, or alternative versions of, the Plan as it may consider necessary or appropriate for such purposes without thereby affecting the terms of the Plan as in effect for any other purpose; provided, however, that no such supplements, amendments, restatements, or alternative versions shall increase the share limitations contained in Section 3.1 of the Plan. Notwithstanding the foregoing, the Committee may not take any actions hereunder, and no Awards shall be granted, that would violate any Applicable Laws.

ARTICLE 5

OPTIONS

5.1 General. The Committee is authorized to grant Options to Participants on the following terms and conditions:

(a) Exercise Price. The exercise price per Share subject to an Option shall be determined by the Committee and set forth in the Award Agreement which may be a fixed price or a variable price related to the Fair Market Value of the Shares. The exercise price per Share subject to an Option may be amended or adjusted in the absolute discretion of the Committee, the determination of which shall be final, binding and conclusive. For the avoidance of doubt, to the extent not prohibited by Applicable Laws or any exchange rule, a downward adjustment of the exercise prices of Options mentioned in the preceding sentence shall be effective without the approval of the Company’s shareholders or the approval of the affected Participants.

(b) Time and Conditions of Exercise. The Committee shall determine the time or times at which an Option may be exercised in whole or in part, including exercise prior to vesting; provided that the term of any Option granted under the Plan shall not exceed ten years, except as provided in Section 12.1. The Committee shall also determine any conditions, if any, that must be satisfied before all or part of an Option may be exercised.
(c) **Payment.** The Committee shall determine the methods by which the exercise price of an Option may be paid, the form of payment, including, without limitation (i) cash or check denominated in U.S. Dollars, (ii) to the extent permissible under the Applicable Laws, cash or check in Chinese Renminbi, (iii) cash or check denominated in any other local currency as approved by the Committee, (iv) Shares held for such period of time as may be required by the Committee in order to avoid adverse financial accounting consequences and having a Fair Market Value on the date of delivery equal to the aggregate exercise price of the Option or exercised portion thereof, (v) after the Trading Date the delivery of a notice that the Participant has placed a market sell order with a broker with respect to Shares then issuable upon exercise of the Option, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the Option exercise price; provided that payment of such proceeds is then made to the Company upon settlement of such sale, (vi) other property acceptable to the Committee with a Fair Market Value equal to the exercise price, or (vii) any combination of the foregoing. Notwithstanding any other provision of the Plan to the contrary, no Participant who is a member of the Board or an “executive officer” of the Company within the meaning of Section 13(k) of the Exchange Act shall be permitted to pay the exercise price of an Option in any method which would violate Section 13(k) of the Exchange Act.

(d) **Evidence of Grant.** All Options shall be evidenced by an Award Agreement between the Company and the Participant. The Award Agreement shall include such additional provisions as may be specified by the Committee.

(e) **Effects of Termination of Employment or Service on Options.** Termination of employment or service shall have the following effects on Options granted to the Participants:

(i) **Dismissal for Cause.** Unless otherwise provided in the Award Agreement, if a Participant’s employment by or service to the Service Recipient is terminated by the Service Recipient for Cause, the Participant’s Options will terminate upon such termination, whether or not the Option is then vested and/or exercisable;

(ii) **Death or Disability.** Unless otherwise provided in the Award Agreement, if a Participant’s employment by or service to the Service Recipient terminates as a result of the Participant’s death or Disability:

(a) the Participant (or his or her legal representative or beneficiary, in the case of the Participant’s Disability or death, respectively), will have until the date that is 12 months after the Participant’s termination of Employment to exercise the Participant’s Options (or portion thereof) to the extent that such Options were vested and exercisable on the date of the Participant’s termination of Employment on account of death or Disability;

(b) the Options, to the extent not vested and exercisable on the date of the Participant’s termination of Employment or service, shall terminate upon the Participant’s termination of Employment or service on account of death or Disability; and
(c) the Options, to the extent exercisable for the 12-month period following the Participant’s termination of Employment or service and not exercised during such period, shall terminate at the close of business on the last day of the 12-month period.

(iii) Other Terminations of Employment or Service. Unless otherwise provided in the Award Agreement, if a Participant’s employment by or service to the Service Recipient terminates for any reason other than a termination by the Service Recipient for Cause or because of the Participant’s death or Disability:

(a) the Participant will have until the date that is 90 days after the Participant’s termination of Employment or service to exercise his or her Options (or portion thereof) to the extent that such Options were vested and exercisable on the date of the Participant’s termination of Employment or service;

(b) the Options, to the extent not vested and exercisable on the date of the Participant’s termination of Employment or service, shall terminate upon the Participant’s termination of Employment or service; and

(c) the Options, to the extent exercisable for the 90-day period following the Participant’s termination of Employment or service and not exercised during such period, shall terminate at the close of business on the last day of the 90-day period.

5.2 Incentive Share Options. Incentive Share Options may be granted to Employees of the Company or a Subsidiary of the Company. Incentive Share Options may not be granted to employees of a Related Entity or to Independent Directors or Consultants. The terms of any Incentive Share Options granted pursuant to the Plan, in addition to the requirements of Section 5.1, must comply with the following additional provisions of this Section 5.2:

(a) Individual Dollar Limitation. The aggregate Fair Market Value (determined as of the time the Option is granted) of all Shares with respect to which Incentive Share Options are first exercisable by a Participant in any calendar year may not exceed $100,000 or such other limitation as imposed by Section 422(d) of the Code, or any successor provision. To the extent that Incentive Share Options are first exercisable by a Participant in excess of such limitation, the excess shall be considered Non-Qualified Share Options.

(b) Exercise Price. The exercise price of an Incentive Share Option shall be equal to the Fair Market Value on the date of grant. However, the exercise price of any Incentive Share Option granted to any individual who, at the date of grant, owns Shares possessing more than ten percent of the total combined voting power of all classes of shares of the Company or any Parent or Subsidiary of the Company may not be less than 110% of Fair Market Value on the date of grant and such Option may not be exercisable for more than five years from the date of grant.

(c) Transfer Restriction. The Participant shall give the Company prompt notice of any disposition of Shares acquired by exercise of an Incentive Share Option within (i) two years from the date of grant of such Incentive Share Option or (ii) one year after the transfer of such Shares to the Participant.
(d) **Expiration of Incentive Share Options.** No Award of an Incentive Share Option may be made pursuant to this Plan after the tenth anniversary of the Effective Date.

(e) **Right to Exercise.** During a Participant’s lifetime, an Incentive Share Option may be exercised only by the Participant.

**ARTICLE 6**

**RESTRICTED SHARES**

6.1 **Grant of Restricted Shares.** The Committee, at any time and from time to time, may grant Restricted Shares to Participants as the Committee, in its sole discretion, shall determine. The Committee, in its sole discretion, shall determine the number of Restricted Shares to be granted to each Participant.

6.2 **Restricted Shares Award Agreement.** Each Award of Restricted Shares shall be evidenced by an Award Agreement that shall specify the period of restriction, the number of Restricted Shares granted, and such other terms and conditions as the Committee, in its sole discretion, shall determine. Unless the Committee determines otherwise, Restricted Shares shall be held by the Company as escrow agent until the restrictions on such Restricted Shares have lapsed.

6.3 **Issuance and Restrictions.** Restricted Shares shall be subject to such restrictions on transferability and other restrictions as the Committee may impose (including, without limitation, limitations on the right to vote Restricted Shares or the right to receive dividends on the Restricted Shares). These restrictions may lapse separately or in combination at such times, pursuant to such circumstances, in such installments, or otherwise, as the Committee determines at the time of the grant of the Award or thereafter.

6.4 **Forfeiture/Repurchase.** Except as otherwise determined by the Committee at the time of the grant of the Award or thereafter, upon termination of employment or service during the applicable restriction period, Restricted Shares that are at that time subject to restrictions shall be forfeited or repurchased in accordance with the Award Agreement; provided, however, the Committee may (a) provide in any Restricted Share Award Agreement that restrictions or forfeiture and repurchase conditions relating to Restricted Shares will be waived in whole or in part in the event of terminations resulting from specified causes, and (b) in other cases waive in whole or in part restrictions or forfeiture and repurchase conditions relating to Restricted Shares.

6.5 **Certificates for Restricted Shares.** Restricted Shares granted pursuant to the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing Restricted Shares are registered in the name of the Participant, certificates must bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Shares, and the Company may, at its discretion, retain physical possession of the certificate until such time as all applicable restrictions lapse.
6.6 **Removal of Restrictions.** Except as otherwise provided in this Article 6, Restricted Shares granted under the Plan shall be released from escrow as soon as practicable after the last day of the period of restriction. The Committee, in its discretion, may accelerate the time at which any restrictions shall lapse or be removed. After the restrictions have lapsed, the Participant shall be entitled to have any legend or legends under Section 6.5 removed from his or her Share certificate, and the Shares shall be freely transferable by the Participant, subject to applicable legal restrictions. The Committee (in its discretion) may establish procedures regarding the release of Shares from escrow and the removal of legends, as necessary or appropriate to minimize administrative burdens on the Company.

ARTICLE 7

RESTRICTED SHARE UNITS

7.1 **Grant of Restricted Share Units.** The Committee, at any time and from time to time, may grant Restricted Share Units to Participants as the Committee, in its sole discretion, shall determine. The Committee, in its sole discretion, shall determine the number of Restricted Share Units to be granted to each Participant.

7.2 **Restricted Share Units Award Agreement.** Each Award of Restricted Share Units shall be evidenced by an Award Agreement that shall specify any vesting conditions, the number of Restricted Share Units granted, and such other terms and conditions as the Committee, in its sole discretion, shall determine.

7.3 **Form and Timing of Payment of Restricted Share Units.** At the time of grant, the Committee shall specify the date or dates on which the Restricted Share Units shall become fully vested and nonforfeitable. Upon vesting, the Committee, in its sole discretion, may pay Restricted Share Units in the form of cash, Shares or a combination thereof.

7.4 **Forfeiture/Repurchase.** Except as otherwise determined by the Committee at the time of the grant of the Award or thereafter, upon termination of employment or service during the applicable restriction period, Restricted Share Units that are at that time unvested shall be forfeited or repurchased in accordance with the Award Agreement; provided, however, the Committee may (a) provide in any Restricted Share Unit Award Agreement that restrictions or forfeiture and repurchase conditions relating to Restricted Share Units will be waived in whole or in part in the event of terminations resulting from specified causes, and (b) in other cases waive in whole or in part restrictions or forfeiture and repurchase conditions relating to Restricted Share Units.

ARTICLE 8

PROVISIONS APPLICABLE TO AWARDS

8.1 **Award Agreement.** Awards under the Plan shall be evidenced by Award Agreements that set forth the terms, conditions and limitations for each Award which may include the term of an Award, the provisions applicable in the event the Participant’s employment or service terminates, and the Company’s authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind an Award.
8.2 No Transferability; Limited Exception to Transfer Restrictions.

8.2.1 Limits on Transfer. Unless otherwise expressly provided in (or pursuant to) this Section 8.2, by applicable law and by the Award Agreement, as the same may be amended:

(a) all Awards are non-transferable and will not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge;

(b) Awards will be exercised only by the Participant; and

(c) amounts payable or shares issuable pursuant to an Award will be delivered only to (or for the account of), and, in the case of Shares, registered in the name of, the Participant.

In addition, the shares shall be subject to the restrictions set forth in the applicable Award Agreement.

8.2.2 Further Exceptions to Limits on Transfer. The exercise and transfer restrictions in Section 8.2.1 will not apply to:

(a) transfers to the Company or a Subsidiary;

(b) transfers by gift to “immediate family” as that term is defined in SEC Rule 16a-1(e) promulgated under the Exchange Act;

(c) the designation of a beneficiary to receive benefits if the Participant dies or, if the Participant has died, transfers to or exercises by the Participant’s beneficiary, or, in the absence of a validly designated beneficiary, transfers by will or the laws of descent and distribution; or

(d) if the Participant has suffered a disability, permitted transfers or exercises on behalf of the Participant by the Participant’s duly authorized legal representative; or

(e) subject to the prior approval of the Committee or an executive officer or director of the Company authorized by the Committee, transfer to one or more natural persons who are the Participant’s family members or entities owned and controlled by the Participant and/or the Participant’s family members, including but not limited to trusts or other entities whose beneficiaries or beneficial owners are the Participant and/or the Participant’s family members, or to such other persons or entities as may be expressly approved by the Committee, pursuant to such conditions and procedures as the Committee or may establish. Any permitted transfer shall be subject to the condition that the Committee receives evidence satisfactory to it that the transfer is being made for estate and/or tax planning purposes and on a basis consistent with the Company’s lawful issue of securities.
Notwithstanding anything else in this Section 8.2.2 to the contrary, but subject to compliance with all Applicable Laws, Incentive Share Options, Restricted Shares and Restricted Share Units will be subject to any and all transfer restrictions under the Code applicable to such Awards or necessary to maintain the intended tax consequences of such Awards. Notwithstanding clause (b) above but subject to compliance with all Applicable Laws, any contemplated transfer by gift to “immediate family” as referenced in clause (b) above is subject to the condition precedent that the transfer be approved by the share plan administrator in order for it to be effective.

