

Xunlei Ltd  
Form F-1  
May 23, 2014

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As filed with the Securities and Exchange Commission on May 23, 2014

Registration No. 333-

**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM F-1**  
REGISTRATION STATEMENT  
UNDER THE SECURITIES ACT OF 1933

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**XUNLEI LIMITED**

*(Exact name of Registrant as specified in its charter)*

**Not Applicable**

*(Translation of Registrant's name into English)*

<b>Cayman Islands</b> <i>(State or other jurisdiction of incorporation or organization)</i>	<b>7370</b> <i>(Primary Standard Industrial Classification Code Number)</i>	<b>Not Applicable</b> <i>(I.R.S. Employer Identification Number)</i>
<b>4/F, Hans Innovation Mansion, North Ring Road</b> <b>No. 9018 High-Tech Park, Nanshan District</b> <b>Shenzhen, 518057</b> <b>People's Republic of China</b> <b>(86-755) 3391-2900</b>		

*(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)*

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**Law Debenture Corporate Services Inc.**  
**400 Madison Avenue, 4th Floor**  
**New York, New York 10017**  
**(+1) 212-750-6474**

*(Name, address, including zip code, and telephone number, including area code, of agent for service)*

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**Approximate date of commencement of proposed sale to the public: as soon as practicable after the effective date of this registration statement.**

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  \_\_\_\_\_

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  \_\_\_\_\_

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  \_\_\_\_\_

**CALCULATION OF REGISTRATION FEE**

<b>Title of each class of securities to be registered</b>	<b>Proposed maximum aggregate offering price(2)(3)</b>	<b>Amount of registration fee</b>
Class A Common shares, par value US\$0.00025 per share(1)	US\$100,000,000.00	US\$12,880

(1) American depositary shares issuable upon the deposit of the common shares registered hereby will be registered under a separate registration statement on Form F-6 (Registration No. 333-\_\_\_\_\_). Each American depositary share represents \_\_\_\_\_ Class A common shares.

(2)

Estimated solely for the purpose of determining the amount of registration fee in accordance with Rule 457(o) under the Securities Act of 1933.

(3)

Includes Class A common shares that may be purchased by the underwriters pursuant to an over-allotment option. Also includes Class A common shares initially offered and sold outside the United States that may be resold from time to time in the United States either as part of their distribution or within 40 days after the later of the effective date of this registration statement and the date the shares are first bona fide offered to the public. These Class A common shares are not being registered for the purpose of sales outside the United States.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to such Section 8(a), may determine.**

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**The information in this preliminary prospectus is not complete and may be changed. [Neither we nor the selling shareholders] may sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.**

**PROSPECTUS (Subject to Completion)**

**Issued** , 2014

***American Depositary Shares***

**Xunlei Limited**

***Representing***

***Class A common shares***

This is an initial public offering of American Depositary Shares, or ADSs, of Xunlei Limited, or Xunlei. We are offering ADSs [, and the selling shareholders are offering ADSs]. Each ADS represents C lass A common shares, par value US\$0.00025 per share. [We will not receive any proceeds from the sale of our ADSs by the selling shareholders.] Upon the completion of this offering, we will have a dual-class common share structure; our common shares will be divided into Class A common shares and Class B common shares. Holders of Class A common shares are entitled to one vote per share, while holders of Class B common shares are entitled to votes per share. We anticipate the initial public offering price of the ADSs will be between US\$ and US\$ per ADS.

We have applied for listing of our ADSs on the [NYSE/NASDAQ Global Market] under the symbol "XNET."

We are an "emerging growth company" under applicable U.S. federal securities laws and are eligible for reduced public company reporting requirements.

	<b>Per ADS</b>	<b>Total</b>
Initial public offering price	US\$	US\$
Underwriting discounts and commissions	US\$	US\$
Proceeds to Xunlei Limited, before expenses	US\$	US\$
[Proceeds to the selling shareholders, before expenses]	US\$	US\$

We have granted the underwriters an option for a period of 30 days to purchase up to an aggregate of additional ADSs from us at the public offering price less underwriting discounts and commissions to cover over-allotments.

The underwriters expect to deliver the ADSs to purchasers on or about , 2014.

Investing in our ADSs involves a high degree of risk. See "Risk factors" beginning on page 17.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed on the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

**J.P. Morgan**

**Citigroup**

**Stifel**

**Oppenheimer & Co.**

, 2014.

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You should rely only on the information contained in this prospectus or in any related free writing prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, the ADSs only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is current only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the ADSs.

We have not taken any action to permit a public offering of the ADSs outside the United States or to permit the possession or distribution of this prospectus outside the United States. Persons outside the United States who come into possession of this prospectus must inform themselves about and observe any restrictions relating to the offering of the ADSs and the distribution of the prospectus outside the United States.