8.3 **Beneficiaries.** Notwithstanding Section 8.2, a Participant may, in the manner determined by the Committee, designate a beneficiary to exercise the rights of the Participant and to receive any distribution with respect to any Award upon the Participant’s death. A beneficiary, legal guardian, legal representative, or other person claiming any rights pursuant to the Plan is subject to all terms and conditions of the Plan and any Award Agreement applicable to the Participant, except to the extent the Plan and Award Agreement otherwise provide, and to any additional restrictions deemed necessary or appropriate by the Committee. If the Participant is married and resides in a community property state, a designation of a person other than the Participant’s spouse as his or her beneficiary with respect to more than 50% of the Participant’s interest in the Award shall not be effective without the prior written consent of the Participant’s spouse. If no beneficiary has been designated or survives the Participant, payment shall be made to the person entitled thereto pursuant to the Participant’s will or the laws of descent and distribution. Subject to the foregoing, a beneficiary designation may be changed or revoked by a Participant at any time provided the change or revocation is filed with the Committee.

8.4 **Performance Objectives and Other Terms.** The Committee, in its discretion, shall set performance objectives or other vesting criteria which, depending on the extent to which they are met, will determine the number or value of the Awards that will be granted or paid out to the Participants.
8.5 Share Certificates.

(a) Notwithstanding anything herein to the contrary, the Company shall not be required to issue or deliver any certificates evidencing the Shares pursuant to the exercise of any Award, unless and until the Committee has determined, with advice of counsel, that the issuance and delivery of such certificates is in compliance with all Applicable Laws, regulations of governmental authorities and, if applicable, the requirements of any exchange on which the Shares are listed or traded. All Share certificates delivered pursuant to the Plan are subject to any stop-transfer orders and other restrictions as the Committee deems necessary or advisable to comply with all Applicable Laws, and the rules of any national securities exchange or automated quotation system on which the Shares are listed, quoted, or traded. The Committee may place legends on any Share certificate to reference restrictions applicable to the Shares. In addition to the terms and conditions provided herein, the Committee may require that a Participant make such reasonable covenants, agreements, and representations as the Committee, in its discretion, deems advisable in order to comply with any such laws, regulations, or requirements. The Committee shall have the right to require any Participant to comply with any timing or other restrictions with respect to the settlement or exercise of any Award, including a window-period limitation, as may be imposed in the discretion of the Committee.

(b) Notwithstanding anything herein to the contrary, unless otherwise determined by the Committee or required by Applicable Laws, the Company shall not deliver to any Participant certificates evidencing Shares issued in connection with any Award and instead such Shares shall be recorded on the books of the Company or, as applicable, its transfer agent or share plan administrator.

8.6 Paperless Administration. Subject to Applicable Laws, the Committee may make Awards and provide applicable disclosure and procedures for exercise of Awards by an internet website or interactive voice response system for the paperless administration of Awards.

8.7 Foreign Currency. A Participant may be required to provide evidence that any currency used to pay the exercise price of any Award was acquired and taken out of the jurisdiction in which the Participant resides in accordance with Applicable Laws, including foreign exchange control laws and regulations. In the event the exercise price for an Award is paid in Chinese Renminbi or other foreign currency, as permitted by the Committee, the amount payable will be determined by conversion from U.S. dollars at the official rate promulgated by the People’s Bank of China for Chinese Renminbi, or for jurisdictions other than the People’s Republic of China, the exchange rate as selected by the Committee on the date of exercise.

ARTICLE 9

CHANGES IN CAPITAL STRUCTURE

9.1 Adjustments. In the event of any dividend, share split, combination or exchange of Shares, amalgamation, arrangement or consolidation, spin-off, recapitalization or other distribution (other than normal cash dividends) of Company assets to its shareholders, or any other change affecting the shares of Shares or the share price of a Share, the Committee shall make such proportionate adjustments, if any, as the Committee in its discretion may deem appropriate to reflect such change with respect to (a) the aggregate number and type of shares that may be issued under the Plan (including, but not limited to, adjustments of the limitations in Section 3.1); (b) the terms and conditions of any outstanding Awards (including, without limitation, any applicable performance targets or criteria with respect thereto); and (c) the grant or exercise price per share for any outstanding Awards under the Plan.
9.2 Corporate Transactions. Except as may otherwise be provided in any Award Agreement or any other written agreement entered into by and between the Company and a Participant, if the Committee anticipates the occurrence, or upon the occurrence, of a Corporate Transaction, the Committee may, in its sole discretion, provide for (i) any and all Awards outstanding hereunder to terminate at a specific time in the future and shall give each Participant the right to exercise the vested portion of such Awards during a period of time as the Committee shall determine, or (ii) the purchase of any Award for an amount of cash equal to the amount that could have been attained upon the exercise of such Award (and, for the avoidance of doubt, if as of such date the Committee determines in good faith that no amount would have been attained upon the exercise of such Award, then such Award may be terminated by the Company without payment), or (iii) the replacement of such Award with other rights or property selected by the Committee in its sole discretion or the assumption of or substitution of such Award by the successor or surviving corporation, or a Parent or Subsidiary thereof, with appropriate adjustments as to the number and kind of Shares and prices, or (iv) payment of such Award in cash based on the value of Shares on the date of the Corporate Transaction plus reasonable interest on the Award through the date as determined by the Committee when such Award would otherwise be vested or have been paid in accordance with its original terms, if necessary to comply with Section 409A of the Code.

9.3 Outstanding Awards – Other Changes. In the event of any other change in the capitalization of the Company or corporate change other than those specifically referred to in this Article 9, the Committee may, in its absolute discretion, make such adjustments in the number and class of shares subject to Awards outstanding on the date on which such change occurs and in the per share grant or exercise price of each Award as the Committee may consider appropriate to prevent dilution or enlargement of rights.

9.4 No Other Rights. Except as expressly provided in the Plan, no Participant shall have any rights by reason of any subdivision or consolidation of Shares of any class, the payment of any dividend, any increase or decrease in the number of shares of any class or any dissolution, liquidation, merger, or consolidation of the Company or any other corporation. Except as expressly provided in the Plan or pursuant to action of the Committee under the Plan, and no issuance by the Company of shares of any class, or securities convertible into shares of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number of Shares subject to an Award or the grant or exercise price of any Award.

ARTICLE 10
ADMINISTRATION

10.1 Committee. The Plan shall be administered by the Board or a committee of one or more members of the Board (the “Committee”) to whom the Board shall delegate the authority to grant or amend Awards to Participants other than any of the Committee members, Independent Directors and executive officers of the Company. Reference to the Committee shall refer to the Board in absence of the Committee. Notwithstanding the foregoing, the full Board, acting by majority of its members in office, shall conduct the general administration of the Plan if required by Applicable Laws, and with respect to Awards granted to the Committee members, Independent Directors and executive officers of the Company and for purposes of such Awards the term “Committee” as used in the Plan shall be deemed to refer to the Board.

10.2 Action by the Committee. A majority of the Committee shall constitute a quorum. The acts of a majority of the members present at any meeting at which a quorum is present, and acts approved unanimously in writing all members of the Committee in lieu of a meeting, shall be deemed the acts of the Committee. Each member of the Committee is entitled to, in good faith, rely or act upon any report or other information furnished to that member by any officer or other employee of a Group Entity, the Company’s independent certified public accountants, or any executive compensation consultant or other professional retained by the Company to assist in the administration of the Plan.
10.3 Authority of the Committee. Subject to any specific designation in the Plan, the Committee has the exclusive power, authority and discretion to:

(a) designate Participants to receive Awards;

(b) determine the type or types of Awards to be granted to each Participant;

(c) determine the number of Awards to be granted and the number of Shares to which an Award will relate;

(d) determine the terms and conditions of any Award granted pursuant to the Plan, including, but not limited to, the exercise price, grant price, or purchase price, any restrictions or limitations on the Award, any schedule for lapse of forfeiture restrictions or restrictions on the exercisability of an Award, and accelerations or waivers thereof, and any provisions related to non-competition and recapture of gain on an Award, based in each case on such considerations as the Committee in its sole discretion determines;

(e) determine whether, to what extent, and pursuant to what circumstances an Award may be settled in, or the exercise price of an Award may be paid in, cash, Shares, other Awards, or other property, or an Award may be canceled, forfeited, or surrendered;

(f) prescribe the form of each Award Agreement, which need not be identical for each Participant;

(g) decide all other matters that must be determined in connection with an Award;

(h) establish, adopt, or revise any rules and regulations as it may deem necessary or advisable to administer the Plan;

(i) interpret the terms of, and any matter arising pursuant to, the Plan or any Award Agreement;

(j) amend terms and conditions of Award Agreements; and

(k) make all other decisions and determinations that may be required pursuant to the Plan or as the Committee deems necessary or advisable to administer the Plan, including design and adopt from time to time new types of Awards that are in compliance with Applicable Laws.

10.4 Decisions Binding. The Committee's interpretation of the Plan, any Awards granted pursuant to the Plan, any Award Agreement and all decisions and determinations by the Committee with respect to the Plan are final, binding, and conclusive on all parties.
ARTICLE 11
EFFECTIVE AND EXPIRATION DATE

11.1 Effective Date. The Plan shall become effective as of the date on which the Board adopts the Plan (the “Effective Date”). The Plan shall be ratified by the shareholders of the Company by written resolutions or at a meeting duly held in accordance with the applicable provisions of the Company’s Memorandum of Association and Articles of Association within 12 months of the Effective Date.

11.2 Expiration Date. The Plan will expire on, and no Award may be granted pursuant to the Plan after, the tenth anniversary of the Effective Date. Any Awards that are outstanding on the tenth anniversary of the Effective Date shall remain in force according to the terms of the Plan and the applicable Award Agreement.

ARTICLE 12
AMENDMENT, MODIFICATION, AND TERMINATION

12.1 Amendment, Modification, and Termination. At any time and from time to time, the Board may terminate, amend or modify the Plan; provided, however, that (a) to the extent necessary and desirable to comply with Applicable Laws or stock exchange rules, the Company shall obtain shareholder approval of any Plan amendment in such a manner and to such a degree as required, unless the Company decides to follow home country practice, and (b) unless the Company decides to follow home country practice, shareholder approval is required for any amendment to the Plan that (i) increases the number of Shares available under the Plan (other than any adjustment as provided by Article 3.1(a) or Article 9), or (ii) permits the Committee to extend the term of the Plan or the exercise period for an Option beyond ten years from the date of grant.

12.2 Awards Previously Granted. Except with respect to amendments made pursuant to Section 12.1, no termination, amendment, or modification of the Plan shall adversely affect in any material way any Award previously granted pursuant to the Plan without the prior written consent of the Participant.

ARTICLE 13
GENERAL PROVISIONS

13.1 No Rights to Awards. No Participant, employee, or other person shall have any claim to be granted any Award pursuant to the Plan, and neither the Company nor the Committee is obligated to treat Participants, employees, and other persons uniformly.

13.2 No Shareholders Rights. No Award gives the Participant any of the rights of a shareholder of the Company unless and until Shares are in fact issued to such person in connection with such Award.
13.3 **Taxes.** No Shares shall be delivered under the Plan to any Participant until such Participant has made arrangements acceptable to the Committee for the satisfaction of any income and employment tax withholding obligations under Applicable Laws. The Company or any Subsidiary shall have the authority and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy all applicable taxes (including the Participant’s payroll tax obligations) required or permitted by Applicable Laws to be withheld with respect to any taxable event concerning a Participant arising as a result of this Plan. The Committee may in its discretion and in satisfaction of the foregoing requirement allow a Participant to elect to have the Company withhold Shares otherwise issuable under an Award (or allow the return of Shares) having a Fair Market Value equal to the sums required to be withheld. Notwithstanding any other provision of the Plan, the number of Shares which may be withheld with respect to the issuance, vesting, exercise or payment of any Award (or which may be repurchased from the Participant of such Award after such Shares were acquired by the Participant from the Company) in order to satisfy any income and payroll tax liabilities applicable to the Participant with respect to the issuance, vesting, exercise or payment of the Award shall, unless specifically approved by the Committee, be limited to the number of Shares which have a Fair Market Value on the date of withholding or repurchase equal to the aggregate amount of such liabilities based on the minimum statutory withholding rates for the applicable income and payroll tax purposes that are applicable to such supplemental taxable income.

13.4 **No Right to Employment or Services.** Nothing in the Plan or any Award Agreement shall interfere with or limit in any way the right of the Service Recipient to terminate any Participant's employment or services at any time, nor confer upon any Participant any right to continue in the employment or services of any Service Recipient.

13.5 **Unfunded Status of Awards.** The Plan is intended to be an “unfunded” plan for incentive compensation. With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in the Plan or any Award Agreement shall give the Participant any rights that are greater than those of a general creditor of the relevant Group Entity.

13.6 **Indemnification.** To the extent allowable pursuant to Applicable Laws, each member of the Committee or of the Board shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such member in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action or failure to act pursuant to the Plan and against and from any and all amounts paid by him or her in satisfaction of judgment in such action, suit, or proceeding against him or her; provided he or she gives the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled pursuant to the Company’s Memorandum of Association and Articles of Association, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

13.7 **Relationship to Other Benefits.** No payment pursuant to the Plan shall be taken into account in determining any benefits pursuant to any pension, retirement, savings, profit sharing, group insurance, welfare or other benefit plan of the any Group Entity except to the extent otherwise expressly provided in writing in such other plan or an agreement thereunder.
13.8 Expenses. The expenses of administering the Plan shall be borne by the Group Entities.

13.9 Titles and Headings. The titles and headings of the Sections in the Plan are for convenience of reference only and, in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

13.10 Fractional Shares. No fractional Shares shall be issued and the Committee shall determine, in its discretion, whether cash shall be given in lieu of fractional Shares or whether such fractional Shares shall be eliminated by rounding up or down as appropriate.

13.11 Limitations Applicable to Section 16 Persons. Notwithstanding anything herein to the contrary, the Plan, and any Award granted or awarded to any Participant who is then subject to Section 16 of the Exchange Act, shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by the Applicable Laws, the Plan and Awards granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

13.12 Government and Other Regulations. The obligation of the Company to make payment of awards in Shares or otherwise shall be subject to all Applicable Laws, and to such approvals by government agencies as may be required. The Company shall be under no obligation to register any of the Shares paid pursuant to the Plan under the Securities Act or any other similar law in any applicable jurisdiction. If the Shares paid pursuant to the Plan may in certain circumstances be exempt from registration pursuant to the Securities Act or other Applicable Laws, the Company may restrict the transfer of such Shares in such manner as it deems advisable to ensure the availability of any such exemption.

13.13 Governing Law. The Plan and all Award Agreements shall be construed in accordance with and governed by the laws of the Cayman Islands.

13.14 Arbitration. Any dispute, controversy, difference or claim arising out of or relating to the Plan and all Award Agreements, including but not limited to (a) the existence, validity, interpretation, performance, breach or termination of the Plan and any of the Award Agreements or (b) any dispute regarding non-contractual obligations arising out of or relating to the Plan and any of the Award Agreements, shall be referred to and finally resolved by arbitration administered by the Hong Kong International Arbitration Centre (the “HKIAC”) under the HKIAC Administered Arbitration Rules in force when the notice of arbitration is submitted. The law of this arbitration clause shall be Hong Kong law. The seat of arbitration shall be Hong Kong. The number of arbitrators shall be three. The arbitration proceedings shall be conducted in English. The procedures for the taking of evidence shall be governed by the IBA Rules on the Taking of Evidence in International Arbitration as current on the date of commencement of the arbitration. Judgment upon the award may be entered by any court having jurisdiction of the award or having jurisdiction over the relevant party of its assets.

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13.15 **Section 409A.** To the extent that the Committee determines that any Award granted under the Plan is or may become subject to Section 409A of the Code, the Award Agreement evidencing such Award shall incorporate the terms and conditions required by Section 409A of the Code. To the extent applicable, the Plan and the Award Agreements shall be interpreted in accordance with Section 409A of the Code and the U.S. Department of Treasury regulations and other interpretative guidance issued thereunder, including without limitation any such regulation or other guidance that may be issued after the Effective Date. Notwithstanding any provision of the Plan to the contrary, in the event that following the Effective Date the Committee determines that any Award may be subject to Section 409A of the Code and related Department of Treasury guidance (including such Department of Treasury guidance as may be issued after the Effective Date), the Committee may adopt such amendments to the Plan and the applicable Award agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Committee determines are necessary or appropriate to (a) exempt the Award from Section 409A of the Code and/or preserve the intended tax treatment of the benefits provided with respect to the Award, or (b) comply with the requirements of Section 409A of the Code and related U.S. Department of Treasury guidance.

13.16 **Appendices.** Subject to Section 12.1, the Committee may approve such supplements, amendments or appendices to the Plan as it may consider necessary or appropriate for purposes of compliance with Applicable Laws or otherwise and such supplements, amendments or appendices shall be considered a part of the Plan; provided, however, that no such supplements shall increase the share limitation contained in Section 3.1 of the Plan without the approval of the Board.
Power of Attorney

I, Chen Rui, a citizen of the People’s Republic of China (the “PRC”) with the Identity Card Number of ***, am a shareholder of Shanghai Kuanyu Digital Technology Co., Ltd. (hereinafter referred to as “Shanghai Kuanyu”) holding 100% of its shares (“Owned Shares”), hereby unconditionally and irrevocably authorize Hode Shanghai Limited (hereinafter referred to as the “Proxy”) as my proxy to exercise the following rights with respect to the Owned Shares during the effective term of this Power of Attorney:

Authorizing the Proxy as my sole and exclusive proxy, to exercise, including without limitation, the following rights on my behalf with full authority with respect to the Owned Shares: (1) to attend shareholders’ meetings of Shanghai Kuanyu, and to sign the relevant resolutions of such shareholders’ meetings on my behalf; (2) to exercise all shareholder’s rights which I am entitled to under the laws and the articles of association of Shanghai Kuanyu, including without limitation, the voting rights of shareholders, rights to sell, transfer, pledge or otherwise dispose of all or any part of the Owned Shares; and (3) as my authorized representative, to appoint and elect the legal representative, chairman of the board of directors, directors, supervisors, managers and other senior management.

The Proxy shall be authorized to execute, on my behalf, within the scope of authority, the transfer agreement referred to in the “Exclusive Call Option Agreement” (where I am required to be a contracting party), and duly perform my obligations as a contracting party to the “Equity Pledge Agreement” and the “Exclusive Call Option Agreement” executed on the same day as this Power of Attorney. The authority granted under this Power of Attorney shall not be limited by the exercise of such right in any way.

Unless otherwise provided in this Power of Attorney, the Proxy shall have the right to distribute, use or otherwise dispose of the dividends and bonuses in cash and other non-cash returns arising from the Owned Shares in accordance with my oral or written instructions.

Unless otherwise provided in this Power of Attorney, the Proxy may act in its absolute discretion in relation to the Owned Shares without any oral or written instruction of myself.

Any act conducted or any documents executed by the Proxy with respect to the Owned Shares shall be deemed conducted or executed by myself which I shall acknowledge.

The Proxy shall have the right to assign the authority granted under this Power of Attorney to any other eligible proxy for the conduct of the abovementioned matters and the exercise of the rights attached to the Owned Shares without the necessity to inform me or obtain my prior consent.

As long as I am a shareholder of Shanghai Kuanyu, this Power of Attorney shall be irrevocable and remain valid and effective from the date of this Power of Attorney.

During the effective term of this Power of Attorney, I hereby waive all rights in connection with the Owned Shares that have been granted to the Proxy under this Power of Attorney, and will refrain from exercising such rights on my own.

By: /s/ Chen Rui

Date: April 24, 2019
EQUITY PLEDGE AGREEMENT

This EQUITY PLEDGE AGREEMENT (this “Agreement”) is executed by and among the following parties on April 24, 2019:

PLEDGEE: HODE SHANGHAI LIMITED

Registered Address: Room 551, Level 5, No. 55 Jilong Road, China (Shanghai) Pilot Free Trade Zone

PLEDGORS: CHEN RUI (Identity Card Number: ***)

WHEREAS:

1. Mr. Chen Rui holds 100% of the equity interests in Shanghai Kuanyu Digital Technology Co., Ltd. (hereinafter referred to as “Shanghai Kuanyu”).
2. The Pledgee is a wholly foreign-owned enterprise registered in Shanghai, China. The Pledgee and the Pledgors have entered into the “Exclusive Technology Consulting and Services Agreement” (hereinafter referred to as the “Service Agreement”) on April 24, 2019; the Pledgee, Shanghai Kuanyu and the Pledgors have entered into the “Exclusive Call Option Agreement” (the “Exclusive Call Option Agreement”); each of the Pledgors has executed a Power of Attorney in favor of the Pledgee. The aforementioned “Exclusive Technology Consulting and Services Agreement, “Exclusive Call Option Agreement” and “Power of Attorney” shall be collectively referred to as the “Transaction Documents”.
3. As a security for the performance of all contractual obligations under the Transaction Documents by the Pledgors and Shanghai Kuanyu, each of the Pledgors hereby pledges all equity interests held by it in Shanghai Kuanyu in favor of the Pledgee.

THEREFORE, upon consultations, the Parties hereby agree as follows:

1. DEFINITIONS

   Unless otherwise provided herein, the terms below shall have the following meanings:
   1.1 Pledgee’s Rights: means all contents listed in Article 3 herein.
   1.2 Pledged Equity Interests: means the equity interests in Shanghai Kuanyu legally held by the Pledgors, of which 100% held by Mr. Chen Rui.
   1.3 Term of Equity Pledge: means the term set forth in Article 4 of this Agreement.
   1.4 Event of Default: means any of the events set forth in Article 8 of this Agreement.
   1.5 Notice of Default: means a notice of an Event of Default issued by the Pledgee in accordance with this Agreement.

2. THE PLEDGE

2.1 The Pledgors and the Pledgee agree that in accordance with the terms and conditions herein, the Pledgor shall pledge, in favour of the Pledgee, the Pledged Equity Interests for securing the complete and due performance of the contractual obligations. For avoidance of doubt, the “contractual obligations” herein means all obligations and liabilities, representations, undertakings and warranties of the Pledgors under the Transaction Documents, as well as all obligations and liabilities, representations, undertakings and warranties of Shanghai Kuanyu under the Transaction Documents.

2.2 The Pledgors and Shanghai Kuanyu shall use their best efforts to register the equity pledge (“Equity Pledge”) hereunder with the industrial and commercial registration authority as soon as practicable upon the execution of this Agreement, and use their best efforts to maintain the validity of the registration of the equity pledge.
3. THE PLEDGEE’S RIGHTS

3.1 Each of the Pledgors pledges all equity interests held by it in Shanghai Kuanyu in favor of the Pledgee as a security for the performance of all contractual obligations under the Transaction Documents by the Pledgors and Shanghai Kuanyu.

3.2 The Pledged Equity Interests shall be used to secure (the payment of) all service fees, liquidated damages (if any), compensation and all fees arising from the realization of the Equity Pledge (including without limitation lawyer’s fee, arbitration fee, valuation and auction fees of the Pledged Equity Interests etc) that the Pledgee shall be entitled to receive.

3.3 The Pledgee’s Rights refer to the rights of Pledgee to be compensated in priority with proceeds from the sale of the Pledged Equity Interests pledged by the Pledgors at discount, by auction or otherwise disposed of.

4. TERM OF PLEDGE

4.1 The Equity Pledge under this Agreement shall become effective from the date on which it is registered with relevant industrial and commercial registration authority where Shanghai Kuanyu is registered, until two years upon expiry of the period of performance of all obligations under the Transaction Documents.

5. CUSTODY OF CERTIFICATES OF PLEDGEE’S RIGHTS; RETURNS ON THE PLEDGED EQUITY INTERESTS

5.1 During the Term of Equity Pledge provided in this Agreement, the Pledgors shall execute or procure Shanghai Kuanyu to execute the capital contribution certificate (in the form set out in Appendix I) and the share registers (in the form set out in Appendix II), and deliver the abovementioned executed documents to the Pledgee who shall have custody over such documents during the Term of Equity Pledge.

5.2 The Pledgee shall have the right to collect all proceeds arising from the Pledged Equity Interests (if any) including but not limited to dividends, stock interests and other cash and non-cash returns arising from the Pledged Equity Interests during the Term of Equity Pledge.

6. REPRESENTATIONS AND WARRANTIES OF PLEDGORS

6.1 The Pledgee shall have the right to exercise, dispose of or transfer the Pledgee’s Rights in accordance with the provisions of this Agreement.

6.2 Each of the Pledgors severally and jointly represents, warrants and covenants to the Pledgee that:

6.2.1 he or she has full power to execute this Agreement and perform the obligations hereunder; he or she has granted his or her representative the authority to execute this Agreement on his/her behalf. The provisions of this Agreement shall be legally binding on him or her from the effective date of this Agreement.

6.2.2 he or she is the legal owner of the Pledged Equity Interests and is entitled to pledge the Pledged Equity Interests in favor of the Pledgee; there will be no legal or factual obstacle on the Pledgee’s exercise of the Pledgee’s Rights in future.

6.2.3 Shanghai Kuanyu is a limited liability company duly incorporated and validly existing under the laws of China, which is officially registered with the competent industrial and commercial administration authority passing its annual surveys for all past years. The registered capital of Shanghai Kuanyu is RMB100,000,000, all of which has been duly paid.
6.2.4 the execution, delivery and performance of this Agreement:

(a) will not be in conflict with, or result in a breach of any provision of the following documents, from time to time or after receipt of relevant notice: (i) Shanghai Kuanyu's business license, articles of association, permit, governmental approval of its incorporation, agreements in connection with its incorporation or other constitutional documents, (ii) any other laws and regulations by which it is bound; (iii) any contract or other documents to which the Pledgors or Shanghai Kuanyu is a party or by which it or its assets are bound;

(b) will not cause any pledge or other encumbrances to be created by it or any third party over the assets of Shanghai Kuanyu;

(c) will not cause any provisions of any contract or other documents to which Pledgors or Shanghai Kuanyu is a party, or by which it or its assets are bound, to be terminated or amended by it or any third party; and

(d) will not cause the suspension, revocation, damages, confiscation or expiration without extension of any applicable governmental approval, permit, registration, etc..