**Until 2014 (the 25<sup>th</sup> day after the date of this prospectus), all dealers that buy, sell or trade ADSs, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.**



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## Prospectus summary

*The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements appearing elsewhere in this prospectus. In addition to this summary, we urge you to read the entire prospectus carefully, especially the risks of investing in our ADSs discussed under "Risk factors," before deciding whether to buy our ADSs. This summary and other sections of this prospectus contain (i) information from a report, referred to in this prospectus as the iResearch Report, which we commissioned from iResearch Consulting Group, or iResearch, a third-party market research firm, to provide certain information including the number of monthly active users of Xunlei Accelerator and (ii) information from other publicly available reports by China Internet Network Information Center, or CNNIC, Analysys International or iResearch, which are identified by the statement "according to CNNIC", "according to Analysys International" or "according to iResearch" in this prospectus, as appropriate, and include, among others, information from the iUser Tracker database of iResearch containing overall market data on the internet industry in China.*

### Our business

We are the 12<sup>th</sup> largest internet company in China, as measured by user base. According to iResearch, we had over 300 million monthly unique visitors in March 2014. Digital media content, such as video, music and games, is one of the most popular usages for internet users in China. We operate a powerful internet platform in China based on cloud computing to enable users to quickly access, manage, and consume digital media content. We are increasingly extending to mobile devices in part through potentially pre-installed acceleration products in mobile phones and to living rooms through TV coverage (set-top boxes and IPTV) to further expand our user base and offer our users a wider range of access points. We aspire to deliver superior user experience in ease of access, management and consumption of digital media content anywhere, anytime, and on any device.

We are the No. 1 acceleration product provider in China as measured by market share in March 2014, according to iResearch. To address deficiencies of digital media transmission over the internet in China, such as low speed and high delivery failure rates, we provide users with quick and easy access to online digital media content through two core products and services:

Xunlei Accelerator, which enables users to accelerate digital transmission over the internet, is our most popular and free product, with approximately 142 million monthly active users in March 2014, according to the iResearch Report. Xunlei Accelerator enjoys a market share of 81.4% based on the number of launches among all transmission and acceleration products in China in March 2014, according to iResearch; and

Our cloud acceleration subscription services, delivered through products such as Green Channel, Offline Accelerator and Yunbo, offer users premium services for speed and reliability, with approximately 5.2 million subscribers as of March 31, 2014, up from approximately 1.1 million as of January 31, 2011.

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Benefitting from the large user base for our core product, Xunlei Accelerator, we have further developed various value-added services to meet a fuller spectrum of our users' digital media content access and consumption needs including:

Xunlei Kankan, the 6<sup>th</sup> largest online video streaming platform in China, with monthly unique visitors of approximately 136.0 million in March 2014, according to iResearch. Users can watch what they want for free from our comprehensive content library;

Pay per view services, launched in the second half of 2012 and serving approximately 155,000 subscribers as of March 31, 2014, providing them with access to our premium content library of over 800 movies, primarily new releases. As of March 31, 2014, about 58% of our pay per view subscribers are also subscribers for our premium acceleration services, presenting opportunities for further cross-selling; and

Online game services, including web games and massive multiplayer online games, or MMOGs, offered on our gaming platform.

We are increasingly expanding our services to living room based internet devices and mobile devices, as part of our cloud-based home and mobile strategies. Starting in 2013, we began to pre-install our acceleration products in set-top boxes distributed by third-party hardware providers. As of March 31, 2014, we had accumulated an installed base of approximately 1,552,000 set-top boxes across China. We believe our living room strategy combined with our success on PC internet will provide a seamless user experience to access digital media content from any device. We also target to make our mobile applications the central user interface for accessing and managing digital media content in a synchronized manner. Since 2012, we entered into pre-installment service agreements with several mobile phone manufacturers, including a Xiaomi group company, pursuant to which we agree to provide our Xunlei mobile acceleration applications, and the mobile phone manufacturers agree to install such applications on their phones, free of charge. Xiaomi is a well-recognized smart phone brand in China and once such pre-installment arrangements are implemented, Xiaomi phone users will have access to our acceleration services, which could enhance our ability to generate more user traffic. These strategies and our compelling value proposition will provide us with the foundation to further grow our user base and allow our customers to access and enjoy digital media content regardless of device or location.

The technological backbone of our products and services is our cloud acceleration technology, comprised of a proprietary file locating system and massive file index database. Our technology enables us to support greater user expansion with incremental increases in server and bandwidth costs. This technology, based on distributed computing architecture, along with our indexing technology, enables users to access content in an efficient manner.

We have successfully monetized our large user base. We generate revenues primarily through the following services:

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

Online advertising services. We offer advertising services by providing marketing opportunities on our online video streaming websites and platform to our advertisers; and

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Other internet value-added services. We offer multiple other value-added services to our users, including online games and pay per view services.

We have grown significantly in recent years. Our revenues increased from US\$87.5 million in 2011 to US\$148.2 million in 2012 and US\$180.2 million in 2013. We had net loss attributable to Xunlei Limited of US\$0.01 million in 2011 and net income attributable to Xunlei Limited of US\$0.5 million in 2012 and US\$10.7 million in 2013, respectively. Our revenues were US\$41.3 million and US\$41.2 million for the three months ended March 31, 2013 and 2014, respectively. We had net income attributable to Xunlei Limited of US\$3.9 million for the three months ended March 31, 2013 and US\$0.4 million for the same period in 2014.

**Our industry**

The proliferation of internet usage in China in recent years has made China the largest internet market in the world. According to China Internet Network Information Center, or CNNIC, the number of internet users in China had reached 618 million as of December 31, 2013. In addition, China had a broadband penetration rate of 88.8% among internet users as of December 31, 2012, according to iResearch. With the increasing internet penetration in China, several leading internet platforms have emerged and attracted large user base. According to iResearch, there are only 12 internet platforms in China with over 300 million monthly unique visitors, based on the data for the month ended March 31, 2014, including Xunlei.

As internet penetration continues to increase in China and throughout the world, digital media has proliferated, resulting in enormous amount of digital media content flow through the internet.

*Online video.* Online video usage in China grew significantly in recent years after an initial lag caused by bandwidth limitations and software and hardware compatibility requirements. According to iResearch, the size of China's online video market, as measured by revenues, is expected to grow from 6.3 billion Renminbi, or RMB, in 2011 to RMB29.8 billion in 2016, representing a CAGR of 36.6%.

*Online games.* Online gaming is one of the most popular online activities in China. According to iResearch, the size of China's online gaming market, as measured by revenues, is expected to grow from RMB53.4 billion in 2011 to RMB183.7 billion in 2016, representing a CAGR of 27.8%.

In addition to PC and mobile, TV is also emerging as a new outlet for internet consumption. According to Analysys International, the installed base of OTT (over-the-top) TVs in China, including smart TVs and TVs with smart set-top boxes connections, was 17.0 million as of December 31, 2012, and is expected to increase to 239.0 million as of December 31, 2016, representing a CAGR of 93.6%.

Although the internet has become the mainstream channel for accessing digital media content, challenges for data transmission still exist. The size of digital media content files continues to grow to provide better user experience, which generates significant demand and opportunities for accelerated data transmission. Increasing consumption of digital media content, especially data-intensive content, may cause latency and other network performance issues. In China, most of the internet traffic goes through the networks of three carriers, China Telecom, China Unicom and China Mobile, which form the internet backbone of the country. However, major subnets are operated by different carriers in each province with limited interconnectivity

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among the three carriers, which causes network congestion despite improving last mile access enabled by increasing bandwidth. As a result, internet users in China constantly seek advanced technologies to enhance the accessibility of internet content.

**Our strengths**

We believe the following key strengths contribute to our success and differentiate us from our competitors:

Leading consumer internet platform in China;

Large and loyal user base with a growing number of subscribers;

Highly scalable and cost-efficient distributed computing network;

Proven monetization track record; and

Culture of innovation and experienced management team.

**Our strategies**

Our mission is to become the leading technology company for internet users in China to access, manage and consume digital media content through internet-enabled devices. We intend to achieve this mission by pursuing the following strategies:

Continue to grow our user base and improve user engagement and retention through user experience enhancement;

Further monetize our large user base;

Endeavor to provide seamless cross device user access;

Strengthen relationships with strategic partners to further build our ecosystem;

Continue to focus on research and development and maintain our technological leadership; and

Selectively pursue business expansion via partnerships and acquisitions.

**Our challenges**

Our ability to achieve our mission and execute our strategies is subject to risks and uncertainties, including but not limited to those relating to our ability to:

continue developing innovative technologies in response to evolving user demand and maintain our technological leadership;

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maintain and further monetize our user base, expand our subscription services and grow our subscriber base;

develop, maintain and protect intellectual property and other proprietary rights;

license and protect third-party intellectual property rights;

attract and retain qualified personnel;

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maintain and develop relationships with advertisers;

successfully adapt our business model to changes in our industry; and

maintain control over our variable interest entities, which is based upon contractual arrangements rather than equity ownership.

**Our history and structure**

We commenced operations in January 2003 through the establishment of Shenzhen Xunlei Networking Technologies Co., Ltd., or Shenzhen Xunlei, in China. We established Xunlei Limited (formerly known as Giganology Limited) as our holding company in February 2005 in the Cayman Islands. Xunlei Limited directly owns Giganology (Shenzhen) Ltd., or Giganology Shenzhen, our wholly owned subsidiary in China established in June 2005.

Giganology Shenzhen has entered into a series of contractual arrangements with Shenzhen Xunlei and its shareholders. The contractual arrangements between Giganology Shenzhen, Shenzhen Xunlei and its shareholders enable us to (1) exercise effective control over Shenzhen Xunlei; (2) receive substantially all of the economic benefits of Shenzhen Xunlei in consideration for the technical and consulting services provided and the intellectual property rights licensed by Giganology Shenzhen; and (3) have an exclusive option to purchase all of the equity interests in Shenzhen Xunlei when and to the extent permitted under laws and regulations of People's Republic of China, or PRC.