6.2.5 save for the Equity Pledge of the Pledgors under the Equity Pledge Agreement, there are no other mortgage, pledge or other securities, right of priority, legal mortgage, property preservation, seizure, trust, lease, option or other encumbrances (hereinafter referred to as “Encumbrance”).

6.2.6 any of the Pledgors may accept transfer of other Pledgors’ equity interests in Shanghai Kuanyu or subscribe for capital increase in Shanghai Kuanyu with prior written consent of the Pledgee. Any equity interests transferred to and accepted by or any increase in the registered capital of Shanghai Kuanyu subscribed by the Pledgor shall be deemed Pledged Equity Interests. Upon completion of the transfer of equity interests to the Pledgors or the capital increase of Shanghai Kuanyu, the Pledgors and Shanghai Kuanyu shall be responsible for recording changes to the Equity Pledge into the share register of Shanghai Kuanyu and register the Equity Pledge with competent industrial and commercial registration authority.

6.2.7 promptly notify the Pledgee of any event or notice received by the Pledgors that may have an impact on the Pledgee’s Rights over the equity interests or any part thereof, as well as any event or notice received by the Pledgors that may change or have an impact on any warranties or obligations of the Pledgors under this Agreement.

6.2.8 where the Pledgee requires the relevant certification, permit, authorization or other relevant legal documents in disposing of the Pledged Equity Interests pursuant to this Agreement, he or she shall unconditionally provide or procure such documents and provide assistance in all respects; the Pledgors undertakes that upon transfer of the Pledged Equity Interests to the Pledgee or its designated beneficiary, the Pledgors and/or Shanghai Kuanyu shall unconditionally complete all procedures required by laws for the Pledgee or its designated beneficiary to acquire Shanghai Kuanyu’s equity interests, including without limitation the issuance of relevant certification, the execution of the share transfer agreement or other relevant documents.

6.2.9 covenants to the Pledgee that he or she will comply with and perform all warranties, covenants, agreements, representations and conditions under this Agreement for the benefit of the Pledgee. In the event of failure or partial performance of its warranties, covenants, agreements, representations or conditions, the Pledgors shall indemnify the Pledgee against all losses resulting therefrom.
each of the Pledgors warrants to the Pledgee that it has made appropriate arrangement and executed all necessary documents to ensure that in the event of his or her death, loss of capacity, divorce or other circumstance that may affect his or her ability to exercise the rights of the equity interests, the performance of this Agreement shall not be affected or impaired by persons who may acquire the equity interests or relevant rights as a result thereof such as his or her heir and successor, guardian, creditor or spouse.

7. COVENANTS BY THE PLEDGORS

7.1 The Pledgors hereby covenants to the Pledgee that during the term of this Agreement, the Pledgors will:

7.1.1 Save for the equity interests transferred to the Pledgee or its nominee pursuant to the Exclusive Call Option Agreement, without prior written consent of the Pledgee:

A. not transfer the Equity Interests, create or permit the existence of any new pledge or any other encumbrance that may affect the rights and interests of the Pledgee;

B. not conduct any act that impairs or may impair the value of the Pledged Equity Interest or the validity of the Equity Pledge hereunder. Where the Pledged Equity Interests value significantly decreases to the extent that it is substantially impair the Pledgee’s Rights, the Pledgors shall immediately notify the Pledgee and, upon reasonable request by the Pledgee, provide other assets as the security to the satisfaction of the Pledgee and take all necessary actions in resolving the aforesaid matter or mitigating the adverse effect. The Pledgors further undertake that during the term of this Agreement, the operation of Shanghai Kuanyu shall comply with the laws of China in all material respects, and shall maintain the continuous validity of all the permits and licenses for all business of Shanghai Kuanyu.

7.1.2 comply with and exercise in accordance with all laws and regulations applicable to the pledge of rights, and within five days of receipt of any notice, instruction or recommendation issued or made by relevant competent authorities regarding the Equity Pledge, produce to the Pledgee and comply with the aforementioned notice, instruction or recommendation, or make objections and statements with respect to the aforementioned matters upon reasonable request or with consent of the Pledgee;

7.1.3 promptly notify the Pledgee of any event or notice received by the Pledgors that may have an impact on the Pledgee’s Rights over the equity interests or any part thereof, as well as any event or notice received by the Pledgors that may change or have an impact on any warranties or obligations of the Pledgors under this Agreement.

7.2 The Pledgors agree that the exercise of rights acquired by the Pledgee with respect to the Equity Pledge in accordance with this Agreement shall not be interrupted or hindered by the Pledgors or any heir or trustor of the Pledgors or any other persons through any legal proceedings.

7.3 In order to protect or perfect the Pledged Equity Interests under this Agreement, the Pledgors hereby undertake to execute in good faith and to procure other parties who may have an interest in the Equity Pledge to execute all certificates, agreements, deeds and/or covenants required by the Pledgee, and/or perform and procure other parties who may have an interest in the Pledge to perform actions required by the Pledgee, facilitate the exercise by the Pledgee of its rights and authority granted thereto by this Agreement, and enter into all relevant documents regarding the change of ownership of equity interest with the Pledgee or its designated person(s) (natural/legal persons). The Pledgors undertake to provide the Pledgee within a reasonable time with all notices, orders and decisions in connection with the Equity Pledge which is deemed necessary by the Pledgee.
The Pledgors hereby undertake to the Pledgee that they will comply with and perform all warranties, covenants, agreements, representations and conditions under this Agreement. In the event of failure or partial performance of its warranties, covenants, agreements, representations or conditions, the Pledgors shall indemnify the Pledgee against all losses resulting therefrom.

Each of the Pledgors irrevocably agrees to waive its right of first refusal in relation to the Pledged Equity Interests pledged to the Pledgee by other Pledgors in the event of the exercise of the Pledgee’s Rights by the Pledgee.

**8. EVENT OF DEFAULT**

8.1 The following events shall be deemed an Event of Default:

8.1.1 that Shanghai Kuanyu fails to fully fulfil its contractual obligations under the Transaction Documents;

8.1.2 that any representation or warranty made by the Pledgors or any part thereof in Article 6 herein is materially misleading or false, and/or that the Pledgors are in breach of any of the representations or warranties listed in Article 6 herein;

8.1.3 that the Pledgors are in breach of any provisions herein;

8.1.4 save as provided in Article 7.1.1 herein, that the Pledgors transfer or otherwise dispose of the Pledged Equity Interests without written consent from Pledgee;

8.1.5 that any borrowings, security, compensation, commitments or other liabilities of the Pledgors (1) are required to be early repaid or performed due to a breach; or (2) are due but unable to be repaid or performed, which leads the Pledgee to believe that the ability of the Pledgors to perform the obligations herein has been affected;

8.1.6 that the Pledgors are unable to repay its general debts or any other indebtedness;

8.1.7 that this Agreement becomes illegal or the Pledgors are unable to continue with the performance of their obligations under this Agreement due to promulgation of relevant laws;

8.1.8 where all consents, permits, approvals or authorizations of governmental authorities necessary for the legality, validity and enforceability of this Agreement are withdrawn, suspended, void or materially changed;

8.1.9 that any adverse change to the assets owned by the Pledgors, which leads the Pledgee to believe that the ability of the Pledgors to perform the obligations herein has been affected;

8.1.10 that the successor, heir or trustee of Shanghai Kuanyu may only partially perform or refuse to perform its payment obligation under the Service Agreement;

8.1.11 other circumstances under which the exercise of the Pledgee’s rights are prohibited by the applicable laws and regulations.
8.2 Upon knowledge or discovery of the occurrence of any of the aforementioned events or any events that may lead to the abovementioned events in Article 8.1, the Pledgors shall immediately notify the Pledgee in writing.

8.3 Unless the Event of Default set forth in Article 8.1 has been completely rectified to the Pledgee’s satisfaction, the Pledgee may issue a notice of default to the Pledgors in writing upon the occurrence of such Event of Default or at any time thereafter, demanding the Pledgors to immediately pay all outstanding amounts under the Service Agreement and other amounts payable, or informing the Pledgors its exercise of the Pledgee’s Rights in accordance with Article 9 of this Agreement.

9. EXERCISE OF THE PLEDGEE’S RIGHTS

9.1 In the event of any breach or non-performance of any contractual obligations hereunder, the Pledgee is entitled to dispose of all or part of the Pledged Equity Interests held by any shareholder of Shanghai Kuanyu (regardless of whether such shareholder is in breach of any contractual obligations) and be compensated in priority for the payments of the expenses listed in Article 3.2 from the proceeds from the disposal of the Pledged Equity Interests.

9.2 Prior to full performance of the Service Agreement, the Pledgors shall not transfer or otherwise dispose of the Pledged Equity Interests without written consent of the Pledgee.

9.3 The Pledgee shall issue a written Notice of Default to Pledgors when exercising the Pledgee’s Rights. Subject to the provisions in Article 10, the Pledgee may exercise the right to dispose of the Pledgee’s Rights concurrently with or at any time after the issuance of the Notice of Default in accordance with Article 10.

9.4 Subject to the provisions in Article 8.3, the Pledgee may exercise its rights concurrently or at any time after the issuance of the Notice of Default in accordance with Article 8.3.

9.5 In the event of any breach or non-performance of any contractual obligations hereunder, the Pledgee is entitled to sell at discount, by auction or otherwise dispose of all or part of the Pledged Equity Interests under this Agreement in accordance with legal procedures, and shall be compensated in priority with the proceeds from the sale of such equity interests.

9.6 When the Pledgee exercises the Pledgee’s Rights hereunder, the Pledgors shall not hinder but provide necessary assistance for the realization of the Pledgee’s Rights by the Pledgee.

10. LIABILITIES FOR BREACH OF CONTRACT

Unless otherwise provided in this Agreement, in the event that one Party ("Defaulting Party") fails to perform any obligation hereunder or otherwise breaches this Agreement, the other Party ("Non-Defaulting Party") may:

A. issue a written notice to the Defaulting Party indicating the nature and scope of the breach, and demanding the Defaulting Party to rectify (the breach) at its own cost within a reasonable period stipulated in the notice ("Rectification Period"); and

B. if the Defaulting Party fails to rectify (the breach) within the Rectification Period, the Non-defaulting Party shall be entitled to demand the Defaulting Party to indemnify it against all liabilities arising from the breach, and to compensate the Non-defaulting Party for all its actual economic losses incurred as a result of the breach, including but not limited to the lawyer’s fee and legal expenses for litigation or arbitration in relation to such breach, in addition to the specific performance of this Agreement by the Defaulting Party. The Non-defaulting Party may also apply to the applicable arbitration body or court for the order of specific performance and/or enforcement of the provisions herein. The exercise of the aforesaid remedial rights shall not preclude the exercise of other remedies provided herein or under laws and regulations.
11. ASSIGNMENT

11.1 The Pledgors shall not assign or transfer their rights and obligations under this Agreement without prior written consent of the Pledgee.

11.2 This Agreement shall be binding on the Pledgors and their successors, and shall apply to the Pledgee and each of its successors and assignees.

11.3 The Pledgee may assign any or all of its rights and obligations under this Agreement to its designated person(s) (natural/legal persons) at any time, in which case the assignees shall have the rights and obligations of the Pledgee under this Agreement, as if it were the original party to this Agreement. When the Pledgee assigns the rights and obligations under this Agreement, upon request of the Pledgee, the Pledgors shall execute all relevant agreements and/or other documents in connection with such assignment.

11.4 During the term of this Agreement, the Pledgors shall not assign any of their rights or obligations hereunder or any part thereof to any third party without the prior written consent of the Pledgee; however, the Pledgee shall be entitled to assign all or part of its rights and obligations hereunder.

11.5 In the event that Pledgee changes as a result of an assignment, the Pledgors and the prospective Pledgee shall enter into a separate pledge agreement.

12. TERMINATION

This Agreement shall be terminated upon the due and complete performance of all contractual obligations under the Transaction Documents by Shanghai Kuanyu or the rescission of this Agreement. Upon written request from the Pledgors, the Pledgee shall release the Equity Pledge hereunder and, the Pledgors and Shanghai Kuanyu shall record such release of the Equity Pledge in the share register of Shanghai Kuanyu, and register the release of the Equity Pledge with competent industrial and commercial registration authority. Such costs in connection with the release of the Equity Pledge shall be jointly borne by the Pledgors and Shanghai Kuanyu.

13. CHARGES AND OTHER EXPENSES

13.1 All fees and actual expenditures in connection with this Agreement, including but not limited to legal fees, costs of production, stamp duties and any other taxes and expenses, shall be borne by the Pledgors. Where the Pledgee is required by law to pay for any relevant taxes and charges, the Pledgors shall reimburse the Pledgee in full such taxes and charges so paid.