As a result of these contractual arrangements, we are considered the primary beneficiary of Shenzhen Xunlei, and we treat it as our variable interest entity, or VIE, under the generally accepted accounting principles in the United States, or U.S. GAAP. We have consolidated the financial results of Shenzhen Xunlei and its subsidiaries in our consolidated financial statements in accordance with U.S. GAAP.

In February 2011, we established a direct wholly owned subsidiary, Xunlei Network Technologies Limited, or Xunlei Network BVI, in the British Virgin Islands. In March 2011, we established Xunlei Network Technologies Limited, or Xunlei Network HK, in Hong Kong, which is the direct wholly owned subsidiary of Xunlei Network BVI.

In November 2011, we established Xunlei Computer (Shenzhen) Co., Ltd. (also known as Thunder Computer (Shenzhen) Limited), or Xunlei Computer, in China, which is the direct wholly owned subsidiary of Xunlei Network HK.

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The following diagram illustrates our corporate structure and subsidiaries and variable interest entities as of the date of this prospectus:

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

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

In March 2014, we completed the first tranche of series E preferred shares financing, pursuant to which Xiaomi Ventures Limited, or Xiaomi Ventures, subscribed for 70,975,491 series E preferred shares for a total purchase price of US\$200 million, or approximately US\$2.8 per share. As of the date of this prospectus, Xiaomi Ventures holds approximately 27.2% of our total issued and outstanding shares on an as-converted basis. In addition, concurrent with the closing of Xiaomi Ventures' subscription, we issued warrants to Xiaomi Ventures with an exercise price of approximately US\$2.8 per share. As of the date of this prospectus, Xiaomi Ventures is entitled to subscribe for up to 17,744,264 series E preferred shares upon exercise of the warrants. If we are unable to complete this offering by December 31, 2014, then such warrants are exercisable at Xiaomi Ventures' option starting from January 1, 2015 and ending on March 1, 2015. Xiaomi Ventures has agreed to subscribe for up to US\$50 million of ADSs in this offering, subject to the discretion of Xunlei Limited and the lead underwriters as to the amount of ADSs that Xiaomi Ventures will get in this offering, if any, provided that the ADSs subscribed by Xiaomi Ventures will not account for more than 30% the total ADSs being offered and sold in the offering. In the event that the lead underwriters allocate any number of ADSs to Xiaomi Ventures with a total purchase price of no greater than US\$50 million within 30% of the total number of ADSs being offered and sold in this offering, Xiaomi

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Ventures will be obligated to purchase such ADSs at the initial public offering price no later than at the completion of this offering. Furthermore, Xiaomi Ventures or its designee has the right to subscribe for additional series E preferred shares for a total consideration of US\$100 million within three months after the closing of the first tranche of series E preferred shares financing. Moreover, in relation to the first tranche of series E preferred shares financing, we also issued warrants to Skyline Global Company Holdings Limited, or Skyline, with an exercise price of approximately US\$2.8 per share. As of the date of this prospectus, Skyline is entitled to subscribe for up to 3,406,899 series E preferred shares upon its exercise of the warrants. Such warrants are exercisable at Skyline's option no later than the pricing date of this offering or March 1, 2015, whichever is earlier.

In April 2014, we completed the second tranche of series E preferred shares financing with new investors, including King Venture Holdings Limited, or King Venture, an affiliated investment vehicle of Kingsoft Corporation Limited. As a result, King Venture subscribed for 31,939,676 series E preferred shares for a total purchase consideration of US\$90 million, or approximately US\$2.8 per share, and other investors subscribed for an aggregate number of 7,097,706 series E preferred shares for a total purchase consideration of US\$20 million. As of the date of this prospectus, King Venture holds approximately 12.2% of our total issued and outstanding shares on an as-converted basis. The subscription for additional series E preferred shares upon exercise of subscription rights by Xiaomi Ventures or its designee were deemed to have been consummated simultaneously.

In April 2014, we repurchased shares from several existing shareholders. As of the date of this prospectus, we completed the repurchase of an aggregate number of 23,298,276 common shares and preferred shares.

**Corporate information**

Our principal executive offices are located at 4/F, Hans Innovation Mansion, North Ring Road, No. 9018 High-Tech Park, Nanshan District, Shenzhen, 518057, People's Republic of China. Our telephone number at this address is (86-755) 3391-2900. Our registered office in the Cayman Islands is located at the offices of Maples Corporate Services Limited, PO Box 309, Uglund House, Grand Cayman, KY1-1104, Cayman Islands. Our agent for service of process in the United States is .

Investors should contact us for any inquiries through the address and telephone number of our principal executive offices. Our website is . The information contained on our website is not a part of this prospectus.