13.2 In the event that the Pledgors fail to pay any taxes or expenses payable by it in accordance with the provisions herein or for any reason whatsoever which has to be recovered by the Pledgee by any means, the Pledgors shall bear all expenses so incurred (including without limitation all taxes, administrative charges, management fees, legal costs, lawyer’s expenses and all insurance costs for the disposal of the Pledged Equity Interests).

14. FORCE MAJEURE

14.1 No Party shall be held liable for any delay or interruption in the performance of this Agreement to the extent such delay or interruption is caused by a “force majeure event”. A “Force Majeure Event” means any event beyond reasonable control of one Party and cannot be prevented with reasonable care of the party so affected, including without limitation, governmental action, acts of nature, fire, explosion, geographic changes, typhoon, flood, earthquake, tide, lightning or war. However, any shortage of credit, capital or financing shall not be regarded as an event beyond reasonable control of the Party. The affected Party who is claiming to be exempted from its failure of fulfilling the obligations under this Agreement or any provisions hereunder by a Force Majeure Event shall as soon as practicable notify the other Party of such exemption and the necessary steps to be taken for the fulfillment of such obligations.
14.2 The Party affected by a Force Majeure Event shall not be held liable under this Agreement provided that the Party so affected shall make all reasonable efforts to perform this Agreement and the Party seeking exemption shall only be exempted from the obligations to the extent that the performance of which is delayed or prevented. Once the cause of such exemption has been corrected or rectified, both Parties agree to resume the performance of this Agreement with their best efforts.

15. **GOVERNING LAW AND DISPUTE RESOLUTION**

15.1 The effectiveness, interpretation, performance, and dispute resolution and so forth of this Agreement shall be governed by the laws of China.

15.2 Any dispute arising between the Parties in connection with the interpretation and performance of the provisions in this Agreement shall be resolved amicably through consultations between the Parties. If the Parties are unable to reach an agreement within thirty (30) days from the date of written notice served by one Party to the other Party requesting for such consultation, any Party may submit such dispute to China International Economic and Trade Arbitration Commission for arbitration in accordance with the arbitration rules thereof then in effect. The place of arbitration shall be in Beijing; the language to be used in arbitration shall be Chinese. The arbitral award shall be final and equally binding on the Parties of this Agreement.

15.3 During the period while the arbitration proceedings are ongoing, except for the matters or obligations in dispute submitted for arbitration, both Parties shall continue to perform other obligations under this Agreement. The arbitrator shall have the right to make an appropriate award taking into account the actual circumstances so that the Pledgee will receive appropriate legal remedy, including but not limited to a restriction on the participation in the business operation of Shanghai Kuanyu by the Pledgors, a restriction, prohibition or order on the transfer or disposal of the Pledgors’ equity interests or assets, a demand on the Pledgors to wind up Shanghai Kuanyu.

15.4 Upon the request of one Party, the court with jurisdiction shall have the right to award provisional remedy, such as a judgement or ruling to seize or freeze the assets or equity interests of the Defaulting Party. Upon the effectiveness of the arbitral award, any Party shall be entitled to apply for the execution of the arbitral award to the competent court with jurisdiction.

16. **NOTICES**

16.1 Unless otherwise notified in writing of any change to the following addresses, all notices required to be given or made pursuant to this Agreement shall be delivered to the following addresses by hand, fax or registered mail. The notice shall be deemed to be duly served on the date of acknowledgment receipt if sent by registered mail, or the date on which it is sent or transmitted if sent by hand or by fax as the case may be. Where the notice is sent by fax, the original of such written notice shall be delivered to the following addresses by registered mail or by hand immediately after transmission.

**Pledgee: Hode Shanghai Limited**

Address: Room 551, Level 5, No. 55 Jilong Road, China (Shanghai) Pilot Free Trade Zone
Tel/Fax: 021-25099255
Attention: Chen Rui
Pledgor:
Chen Rui
Address:
Tel:
Attention:

17. **APPENDICES**
The Appendices of this Agreement shall constitute an integral part of this Agreement.

18. **SEVERABILITY**
In the event that any provision of this Agreement is held invalid or unenforceable due to unconformity with relevant laws, such provisions shall become invalid or unenforceable only to the extent under such applicable laws and the legal effect of the remaining provisions hereunder shall not be affected.

19. **MISCELLANEOUS**
19.1 No failure or delay by any Party in exercising any right pursuant to this Agreement shall be deemed as a waiver of such right, nor shall any exercise of any right in full or partially by a Party preclude such Party from exercising such right in future.
19.2 This Agreement shall be legally binding on the Parties and their legal successors or assigns.
19.3 In the event that any provision of this Agreement is held invalid, illegal or unenforceable by the laws of China, all other provisions hereunder shall remain in full force and effect. Upon such determination that any provision is invalid, illegal or unenforceable, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner.
19.4 This Agreement constitutes the entire agreement between the Parties with respect to the subject matter contained in this Agreement, and supersedes all prior discussions, negotiations and agreements between the Parties with respect to such subject matter, including the Equity Pledge Agreement executed by both Parties and other relevant parties on June 2, 2015.

20. **EFFECTIVENESS**
20.1 This Agreement and any amendments, supplements or variations shall be made in writing and come into effect upon signing and stamping by the Parties hereto.
20.2 This Agreement is made in Chinese and multiple originals with the same legal effect.
PLEDGEES: HODE SHANGHAI LIMITED
/s/ Hode Shanghai Limited
Authorized Representative: /s/ Chen Rui

PLEDGOR:

CHEN RUI

By: /s/ Chen Rui
| Appendix I | Capital Contribution Certificate of Shanghai Kuanyu Digital Technology Co., Ltd. |
| Appendix II | Shanghai Kuanyu Digital Technology Co., Ltd. |
EXCLUSIVE TECHNOLOGY CONSULTING AND SERVICES AGREEMENT

This EXCLUSIVE TECHNOLOGY CONSULTING AND SERVICES AGREEMENT is entered into on April 24, 2019 by and between:

PARTY A: HODE SHANGHAI LIMITED  
Registration Number: 310141400014371  
Registered Address: Room 551, Level 5, No. 55 Jilong Road, China (Shanghai) Pilot Free Trade Zone

PARTY B: SHANGHAI KUANYU DIGITAL TECHNOLOGY CO., LTD.  
Registration Number: 91310115067801988G  
Registered Address: Room 1905, Building 2, No. 335 Guoding Road, Yangpu District, Shanghai

hereinafter individually referred to as a “Party”, collectively the “Parties”.

WHEREAS:

(1) Party A is a wholly foreign-owned enterprise incorporated under the laws of the People’s Republic of China (“PRC”);

(2) Party B is a limited liability company incorporated in Shanghai, China, of which the principal business includes transfer of technology, technology consulting and service of information technology, computer software and hardware as well as network engineering; business information consultation (except brokerage); corporate image planning; sale of toys, handicrafts and apparel; advertising design, production and agency; advertising on self-owned media; intellectual property agency (except patent agency) etc..

THEREFORE, upon consultations, the Parties hereby agree as follows:

1. DEFINITIONS AND INTERPRETATIONS:

1.1 Unless otherwise provided herein, the terms below shall have the following meanings:

“this Agreement” means the main body and appendices of this Agreement;

“Date of Execution” means the date on which the Agreement is duly executed as written herein;

“Party B’s Business” means any and all businesses that Party B may be engaged in according to the operational licenses which are currently maintained or will be obtained by Party B in future.

“Services” means the services that Party A agrees to provide to Party B pursuant to Article 2 of this Agreement

“Service Term” means the term during which Party A provides to Party B the services specified in Article 2 of this Agreement

“Service Fees” means fees payable by Party B to Party A specified in Article 3 of this Agreement

2. TERM AND SCOPE OF SERVICES:

2.1 The term of services provided by Party A shall be 10 years, commencing from the Date of Execution. Unless Party B informs Party A otherwise at least 90 days before the expiration of the Service Term, the Service Term shall be automatically extended for another ten (10) years upon its first expiration and the subsequent expiration of any extended term.

2.2 During the term of this Agreement, Party A agrees to, as the exclusive technology consulting and service provider of Party B, provide the relevant technology consulting and services to Party B (please refer to the details in Appendix I) in accordance with the terms and conditions of this Agreement.
2.3 Party B agrees to accept the exclusive technology consulting and services provided by Party A and further agrees that, during the term of this Agreement, it shall not accept any technology consulting and services in respect of Party B's Business provided by any third party which are same as or similar (to those provided by Party A) without the prior written consent of Party A.

2.4 Party A shall be the sole and exclusive owner of all rights and interests arising from or in connection with the performance of this Agreement, including without limitation the proprietary rights, intellectual property rights such as copyright, patent, know-how, trade secret and others, regardless of whether it is developed by Party A or by Party B based on the intellectual property owned by Party A.

3. **CALCULATION AND PAYMENT OF FEES FOR TECHNOLOGY CONSULTING AND SERVICES (“CONSULTING SERVICE FEES”)**

3.1 The Parties agree that the Consulting Service Fees shall be calculated and paid in the manner set out in Appendix II of this Agreement.

3.2 Party B shall pay to Party A the Service Fees under this Agreement in the manner and at the time designated by Party A. The Parties Agree that, payment of Service Fees may be deferred by Party B with prior written consent of Party A, or upon mutual agreement between the Parties, the payment schedule for the Service Fees payable by Party B to Party A provided in Article 3.1 of this Agreement may be adjusted in writing.

3.3 Party A agrees that, during the Service Term, Party A shall be entitled to all economic benefits and bear all risks arising from or in connection with Party B's Business; Party A shall provide financial support to Party B in the event that Party B is having operating losses or severe difficulties in operation, in which circumstances, Party A shall have the right to request Party B to cease operation and Party B shall comply with Party A's request unconditionally.

3.4 The obligation of Party B to pay to Party A the Service Fees under this Agreement shall be secured by the equity pledge provided by the shareholders of Party B over the equity interests held by them.

4. **REPRESENTATIONS AND WARRANTIES**

4.1 Each Party hereby represents and warrants to the other Party, as at the Date of the Execution of this Agreement, that:

   (1) it is a duly incorporated and validly existing legal person, has obtained all governmental approvals, licenses and permits required for its relevant business in accordance with the applicable laws and has the power to execute this Agreement and perform the obligations hereunder; all corporate actions necessary to authorize the execution, delivery and performance of this Agreement have been duly and validly taken by it at the general meeting of shareholders or its other governing body; this Agreement, upon due execution, shall constitute its valid and binding obligations, and enforceable against it pursuant to the terms of this Agreement.

   (2) The execution, delivery and performance of its obligations under this Agreement: (a) will not be in conflict with, or result in a breach of any provision of the following documents, from time to time or after receipt of relevant notice: (i) its business license, articles or association, permit, governmental approval of its incorporation, agreements in connection with its incorporation or other constitutional documents, (ii) any other laws and regulations by which it is bound, (iii) any contract or other documents to which it is a party or by which it or its assets are bound; (b) will not cause any pledge or other encumbrances to be created by it or any third party over its assets; (c) will not cause any provisions of any contract or other documents to which it is a party or by which it or its assets are bound, to be terminated or amended by it or any third party; (d) will not cause the suspension, revocation, confiscation, damages or expiration without extension of any applicable governmental approval, permit and registration etc.;
there is no ongoing and pending litigation, arbitration or administrative proceedings which may affect its ability to perform its obligations under this Agreement, and to the best of its knowledge, there is no such threatened actions; and

(4) it has disclosed to the other Party all agreements, governmental approvals, permits or other documents to which it is a party or by which it or its assets are bound that may have a material adverse effect to its ability to fully perform its obligations under this Agreement, and it has not made any untrue statements of material fact or omitted to state material facts in the documents provided to the other Party previously.

4.2 Party B hereby further represents and warrants to Party A as follows:

(1) Party B shall pay the Service Fees in full to Party A in a timely manner.

(2) During the Service Term, it will:

(a) maintain the continuous validity of all permits and licenses applicable to Party B’s Business; and

(b) promptly cooperate with Party A in its provision of services, and accept the reasonable opinions and suggestions given by Party A to Party B’s Business.

4.3 During the Service Term, without prior written consent of Party A, Party B will not accept any services provided by any third party other than Party A which are same as or similar to those under Article 2.2 of this Agreement.

4.4 Without prior written consent of Party A, it shall not sell, transfer, pledge or otherwise dispose of any legal interests in its assets (other than in the ordinary course of business), business or income, provide guarantee to any third party, or permit any security interest to be created by any third party over such interests at any time from the Date of Execution of this Agreement.

4.5 Without prior written consent of Party A, it shall not inherit or assume any indebtedness (other than in the ordinary course of business) from the Date of Execution of this Agreement.

4.6 Without prior written consent of Party A, it shall not enter into any material contract (other than in the ordinary course of business) from the Date of Execution of this Agreement.

4.7 Without prior written consent of Party A, it shall not merge, consolidate with or form a joint entity with any third party, acquire or be acquired or controlled by any third party, increase or reduce its registered capital or otherwise change the structure of its registered capital, from the Date of Execution of this Agreement.

4.8 To the extent permitted by the laws of the PRC, Party B will appoint any person nominated by Party A as directors and senior management of the company; Party B shall not refuse to appoint such person nominated by Party A, unless otherwise agreed by Party A in writing or with legal grounds.

4.9 Party A shall be entitled to inspect the accounts of Party B regularly or at any time. During the Service Term, Party B shall cooperate with Party A and its direct or indirect shareholders in audit and due diligence, provide relevant information and documents with respect to the operation, business, customers, finance and employees of Party B to the auditors and/or other professionals engaged by Party A, and give consent to Party A or its shareholders’ disclosure of such information and documents as and when required and necessary for listing.
4.10 Each Party further warrants to the other Party that, it will execute all documents and take all actions, including without limitation the issuance of requisite authorizations, as may be reasonably necessary to carry out the purposes and intent of this Agreement.

4.11 Each Party further warrants to the other Party that, in the event that it is permitted by the laws of the PRC for Party A to directly hold Party B’s shares without affecting the legality of Party B’s conduct of its business, Party A shall be entitled to immediately exercise the Exclusive Call Option under the Exclusive Call Option Agreement entered into by and among Party A, Party B and shareholders of Party B on the Date of Execution of this Agreement in full.

5. CONFIDENTIALITY

5.1 A Party (“Disclosing Party”) may have disclosed or will, from time to time, disclose to the other Party (“Receiving Party”) its confidential information (including without limitation information about business, customers, finance and agreements etc.). The Receiving Party shall be obliged to keep in strict confidence the confidential information, and shall not use the confidential information for purposes other than provided in this Agreement. The preceding provision shall not apply to the following information which: (a) as shown by written evidence of the Receiving Party, was rightfully known to the Receiving Party prior to the disclosure by the Disclosing Party; (b) enters or will enter the public domain through no breach by the Receiving Party of this Agreement; (c) is rightfully acquired by the Receiving Party from a third party without confidentiality obligation; and (d) is required to be disclosed in accordance with applicable laws, regulations or regulatory bodies’ requirement, or to its legal or financial advisor in the ordinary course of business.

5.2 To the extent not in violation of Article 5.1, Party B agrees to use all reasonable methods to keep in confidence Party A’s confidential documents and information acknowledged or received by Party B in the course of receiving the exclusive consulting and services from Party A (hereinafter referred to as “Confidential Information”); Party B shall not divulge, provide or transfer any Confidential Information to any third party without Party A’s prior written consent. Upon termination of this Agreement, Party B shall, at the request of Party A, return any and all documents, information or software containing any such Confidential Information to Party A, or destroy them, delete all of such Confidential Information from any memory devices, and cease to use such Confidential Information.

5.3 The Parties agree that this Article shall survive the amendment, termination and expiration of this Agreement.

6. INDEMNITY

Party B shall indemnify Party A against any loss, damage, liability and/or cost caused by any litigation, claim or other demands against Party A arising out of or in connection with the technology consulting and services required by Party B. Party B shall also hold Party A harmless against any loss and damage caused by Party B’s act or any claim from any third party as a result of Party B’s act.

7. LIABILITIES FOR BREACH OF CONTRACT

Unless otherwise provided in this Agreement, in the event that one Party (“Defaulting Party”) fails to perform any obligation hereunder or otherwise breaches this Agreement, the other Party (“Non-Defaulting Party”) may:
issue a written notice to the Defaulting Party indicating the nature and scope of the breach, and demanding the Defaulting Party to rectify (the breach) at its own cost within a reasonable period stipulated in the notice (“Rectification Period”); and

if the Defaulting Party fails to rectify (the breach) within the Rectification Period, the Non-defaulting Party shall be entitled to demand the Defaulting Party to indemnify it against all liabilities arising from the breach, and to compensate the Non-defaulting Party for all its actual economic losses incurred as a result of the breach, including but not limited to the lawyer’s fee and legal expenses for litigation or arbitration in relation to such breach, in addition to the specific performance of this Agreement by the Defaulting Party. The Non-defaulting Party may also apply to the applicable arbitration body or court for the order of specific performance and/or enforcement of the provisions herein. The exercise of the aforesaid remedial rights shall not preclude the exercise of other remedies provided herein or under laws and regulations.

8. EFFECTIVENESS AND TERMINATION

8.1 This Agreement shall become effective upon due execution by the Parties hereto.

8.2 The effective term of this Agreement shall be terminated when all shares and/or assets of Party B held by the shareholders of Party B are legally transferred in full to Party A and/or one or more persons designated by Party A in accordance with the provisions of the Exclusive Call Option Agreement. Notwithstanding the foregoing, Party A shall have the right to terminate this Agreement with 30 days’ prior written notice to Party B at any time, and Party A shall not be liable for any breach of contract by unilaterally terminating this Agreement.

9. GOVERNING LAW AND DISPUTE RESOLUTION

9.1 The effectiveness, interpretation, performance, and dispute resolution and so forth of this Agreement shall be governed by the laws of the PRC.

9.2 Any dispute arising between the Parties in connection with the interpretation and performance of the provisions in this Agreement shall be resolved amicably through consultations between the Parties. If the Parties are unable to reach an agreement within thirty (30) days from the date of written notice served by one Party to the other Party requesting for such consultation, either Party may submit such dispute to China International Economic and Trade Arbitration Commission for arbitration in accordance with the arbitration rules thereof then in effect. The place of arbitration shall be in Beijing; the language to be used in arbitration shall be Chinese. The arbitral award shall be final and equally binding on the Parties of this Agreement.

9.3 During the period while the arbitration proceedings are ongoing, except for the matters or obligations in dispute submitted for arbitration, both Parties shall continue to perform other obligations under this Agreement. The arbitrator shall have the right to make an appropriate award taking into account the actual circumstances so that Party A will receive appropriate legal remedy, including without limitation a restriction on the participation in the business operation of Party B, a restriction, prohibition or order on the transfer or disposal of the shares or assets of Party B, a demand to wind up Party B.

9.4 Upon the request of one Party, the court with jurisdiction shall have the right to award provisional remedy, such as a judgement or ruling to seize or freeze the assets or shares of the defaulting party. Upon the effectiveness of the arbitral award, either Party shall be entitled to apply for the execution of the arbitral award to the competent court with jurisdiction.
10. **FORCE MAJEURE**

10.1 No Party shall be held liable for any delay or interruption in the performance of this Agreement to the extent such delay or interruption is caused by a “force majeure event”. A “Force Majeure Event” means any event beyond reasonable control of one Party and cannot be prevented with reasonable care of the party so affected, including without limitation, governmental action, acts of nature, fire, explosion, geographic changes, typhoon, flood, earthquake, tide, lightning or war. However, any shortage of credit, capital or financing shall not be regarded as an event beyond reasonable control of the Party. The affected Party who is claiming to be exempted from its failure of fulfilling the obligations under this Agreement or any provisions hereunder by a Force Majeure Event shall as soon as practicable notify the other Party of such exemption and the necessary steps to be taken for the fulfillment of such obligations.

10.2 The Party affected by a Force Majeure Event shall not be held liable under this Agreement provided that the Party so affected shall make all reasonable efforts to perform this Agreement and the Party seeking exemption shall only be exempted from the obligations to the extent that the performance of which is delayed or prevented. Once the cause of such exemption has been corrected or rectified, both Parties agree to resume the performance of this Agreement with their best efforts.

11. **NOTICES**

Unless otherwise notified in writing of any change to the following addresses, all notices required to be given or made pursuant to this Agreement shall be delivered to the following addresses by hand, fax or registered mail. The notice shall be deemed to be duly served on the date of acknowledgment receipt if sent by registered mail, or the date on which it is sent or transmitted if sent by hand or by fax as the case may be. Where the notice is sent by fax, the original of such written notice shall be delivered to the following addresses by registered mail or by hand immediately after transmission.

**Party A: Hode Shanghai Limited**

Address: Room 551, Level 5, No. 55 Jilong Road, China (Shanghai) Pilot Free Trade Zone  
Tel/Fax: 021-25099255  
Attention: Chen Rui

**Party B: Shanghai Kuanyu Digital Technology Co., Ltd.**

Address: Room 905-906, No. 2277-1 Zuchongzhi Road, China (Shanghai) Pilot Free Trade Zone  
Tel/Fax: 021-25099255  
Attention: Chen Rui

12. **ASSIGNMENT**

During the effective term of this Agreement, neither Party shall assign or transfer any or all their rights and/or obligations under this Agreement without prior written consent of the other Party to any third party save for Party A’s related parties.

13. **SEVERABILITY**

In the event that any provision of this Agreement is held invalid or unenforceable due to unconformity with relevant laws, such provisions shall become invalid or unenforceable only to the extent under such applicable laws and the legal effect of the remaining provisions hereunder shall not be affected.

14. **AMENDMENT AND SUPPLEMENT OF THIS AGREEMENT**

The Parties may amend and supplement this Agreement in writing. Any amendment and/or supplement to this Agreement by the Parties, upon due execution by the Parties is an integral part of and has the same effect with this Agreement.
15. MISCELLANEOUS

15.1 No failure or delay by either Party in exercising any right pursuant to this Agreement shall be deemed as a waiver of such right, nor shall any exercise of any right in full or partially by a Party preclude such Party from exercising such right in future.

15.2 This Agreement shall be legally binding on the Parties and their legal successors or assigns.

15.3 In the event that any provision of this Agreement is held invalid, illegal or unenforceable by the laws of the PRC, all other provisions hereunder shall remain in full force and effect. Upon such determination that any provision is invalid, illegal or unenforceable, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner.

15.4 This Agreement constitutes the entire agreement between the Parties with respect to the subject matter contemplated in this Agreement, and supersedes all prior discussions, negotiations and agreements between the Parties with respect to such subject matter, including the Exclusive Technology Consulting and Services Agreement executed by the Parties on June 2, 2015.

15.5 This Agreement is made in Chinese and multiple originals with the same legal effect. The Parties may execute this Agreement in counterparts.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed by their duly authorized representatives on the date first above written.

(End of body)
PARTY A: HODE SHANGHAI LIMITED (COMPANY STAMP)
/s/ Hode Shanghai Limited

By: /s/ Chen Rui
Legal / Authorized Representative:

PARTY B: SHANGHAI KUANYU DIGITAL TECHNOLOGY CO., LTD. (COMPANY STAMP)

/s/ Shanghai Kuanyu Digital Technology Co., Ltd.

By: /s/ Chen Rui
Legal / Authorized Representative:

Signature page to the Exclusive Consulting and Services Agreement
## List of Appendix

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This EXCLUSIVE CALL OPTION AGREEMENT (this “Agreement”) is entered into on April 24, 2019 by and among:

1. HODE SHANGHAI LIMITED, a wholly foreign-owned enterprise incorporated in China with its registered address at Room 551, Level 5, No. 55 Jilong Road, China (Shanghai) Pilot Free Trade Zone (“Party A”);

2. CHEN RUI, Identity Card Number: ***, a holder of 100% of the equity interests in Shanghai Kuanyu Digital Technology Co., Ltd.; (Chen Rui, collectively “Party B”);

3. Shanghai Kuanyu Digital Technology Co., Ltd. (“Shanghai Kuanyu”), a limited liability company registered and existing under the laws of China with its registered address at Room 1905, Building 2, No. 335 Guoding Road, Yangpu District, Shanghai (“Party C”).

In this Agreement, each of the above individually being referred to as a “Party”, collectively the “Parties”.

WHEREAS:

1. As at the date of this Agreement, Party B holds in aggregate 100% equity interests of the Party C.

2. Party B and Party C are in desirous of granting Party A and/or a person or persons designated by it, to the extent permitted by the laws of China, an exclusive call option to purchase all or part of the shares and/or assets held by Party C, and Party A is in desirous of accepting such option.

THEREFORE, upon consultations, the Parties hereby agree as follows:

1. SALE AND PURCHASE OF SHARES AND ASSETS

1.1 Grant of Option

Party B hereby irrevocably grant Party A or a person or persons designated by it (“Nominee”, means (a) the direct or indirect shareholder(s) of Party A and the direct or indirect subsidiary(ies) of such shareholder(s); (b) Chinese national directors in Party A, direct or indirect shareholder(s) of Party A and the direct or indirect subsidiary(ies) of such shareholders(s)), to the extent permitted by the PRC Laws, during the effective term of this Agreement and in accordance with the steps of exercise determined by Party A in its sole and absolute discretion, an exclusive and irrevocable option to purchase all or part of the shares held by Party C (“Purchased Shares”) at the price stipulated in Article 1.2 of this Agreement (“Exclusive Share Purchase Option”).

Party C hereby agrees to the grant of the share purchase option granted to Party A by Party B.

Reference to “person” in this Article and this Agreement includes any individual, corporation, joint venture, partnership, enterprise, trust or non-corporate entity.