**Our Dual Class Share Structure**

Upon the completion of this offering, we will have a dual class common share structure. Our ordinary shares will be divided into Class A common shares and Class B common shares. All of our outstanding ordinary shares held by Vantage Point Global Limited and Alden & Jasmine Limited, our co-founders' wholly owned companies, and series E preferred shares will be redesignated as Class B common shares. Holders of Class A common shares and Class B common shares will have the same rights including dividend rights, except that holders of Class A common shares will be entitled to one vote per share, while holders of Class B common shares will be entitled to votes per share. Due to the disparate voting powers attached to



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these two classes, we anticipate that our existing principal shareholders will continue to collectively own approximately % of the total voting power of our outstanding common shares immediately after this offering, assuming the underwriters do not exercise their over-allotment option to purchase additional ADSs. These shareholders will have considerable influence over matters requiring shareholder approval, including election of directors and significant corporate transactions, such as a merger or sale of our company or substantially all of our assets.

**Implications of being an emerging growth company**

As a company with less than US\$1.0 billion in revenues for the last fiscal year, we qualify as an "emerging growth company" pursuant to the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. These provisions include exemption from the auditor attestation requirement under Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, in the assessment of the emerging growth company's internal control over financial reporting. The JOBS Act also provides that an emerging growth company does not need to comply with any new or revised financial accounting standards until such date that a private company is otherwise required to comply with such new or revised accounting standards. However, we have elected to "opt out" of this provision and, as a result, we will comply with new or revised accounting standards as required when they are adopted for public companies. This decision to opt out of the extended transition period under the JOBS Act is irrevocable.

We will remain an emerging growth company until the earliest of (a) the last day of our fiscal year during which we have total annual gross revenues of at least US\$1.0 billion; (b) the last day of our fiscal year following the fifth anniversary of the completion of this offering; (c) the date on which we have, during the previous three-year period, issued more than US\$1.0 billion in non-convertible debt; or (d) the date on which we are deemed to be a "large accelerated filer" under the Securities Exchange Act of 1934, as amended, or the Exchange Act, which would occur if the market value of our ADSs that are held by non-affiliates exceeds US\$700 million as of the last business day of our most recently completed second fiscal quarter. Once we cease to be an emerging growth company, we will not be entitled to the exemptions provided in the JOBS Act discussed above.

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## The offering

The following information assumes that the underwriters will not exercise their option to purchase additional ADSs in the offering, unless otherwise indicated.

Offering price	We currently estimate that the initial public offering price will be between US\$                      and US\$                      per ADS.
ADSs offered by us	ADSs.
[ADSs offered by the selling shareholders]	ADSs.
ADSs outstanding immediately after this offering	ADSs (or                      ADSs, if the underwriters exercise in full their over-allotment option to purchase additional ADSs).
Common shares outstanding immediately after this offering	We will adopt a dual class common share structure immediately upon the completion of this offering. As a result, we will have                      common shares (or                      common shares if the underwriters exercise their over-allotment option in full) outstanding immediately upon the completion of this offering, comprised of (i)                      Class A common shares, par value \$0.00025 per share (or                      Class A common shares if the underwriters exercise their over-allotment option in full) and (ii)                      Class B common shares, par value \$0.00025 per share. The                      Class B common shares outstanding immediately after the completion of this offering will represent                      % of the total outstanding share capital and                      % of the then total voting power (assuming the underwriters do not exercise the over-allotment option). Our co-founder and chief executive officer, Mr. Sean Shenglong Zou, will beneficially own                      Class A common shares and                      Class B common shares after the completion of this offering, which represent                      % of the then total voting power (assuming the underwriters do not exercise the over-allotment option).
The ADSs	Each ADS represents                      Class A common shares, par value US\$0.00025 per share.  The depositary will hold the Class A common shares underlying your ADSs. You will have rights as provided in the deposit agreement.  If we declare dividends on our Class A common shares, the depositary will pay you the cash dividends and other distributions it receives on our Class A common shares, after deducting its fees and expenses.

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You may turn in your ADSs to the depositary in exchange for Class A common shares. The depositary will charge you fees for any exchange.

We may amend or terminate the deposit agreement without your consent. If you continue to hold your ADSs, you agree to be bound by the deposit agreement as amended.

To better understand the terms of the ADSs, you should carefully read the "Description of American Depositary Shares" section of this prospectus. You should also read the deposit agreement, which is filed as an exhibit to the registration statement that includes this prospectus.

#### Common shares

We will redesignate our common shares and convert our preferred shares into Class A common shares or Class B common shares, as applicable, immediately upon the completion of this offering. Holders of Class A common shares will be entitled to one vote per share, while holders of Class B common shares will be entitled to \_\_\_\_\_ votes per share on most corporate matters. Immediately upon the completion of this offering, we will have \_\_\_\_\_ Class B common shares outstanding.

We plan to issue Class A common shares represented by our ADSs in this offering.

Each Class B common share is convertible into one Class A common share at any time by the holder. Class A common shares will not be convertible into Class B common shares under any circumstance.