Party C hereby irrevocably grants Party A or its Nominee, to the extent permitted by the PRC Laws, during the effective term of this Agreement and in accordance with the steps of exercise determined by Party A in its sole and absolute discretion, an exclusive and irrevocable option to purchase all or part of the assets (“Purchased Assets”) of Party C (“Exclusive Asset Purchase Option”, together with the “Exclusive Share Purchase Option”, collectively referred to as “Exclusive Call Option”).
The Exclusive Call Option is an exclusive right owned by Party A. Without prior written consent of Party A, Party B shall not sell, offer to sell, transfer, gift, pledge or otherwise dispose of all or part of the Purchased Shares to any other person, and shall not authorize other person to purchase all or part of the Purchased Shares; neither shall Party B sell, offer to sell, transfer, gift, pledge or otherwise dispose of all or part of the Purchased Assets to any other person, and nor shall it authorize other person to purchase all or part of the Purchased Assets;

1.2 Purchase Price

Upon exercise of the Exclusive Call Option by Party A, with respect to the Purchased Shares, the purchase price shall be the lowest price permitted by the PRC Laws effective as at the transfer of shares; with respect to the Purchased Assets, the purchase price shall be the net book value of the Purchased Assets, provided that the lowest price permitted by the PRC Laws then in effect is lower than the net book value of the Purchased Assets. Otherwise, the purchase price shall be the lowest price permitted by the PRC Laws instead.

1.3 Exercise of Option

The exercise of the Exclusive Call Option by Party A shall be subject to, and in compliance with the PRC Laws. Party A has the absolute discretion to determine the time, manner and number of times of its exercise of the Exclusive Call Option.

At each exercise of the Exclusive Share Purchase Option decided by Party A, a notice specifying the number of Purchased Shares to be acquired from Party B by Party A (“Share Purchase Notice”), shall be served by Party A to Party B and Party C (the form of the Share Purchase Notice is attached hereto as Appendix I).

At each exercise of the Exclusive Asset Purchase Option decided by Party A, a notice specifying the amount of assets to be acquired from Party C by Party A (“Asset Purchase Notice”, together with the “Share Purchase Notice”, collectively referred to as “Purchase Notice”), shall be served by Party A to Party B and Party C (the form of the Asset Purchase Notice is attached hereto as Appendix II).

1.4 Actions in connection with the Exercise of Option

In the event that Party A exercises the Exclusive Call Option, to ensure that the transfer of shares/assets is in full compliance with the provisions of this Agreement and the applicable laws, in substance and procedure, Party B and Party C severally and jointly covenant to take the following actions:

(1) Within seven working days from the service of the Purchase Notice upon Party B and Party C, Party B and Party C shall prepare and execute all necessary documents in connection with the transfer of the Purchased Shares/Assets including the share/asset transfer agreements, and transfer all the Purchased Shares/Assets to Party A and/or its Nominee on a lump-sum basis;

(2) Party B shall procure Party C to hold a shareholders’ meeting to pass resolutions at such meeting to approve the transfer of shares/assets from Party B or Party C to Party A and/or its Nominee;

(3) with respect to the transfer of Purchased Shares, if necessary, Party B and Party C shall execute a share transfer agreement in the form of Appendix III (“Share Transfer Agreement”) attached hereto or in such other substance and form prescribed by the PRC Laws in relation to the share transfer agreement. Completion of the transfer of Purchased Shares (upon completion of the registration for the change with the industrial and commercial administration authority) shall take place no later than the fifteenth working day from the service of the Share Purchase Notice upon Party B and Party C, unless otherwise agreed by the parties taking into account the actual circumstances.
upon execution of this Agreement, Party B and Party C shall execute one or several sets of power of attorney in substance and form as set forth in Appendix IV of this Agreement, to authorize any person designed by Party A to execute and deliver to Party C, on the behalf of Party B, the share/asset transfer agreement and any other documents required under this Agreement.

Party B and Party C shall take all necessary actions, to process without delay and complete the procedures for relevant approvals and registrations, so that the Purchased Shares/Assets will be registered in the name of Party A and/or its Nominee free from any security interests. Reference to “security interests” includes guarantee, mortgage, pledge, third party right or interests, any option to purchase shares, right to acquire, right of first refusal, right to set-off, retention of title or other arrangement of guarantee, but excludes any security interests created pursuant to the Equity Pledge Agreement (as defined below);

Party B and Party C shall take all necessary actions to ensure that the transfer of the Purchased Shares/Assets will not be hindered in substance or procedure. Save as expressly provided under the conditions of this Agreement, neither Party B nor Party C shall create any obstacle or restrictive conditions to the transfer of Purchased Shares/Assets.

The Parties hereby agree that at the exercise of the Exclusive Call Option by Party A, Party B and/or Party C shall pay to Party A or its Nominee all proceeds from such transfer without any consideration.

2. COVENANTS OF THE PARTIES

2.1 Covenants of Party B and Party C

Each of Party B and Party C hereby irrevocably covenants that:

(1) it shall not, without prior written consent of Party A or Bilibili Inc., the parent company of Party A (“Party A’s Parent Company”), supplement, modify or amend the constitutional documents of party C, increase or reduce the registered capital of Party C, or otherwise change the structure of the registered capital of Party C;

(2) it shall maintain the financial position and business standard and practice, and ensure that Party C and its subsidiaries are validly existing, and continue to carry out its business and manage its affairs in a diligent and effective way;

(3) without prior written consent of Party A or Party A’s Parent Company, it shall not sell, transfer, pledge or otherwise dispose of any legal or beneficial interests in the assets, business or income of Party C, or permit to create any security interest over such interests at any time after the date of this Agreement;

(4) without prior written consent of Party A or Party A’s Parent Company, it shall not incur, inherent, assume or permit the existence of any indebtedness, save for those (i) incurred in the usual or ordinary course of business other than by way of borrowing; and (ii) which has been disclosed to Party A whose prior written consent has been obtained;
(5) it shall continue to carry on the business in the ordinary course to preserve the value of Party C’s assets, and nothing that may have material effect on the condition of business and asset value of Party C shall be caused by its act or omission;

(6) without prior written consent of Party A or Party A’s Parent Company, it shall not enter into any material procurement contract, other than in the ordinary course of business (for the purpose of this paragraph, any contract with a value exceeding RMB500,000 shall be deemed a material contract);

(7) without prior written consent of Party A or Party A’s Parent Company, it shall not extend any loan or credit to any person;

(8) it will provide to Party A, at its request, all the operational and financial information of Party C;

(9) Party C shall purchase from and maintain with an insurer acceptable to Party A adequate insurance, the insured amount and coverage of which are comparable to what is usually maintained by a company running similar business and owing similar properties or assets in the same area;

(10) without prior written consent of Party A or Party A’s Parent Company, it shall not merge, consolidate with, acquire or invest in any person;

(11) it shall immediately notify Party A of any actual or possible litigation, arbitration or administrative proceedings in relation to the assets, business and income of Party C;

(12) it will execute all documents, take all actions, submit all claims or defend against all claims, which are necessary or appropriate to protect Party C’s proprietary rights over its assets;

(13) without prior written consent of Party A or Party A’s Parent Company, it will not distribute any dividends, attributable profits and/or any assets to the shareholders; in the event Party B receives any of the abovementioned interests, it shall, within three working days, notify Party A and immediately transfer such interests to Party A without any consideration;

2.2 Covenants of Party B

Party B hereby irrevocably covenants that:

(1) without prior written consent of Party A or Party A’s Parent Company, it shall not sell, transfer, pledge or otherwise dispose of any legal or beneficial interests in Party C’s shares held by it, or permit to create any security interest over such interests at any time after the date of this Agreement, save for the equity pledge created over Party C’s shares held by Party B pursuant to the “Equity Pledge Agreement” entered into between the parties at the date of this Agreement (“Equity Pledge Agreement”);

(2) without prior written consent of Party A or Party A’s Parent Company, it shall not vote for or support at any shareholders’ meeting or sign any shareholders’ resolution which approves to sell, transfer, pledge or otherwise dispose of any legal or beneficial interests in any shares or assets, or permit to create any security interests over such interests, save as created in favor of Party A or its Nominee;
without prior written consent of Party A or Party A’s Parent Company, it shall not vote for or support at any shareholders’ meeting or sign any shareholders’ resolution which approves any merger or consolidation with, acquisition of or investment in any person by Party C, or any spin-off, change in registered capital and corporate structure of Party C;

(4) it shall procure the passing of resolution at shareholders’ meeting of Party C approving the transfer of Purchased Shares pursuant to this Agreement;

(5) it will execute all documents, take all actions, submit all claims or defend against all claims, which are necessary or appropriate to protect its ownership over the shares held by it;

(6) it will appoint any person nominated by Party A as a director of Party C, at the request of Party A;

(7) as and when requested by Party A, it will immediately transfer, unconditionally, the Purchased Shares to Party A or its Nominee, and waive its right of first refusal with respect to such transfer of shares by the other shareholders;

(8) it shall fully comply with all provisions of this Agreement and other agreements jointly or separately entered into by Party A, Party A’s Parent Company, Party B and Party C, duly perform all obligations under such agreements, and nothing that may have material effect on the validity and enforceability of such agreements shall be caused by its act or omission to act.

3. REPRESENTATIONS AND WARRANTIES OF PARTY B AND PARTY C

Each of Party B and Party C hereby severally and jointly represents and warrants to Party A, as at the date of this Agreement and at each transfer, that:

3.1 It has the power and capacity to execute and deliver this Agreement, and any share/asset transfer agreement (collectively, the “Transfer Agreements”) executed for each transfer of the Purchased Shares/Assets contemplated thereunder to which it is a party, and to perform its obligations under this Agreement and any Transfer Agreements. This Agreement and any Transfer Agreements to which it is a party, upon due execution, shall constitute its legal, valid and binding obligations, and enforceable against it pursuant to the terms of this Agreement and the Transfer Agreements.

3.2 The execution, delivery and performance of its obligations under this Agreement or the relevant share/asset transfer agreements: (a) will not be in conflict with, or result in a breach of any provision of the following documents, from time to time or after receipt of relevant notice: (i) its business license, articles or association, permit, governmental approval of its incorporation, agreements in connection with its incorporation or other constitutional documents, (ii) any other laws and regulations by which it is bound, (iii) any contract, agreement, lease or other documents to which it is a party or by which it or its assets are bound; (b) will not cause any pledge or other encumbrances to be created by it or any third party over its assets, save for the equity pledge created over Party C’s shares pursuant to the Equity Pledge Agreement; (c) will not cause any provisions of any contract, agreement, lease or other documents to which it is a party or by which it or its assets are bound, to be terminated or amended by it or any third party; (d) will not cause the suspension, revocation, confiscation, damages or expiration without extension of any applicable governmental approval, permit and registration etc.;

3.3 Party C has the good and transferrable title over all its assets free from any security interests.
3.4 Party C does not have any outstanding liabilities, save for those (i) incurred in the ordinary course of business; and (ii) has been disclosed to Party A whose prior written consent has been obtained; Party C’s shares are legally and validly owned by Party B. No encumbrance is created by Party B over Party C’s shares, save for the equity pledge created over Party C’s shares pursuant to the Equity Pledge Agreement.

3.5 Party C complies with all applicable laws and obligations; and

3.6 there is no ongoing, pending or possible litigation, arbitration or administrative proceedings in relation to the shares and assets of Party C. Party B undertakes to Party A that it has made appropriate arrangement and executed all necessary documents to ensure that in the event of his or her death, loss of capacity, bankruptcy, divorce or other circumstances that may affect his or her ability to exercise shareholder’s rights, the performance of this Agreement shall not be affected or impaired by persons who may acquire the shares or relevant rights as a result thereof such as his or her heir and successor, guardian, creditor or spouse etc..

Each Party warrants that, in the event that it is permitted by the PRC Laws for Party A to directly hold Party C’s shares without affecting the legality of Party C’s conduct of its business, Party A shall be entitled to exercise the Exclusive Call Option in full immediately.

4. EFFECTIVE DATE AND TERM
This Agreement shall become effective upon due execution by the Parties hereto.

The effective term of this Agreement shall be terminated when all shares and/or assets of Party C held by Party B are legally transferred in full to Party A and/or its Nominee in accordance with the provisions of this Agreement. Notwithstanding the foregoing, Party A shall have the right to terminate this Agreement with 30 days’ prior written notice to Party B and Party C at any time, and Party A shall not be liable for any breach of contract by unilaterally terminating this Agreement.

5. GOVERNING LAW AND DISPUTE RESOLUTION

5.1 The effectiveness, interpretation, performance, and dispute resolution and so forth of this Agreement shall be governed by the PRC Laws.

5.2 Any dispute arising between the Parties in connection with the interpretation and performance of the provisions in this Agreement shall be resolved amicably through consultations between the Parties. If the Parties are unable to reach an agreement within thirty (30) days from the date of written notice served by one Party to the other Party requesting for such consultation, any Party may submit such dispute to China International Economic and Trade Arbitration Commission for arbitration in accordance with the arbitration rules thereof then in effect. The place of arbitration shall be in Beijing; the language to be used in arbitration shall be Chinese. The arbitral award shall be final and equally binding on the Parties of this Agreement.