#### Over-allotment option

We have granted to the underwriters an option, which is exercisable within 30 days from the date of this prospectus, to purchase up to an additional \_\_\_\_\_ ADSs.

#### Use of proceeds

We plan to use the net proceeds we receive from this offering to invest in technology, infrastructure and product development efforts, to acquire digital media content and exclusive online game licenses and for other general corporate purposes, including working capital needs and potential acquisitions. See "Use of proceeds" for additional information.

[We will not receive any of the proceeds from the sale of ADSs by the selling shareholders.]

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Lock-up	We, our directors and executive officers, our existing shareholders and holders of [most of the options] to purchase our common shares have agreed with the underwriters, subject to certain exceptions, not to sell, transfer or dispose of, directly or indirectly, any of our ADSs or common shares or securities convertible into or exercisable or exchangeable for our ADSs or common shares for a period of 180 days following the date of this prospectus. Furthermore, all of our directors, executive officers, existing shareholders and holders of the options to purchase our common shares are restricted by our agreement with the depository from depositing common shares in our ADS facility or having new ADSs issued to them during the same period. See "Underwriting" for more information.
Listing	We have applied to have the ADSs listed on the [NYSE/NASDAQ Global Market] under the symbol "XNET." Our ADSs and shares will not be listed on any other stock exchange or traded on any automated quotation system.
Payment and settlement	The underwriters expect to deliver the ADSs against payment therefor through the facilities of the Depository Trust Company on .
Depository	
Reserved ADSs	At our request, the underwriters have reserved for sale, at the initial public offering price, up to ADSs offered by this prospectus to our directors, officers, employees, business associates and related persons through a directed share program.
Risk Factors	See "Risk factors" and other information included in this prospectus for a discussion of risks you should carefully consider before investing in our ADSs.
The number of common shares that will be outstanding immediately after this offering:	
	assumes conversion of all outstanding preferred shares into Class A common shares and Class B common shares immediately upon completion of this offering;
	assumes no exercise of the underwriters' over-allotment option;
	excludes common shares issuable upon the exercise of options outstanding as of the date of this prospectus, at a weighted average exercise price of US\$ per share; and
	excludes Class A common shares reserved for future issuances under our share incentive plans.

Table of Contents**Summary consolidated financial data**

The following summary consolidated statements of operations data for the years ended December 31, 2011, 2012 and 2013 and the summary balance sheet data as of December 31, 2012 and 2013 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary consolidated statements of operations data for the three months ended March 31, 2013 and 2014 and the summary balance sheet data as of March 31, 2014 are derived from our unaudited interim condensed consolidated financial statements included elsewhere in this prospectus. We have prepared the unaudited interim condensed consolidated financial statements on the same basis as our audited consolidated financial statements and include all adjustments, consisting only of normal and recurring adjustments, that we consider necessary for a fair statement of our financial position and operating results for the periods presented. Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP. Our historical results for any period are not necessarily indicative of results to be expected for any future period. You should read the following summary financial information in conjunction with the consolidated financial statements and related notes and the information under "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.

(in thousands of US\$, except for share, per share and per ADS data)	For the Year Ended December 31,			For the Three Months Ended March 31,	
	2011	2012	2013(unaudited)	2013(unaudited)	2014(unaudited)
Revenues, net of rebates and discounts	87,471	148,200	180,244	41,319	41,190
Business tax and surcharges	(5,569)	(7,679)	(5,650)	(1,245)	(1,192)
<b>Net revenues</b>	<b>81,902</b>	<b>140,521</b>	<b>174,594</b>	<b>40,074</b>	<b>39,998</b>
Cost of revenues	(48,068)	(84,012)	(93,260)	(20,783)	(23,864)
<b>Gross profit</b>	<b>33,834</b>	<b>56,509</b>	<b>81,334</b>	<b>19,291</b>	<b>16,134</b>
Operating expenses <sup>(1)</sup>					
Research and development expenses	(12,142)	(20,357)	(28,832)	(6,093)	(7,079)
Sales and marketing expenses	(10,966)	(20,219)	(26,610)	(4,443)	(5,027)
General and administrative expenses	(18,601)	(18,474)	(23,073)	(4,409)	(6,068)
Total operating expenses	(41,709)	(59,050)	(78,515)	(14,945)	(18,174)
Net gain/(loss) from exchanges of content copyrights	4,742	4,666	1,020	(171)	826
<b>Operating (loss)/income</b>	<b>(3,133)</b>	<b>2,125</b>	<b>3,839</b>	<b>4,175</b>	<b>(1,214)</b>
Interest income	270	1,377	1,189	190	387
Interest expense	(339)	(1,400)			
Other income, net	1,415	564	4,679	588	1,123
Shares of (loss)/income from equity investee	(7)	(45)	25	(23)	(56)
(Loss)/income before income tax	(1,794)	2,621	9,732	4,930	240
Income tax benefit/(expense)	1,783	(2,239)	647	(862)	(62)