5.3 During the period while the arbitration proceedings are ongoing, except for the matters or obligations in dispute submitted for arbitration, both Parties shall continue to perform other obligations under this Agreement. The arbitrator shall have the right to make an appropriate award taking into account the actual circumstances so that Party A will receive appropriate legal remedy, including without limitation a restriction on the participation in the business operation of Party C by Party B, a restriction, prohibition or order on the transfer or disposal of the shares or assets of Party C held by Party B, a demand on Party B to wind up Party C.
5.4 Upon the request of one Party, the court with jurisdiction shall have the right to award provisional remedy, such as a judgment or ruling to seize or freeze the assets or shares of the defaulting party. Upon the effectiveness of the arbitral award, any Party shall be entitled to apply for the execution of the arbitral award to the competent court with jurisdiction.

6. TAXES AND EXPENSES

Each Party shall bear any and all taxes, costs and expenses related to transfer and registration incurred by or imposed on such Party arising from the preparation and execution of this Agreement and Transfer Agreements and the consummation of the transactions contemplated thereunder.

7. NOTICES

Unless otherwise notified in writing of any change to the following addresses, all notices required to be given or made pursuant to this Agreement shall be delivered to the following addresses by hand, fax or registered mail. The notice shall be deemed to be duly served on the date of acknowledgment receipt if sent by registered mail, or the date on which it is sent or transmitted if sent by hand or by fax as the case may be. Where the notice is sent by fax, the original of such written notice shall be delivered to the following addresses by registered mail or by hand immediately after transmission:

Party A: Hode Shanghai Limited
Address: Room 551, Level 5, No. 55 Jilong Road, China (Shanghai) Pilot Free Trade Zone
Tel/Fax: 021-25099255
Attention: Chen Rui

Party B: Chen Rui
Address: Block 3, Guozheng Center, No. 485 Zhengli Road, Yangpu District, Shanghai
Tel: 021-25099255
Attention: Chen Rui

Party C: Shanghai Kuanyu Digital Technology Co., Ltd.
Address: Block 3, Guozheng Center, No. 485 Zhengli Road, Yangpu District, Shanghai
Tel/Fax: 021-25099255
Attention: Chen Rui

8. CONFIDENTIALITY OBLIGATIONS

8.1 A Party ("Disclosing Party") may have disclosed or will, from time to time, disclose to the other Party ("Receiving Party") its confidential information (including without limitation information about business, customers, finance and agreements etc.). The Receiving Party shall be obliged to keep in strict confidence the confidential information, and shall not use the confidential information for purposes other than provided in this Agreement. The preceding provision shall not apply to the following information which: (a) as shown by written evidence of the Receiving Party, was rightfully known to the Receiving Party prior to the disclosure by the Disclosing Party; (b) enters or will enter the public domain through no breach by the Receiving Party of this Agreement; (c) is rightfully acquired by the Receiving Party from a third party without confidentiality obligation; and (d) is required to be disclosed in accordance with applicable laws, regulations or regulatory bodies’ requirement, or to its legal or financial advisor in the ordinary course of business.

8.2 The abovementioned obligations of confidentiality on each Party hereeto are continuous and shall survive the termination of this Agreement.
9. FURTHER ASSURANCE

The Parties agree to execute such further documents and instruments and to take such further actions as may be reasonably necessary to carry out the purposes and intent of this Agreement.

10. FORCE MAJEURE

10.1 No Party shall be held liable for any delay or interruption in the performance of this Agreement to the extent such delay or interruption is caused by a “force majeure event”. A “Force Majeure Event” means any event beyond reasonable control of one Party and cannot be prevented with reasonable care of the party so affected, including without limitation, governmental action, acts of nature, fire, explosion, geographic changes, typhoon, flood, earthquake, tide, lightning or war. However, any shortage of credit, capital or financing shall not be regarded as an event beyond reasonable control of the Party. The affected Party who is claiming to be exempted from its failure of fulfilling the obligations under this Agreement or any provisions hereunder by a Force Majeure Event shall as soon as practicable notify the other Party of such exemption and the necessary steps to be taken for the fulfillment of such obligations.

10.2 The Party affected by a Force Majeure Event shall not be held liable under this Agreement provided that the Party so affected shall make all reasonable efforts to perform this Agreement and the Party seeking exemption shall only be exempted from the obligations to the extent that the performance of which is delayed or prevented. Once the cause of such exemption has been corrected or rectified, both Parties agree to resume the performance of this Agreement with their best efforts.

11. MISCELLANEOUS

11.1 Variation, Amendment and Supplement

The Parties may amend and supplement this Agreement in writing. Any amendment and/or supplement to this Agreement by the Parties, upon due execution by the Parties is an integral part of and has the same effect with this Agreement.

11.2 Entire Agreement

Save as amended, supplemented or varied in writing subsequent to the execution of this Agreement, this Agreement constitutes the entire agreement between the Parties with respect to the subject matter contained herein, and supersedes all prior oral or written negotiations, representations and agreements between the Parties with respect to such subject matter, including the Exclusive Call Option Agreement executed by the Parties and other relevant parties on June 2, 2015.

11.3 Headings

The headings of the Articles in this Agreement are inserted for the convenience of reference only, and under no circumstances shall be used in or otherwise affect the construction or interpretation of this Agreement.

11.4 Language

This Agreement is made in Chinese and multiple originals.
11.5 Severability

In the event that any one or several provisions of this Agreement is held invalid, illegal or unenforceable in any way by any laws or regulations, the validity, legality or enforceability of the remaining provisions of this Agreement shall not be affected or impaired in any way. The Parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions.

11.6 Successor

This Agreement shall be binding on the successors or permitted assigns of the Parties.

11.7 Survival

Any obligations which accrued or due under this Agreement prior to the expiration or early termination of this Agreement shall survive the expiration or early termination thereof.

The provisions of Articles 6, 8 and 11.8 shall survive the termination of this Agreement.

11.8 Waiver

A waiver of the terms and conditions of this Agreement by any Party shall be made in writing and unanimous agreed and signed by all Parties. The waiver by any Party of any breach by the other Party shall not be deemed as a waiver of any other breach by the said other Party of a similar nature.

IN WITNESS WHEREOF, this Agreement has been executed by the Parties on the date first above written.
PARTY A: HODE SHANGHAI LIMITED (COMPANY STAMP)

/s/ Hode Shanghai Limited

Authorized Representative: /s/ Chen Rui

PARTY B:

CHEN RUI

By: /s/ Chen Rui

PARTY C: Shanghai Kuanyu Digital Technology Co., Ltd. (COMPANY STAMP)

/s/ Shanghai Kuanyu Digital Technology Co., Ltd.

Authorized Representative: Chen Rui

/s/ Chen Rui

Signature page to the Exclusive Call Option Agreement
<table>
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<tr>
<th>Appendix I</th>
<th>Share Purchase Notice</th>
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<td>Appendix II</td>
<td>Asset Purchase Notice</td>
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<tr>
<td>Appendix III</td>
<td>Share Transfer Agreement</td>
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<tr>
<td>Appendix IV</td>
<td>Irrevocable Power of Attorney</td>
</tr>
</tbody>
</table>
Spousal Consent Letter

WHEREAS:

1. I, Yang Qitao, a citizen of the People’s Republic of China, with the Identity Card Number of ***, is the spouse of Chen Rui who is a shareholder of Shanghai Kuanyu Digital Technology Co., Ltd.;

2. Chen Rui has executed a series of agreements together with appendices and amendments thereof in all forms with Hode Shanghai Limited and Shanghai Kuanyu Digital Technology Co., Ltd., including the “Equity Pledge Agreement”, the “Exclusive Technology Consulting and Services Agreement”, the “Exclusive Call Option Agreement” and the “Power of Attorney” (the “Agreements”).

I hereby confirm that I have read and familiarize myself with the provisions of the Agreements. I will be bound by the Agreements as a contracting party where necessary.

I further confirm and agree that:

(1) The shares owned by Chen Rui referred to in the Agreements (“Chen Rui’s Shares”) remain to be owned by Chen Rui in all circumstances whatsoever, and Chen Rui may pledge, sell or otherwise dispose of Chen Rui’s Shares in accordance with the provisions of the Agreements without my consent;

(2) Chen Rui may execute any amendments or variations to the Agreements with respect to Chen Rui’s Shares, without the necessity to obtain my signature, confirmation, consent or affirmation;

(3) In no circumstances will I make any claim with respect to Chen Rui’s Shares or take any action that is inconsistent with the provisions of the Agreements;

(4) Any part of Chen Rui’s Shares that may be attributable to myself (the “Owned Shares”) shall be and are capable of being pledged, sold, or otherwise disposed of in accordance with the provisions of the Agreements;

(5) Where necessary, I agree to execute the Agreements as a contracting party, and undertake that any amendments or variations to the Agreements will not be inconsistent in any way with the rights and obligations of Chen Rui under the Agreements.

(6) In no circumstances will I make any claim with respect to the Owned Shares or take any action that is inconsistent with the provisions of the Agreements.

The above is hereby confirmed.

(Signature): /s/ Yang Qitao

April 24, 2019
LIST OF SIGNIFICANT SUBSIDIARIES AND PRINCIPAL CONSOLIDATED AFFILIATED ENTITIES*

<table>
<thead>
<tr>
<th>Significant Subsidiaries</th>
<th>Jurisdiction of Incorporation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bilibili HK Limited</td>
<td>Hong Kong</td>
</tr>
<tr>
<td>Hode HK Limited</td>
<td>Hong Kong</td>
</tr>
<tr>
<td>Bilibili Co., Ltd.</td>
<td>Japan</td>
</tr>
<tr>
<td>Shanghai Bilibili Technology Co., Ltd.</td>
<td>PRC</td>
</tr>
<tr>
<td>Hode Shanghai Limited</td>
<td>PRC</td>
</tr>
</tbody>
</table>

**Consolidated Variable Interest Entity**

| Shanghai Kuanyu Digital Technology Co., Ltd. | PRC |
| Shanghai Hode Information Technology Co., Ltd. | PRC |

**Subsidiary of Consolidated Variable Interest Entity**

| Sharejoy Network Technology Co., Ltd. | PRC |
| Shanghai Hehehe Culture Communication Co., Ltd. | PRC |
| Shanghai Anime Tamashi Cultural Media Co., Ltd. | PRC |

* Other entities of Bilibili Inc. have been omitted from this list since, considered in the aggregate as a single entity, they would not constitute a significant subsidiary.
CERTIFICATION BY THE PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Rui Chen, certify that:

1. I have reviewed this annual report on Form 20-F of Bilibili Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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;

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: March 27, 2020

By: /s/ Rui Chen
Name: Rui Chen
Title: Chief Executive Officer
I, Xin Fan, certify that:

1. I have reviewed this annual report on Form 20-F of Bilibili Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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: March 27, 2020

By: /s/ Xin Fan
Name: Xin Fan
Title: Chief Financial Officer
CERTIFICATION BY THE PRINCIPAL EXECUTIVE OFFICER 
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 

In connection with the Annual Report of Bilibili Inc. (the “Company”) on Form 20-F for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Rui Chen, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 27, 2020

By: /s/ Rui Chen
Name: Rui Chen
Title: Chief Executive Officer
CERTIFICATION BY THE PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Bilibili Inc. (the “Company”) on Form 20-F for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Xin Fan, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 27, 2020

By: /s/ Xin Fan

Name: Xin Fan
Title: Chief Financial Officer
Dear Sir or Madam

BILIBILI INC.
Building 3, Guozheng Center
No. 485 Zhenli Road
Yangpu District
Shanghai, 200433
People’s Republic of China

Dear Sirs,

FORM 20-F

We consent to the reference to our firm under the heading “Item 10.E. Additional Information—Taxation —Cayman Islands Taxation” in the Annual Report on Form 20-F of Bilibili Inc. for the year ended 31 December 2019 (the “Annual Report”), which will be filed with the U.S. Securities and Exchange Commission (the “Commission”) on 27 March 2020 under the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”).

We also consent to the filing with the Commission of this consent letter as an exhibit to the Annual Report.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under the Exchange Act, or the Rules and Regulations of the Commission thereunder.

Yours faithfully

/s/ WALKERS
WALKERS (HONG KONG)
March 27, 2020

Bilibili Inc.
Building 3, Guozheng Center
No. 499 Zhengli Road,
Yangpu District, Shanghai, China
as the “Company”

Dear Sirs,

We consent to the references to our firm under the heading “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure” and “Item 4.C—Information on the Company—Organizational Structure” in Bilibili Inc.’s Annual report on Form 20-F for the year ended December 31, 2019 (the “Annual Report”), which is filed with the Securities and Exchange Commission (the “SEC”) on March 27, 2020. We also consent to the filing with the SEC of this consent letter as an exhibit to the Annual Report. We also consent to the incorporation by reference of the summaries of our opinions that appear in the Annual Report into the registration statement on Form S-8 (File No. 333-226216) that was filed on July 18, 2018, and the registration statement on Form F-3 (No. 333-230660) that was filed on April 1, 2019.

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/ AnJie Law Firm

AnJie Law Firm
CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-226216) and Form F-3 (No. 333-230660) of Bilibili Inc. of our report dated March 27, 2020 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

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March 27, 2020