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(in thousands of US\$, except for share, per share and per ADS data)	For the Three Months Ended March 31,				
	For the Year Ended December 31,			2013	2014
	2011	2012	2013 (unaudited)	(unaudited)	
<b>Net (loss)/income</b>	(11)	382	10,379	4,068	178
Less: net loss attributable to non-controlling interest	(1)	(121)	(283)	167	(219)
<b>Net (loss)/income attributable to Xunlei Limited</b>	(10)	503	10,662	3,901	397
Beneficial conversion feature of series C convertible preferred shares from their modification		(286)			
Deemed contribution from series C preferred shareholders		2,979			
Contingent beneficial conversion feature of series C to a series C shareholder					(57)
Deem dividend to series D shareholder from its modification					(279)
Accretion of series D to convertible redeemable preferred shares redemption value		(3,509)	(4,300)	(1,060)	(1,153)
Accretion of series E to convertible redeemable preferred shares redemption value					(2,525)
Amortization of beneficial conversion feature of series E					(933)
Allocation of net income to participating preferred shareholders			(4,094)	(1,828)	
Net (loss)/income attributable to Xunlei Limited's common shareholders	(10)	(313)	2,268	1,013	(4,550)
Weighted average number of common shares used in per share calculations					
Basic	59,143,208	61,447,372	61,447,372	61,447,372	61,447,372
Diluted	59,143,208	61,447,372	76,065,898	75,901,980	61,447,372
Net (loss)/income attributable to holders of common shares of Xunlei Limited per common share					
Basic	(0.00)	(0.01)	0.04	0.02	(0.07)
Diluted	(0.00)	(0.01)	0.01	0.01	(0.07)

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(in thousands of US\$, except for share, per share and per ADS data)	For the Year Ended			For the Three Months Ended	
	2011	2012	December 31, 2013 (unaudited)	2013	March 31, 2014 (unaudited)
Net (loss)/income attributable to holders of common shares of Xunlei Limited per ADS <sup>(2)</sup>					
Basic					
Diluted					
Weighted average number of common shares used in pro forma per share calculations					
Basic			172,400,906		245,012,554
Diluted			187,019,432		314,032,593
Pro forma earnings per common share (unaudited) <sup>(3)</sup>					
Basic			0.06		0.00
Diluted			0.05		0.00
Pro forma earnings per ADS (unaudited) <sup>(2)</sup>					
Basic					
Diluted					
Adjusted Article 11 pro forma net (loss)/income attributable to Xunlei Limited's common shareholders (unaudited) <sup>(4)</sup>					
Basic			(6,994)		823
Diluted			(6,994)		636
Weighted average number of common shares used in adjusted Article 11 pro forma (loss)/earnings per share calculations (unaudited) <sup>(4)</sup>					
Basic			260,757,736		260,757,736
Diluted			260,757,736		329,796,236
Adjusted Article 11 pro forma (loss)/earnings per common share (unaudited) <sup>(4)</sup>					
Basic			(0.03)		0.00
Diluted			(0.03)		0.00

## Notes:

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

(in thousands of US\$)	For the Year Ended			For the Three Months Ended March 31,	
	2011	2012	December 31, 2013 (unaudited)	2013	2014 (unaudited)
Research and development expenses	898	1,085	973	235	191
Sales and marketing expenses	73	46	43	9	12
General and administrative expenses	1,128	1,102	1,080	84	859
Total share-based compensation expenses	2,099	2,233	2,096	328	1,062

(2) Each ADS represents Class A common shares.

(3) The unaudited pro-forma earnings per share give effect to our planned re-designation of common shares and preferred shares into the equivalent number of Class A and Class B common shares upon the completion of this



offering. The unaudited

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pro forma presentation does not include (1) the series E preferred shares issued in April 2014, and (2) the repurchase transactions occurred in April 2014.

(4) The unaudited adjusted Article 11 pro-forma net loss attributable to Xunlei Limited's common shareholders, loss per common share and weighted average number of common shares used in adjusted Article 11 pro forma loss per share calculation for the year ended December 31, 2013 give effect to (1) the series E preferred shares issued in March and April 2014, (2) the repurchase transactions occurred in April 2014, and (3) our planned re-designation of common shares and preferred shares into the equivalent number of Class A and Class B common shares upon the completion of this offering. The unaudited adjusted Article 11 pro-forma net income attributable to Xunlei Limited's common shareholders, earnings per common share and weighted average number of common shares used in adjusted Article 11 pro forma earnings per share calculation for the three months ended March 31, 2014 give effect to (1) the series E preferred shares issued in April 2014, (2) the repurchase transactions occurred in April 2014, and (3) our planned re-designation of common shares and preferred shares into the equivalent number of Class A and Class B common shares upon the completion of this offering. Please refer to our unaudited pro forma condensed consolidated financial information on pages P-17 and P-18 for additional information.

(in thousands of US\$)	As at December 31,		As at March 31,			
	2012	2013	2014 Actual, (unaudited)	2014 <sup>(1)</sup> Pro forma (unaudited)	2014 <sup>(2)</sup> Article 11 Pro forma as adjusted (unaudited)	2014 <sup>(3)</sup> Pro forma as adjusted (unaudited)
<b>Selected Consolidated Balance Sheet Data:</b>						
Cash and cash equivalents	81,906	93,906	302,361	302,361	338,277	
Short-term investments	6,523	40,993	32,339	32,339	32,339	
Total current assets	163,830	193,781	385,409	385,409	421,325	
Total assets	202,204	244,403	439,785	439,785	475,701	
Accounts payables	31,834	39,820	36,922	36,922	36,922	
Total current liabilities	79,544	105,385	100,961	100,961	101,018	
Total liabilities	97,886	124,835	155,255	155,255	127,460	
Mezzanine equity	35,990	40,290	157,443			
Total Xunlei Limited's shareholders' equity	67,968	79,194	127,222	284,665	348,376	
Non-controlling interest	360	84	(135)	(135)	(135)	
Total liabilities and equity	202,204	244,403	439,785	439,785	475,701	

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(in thousands of US\$)	For the Year Ended December 31,			For the Three Months Ended March 31,	
	2011	2012	2013	2013 (unaudited)	2014 (unaudited)
<b>Selected Cash Flow Statement Data:</b>					
Net cash generated from operating activities	18,277	59,914	85,533	16,590	15,019
Net cash used in investing activities	(36,875)	(49,490)	(78,352)	(18,179)	(5,130)
Net cash generated from financing activities	50,032	17,692	2,487	1,307	199,620
Net increase/(decrease) in cash and cash equivalents	31,434	28,116	9,668	(282)	209,509
Effect of exchange rate changes	562	441	2,332	169	(1,054)
Cash and cash equivalents at beginning of year/period	21,353	53,349	81,906	81,906	93,906
Cash and cash equivalents at end of year/period	53,349	81,906	93,906	81,793	302,361

(1) on a pro forma basis to reflect the planned re-designation of common shares and preferred shares into the equivalent number of Class A and Class B common shares upon the completion of this offering, and the unaudited pro forma presentation does not include (1) the series E preferred shares issued in April 2014 and (2) the repurchase transactions occurred in April 2014.

(2) on an Article 11 pro forma as adjusted basis to reflect (1) the series E preferred shares issued in April 2014, (2) the repurchase transactions occurred in April 2014, and (3) our planned re-designation of common shares and preferred shares into the equivalent number of Class A and Class B common shares upon the completion of this offering. Please refer to the unaudited pro forma condensed consolidated financial information on page P-2 for additional information.

(3) on a pro forma as adjusted basis to reflect (1) the planned re-designation of common shares and preferred shares into the equivalent number of Class A and Class B common shares, (2) the issuance and sale of series E preferred shares in April 2014, (3) the repurchase transactions occurred in April 2014, and (4) the issuance and sale of Class A common shares in the form of ADSs by us in this offering at an assumed initial public offering price of US\$ per ADS, the midpoint of the estimated initial public offering price range shown on the front cover of this prospectus, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

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## **Risk factors**

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

### **Risks related to our business**

*If we fail to continue the growth based on our current subscription-based, multiple-source revenue model, our business will be adversely affected.*

We launched our core product, Xunlei Accelerator, in 2004 and cloud acceleration subscription services in 2009 to enable users to quickly access and consume digital media content. These cloud acceleration products have rapidly achieved nationwide popularity in the past few years. Coupled with our core products and services, we provide online video streaming services through Xunlei Kankan platform and other internet value-added services. Revenues from our cloud acceleration subscription services have significantly increased since 2009 while revenues from our online advertising and other internet value-added services have increased steadily over the years. We expect our growth trend to continue as we expand our subscriber base. However, due to the limited operating history of our current subscription-based, diversified multiple-source revenue stream business model, our historical growth rate may not be indicative of our future performance, especially if we are unable to continue to convert more users into subscribers. We also cannot assure you that we will grow at the same rate as we did in the past.

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

We enjoy a large user base. Our platform had over 300 million monthly unique visitors in March 2014, according to iResearch. Xunlei Kankan attracted approximately 136.0 million monthly unique visitors in March 2014, according to iResearch. However, if we are unable to consistently provide our users with quality experience of quick and easy access to digital media content, or if users do not perceive our service offerings to be of value, or if we introduce new or adjust existing features or change the mix of digital media content in a manner that is not favorably received by them, we may not be able to retain our existing users.

We launched our cloud acceleration subscription services in March 2009, which have since then experienced substantial growth. The total number of our subscribers reached approximately 5.2 million as of March 31, 2014. However, we cannot assure you that we will be able to maintain and increase the number of our subscribers. For example, our efforts to provide greater incentives for our users to subscribe, including marketing activities to highlight the value of differentiated subscriber-only services, such as Green Channel and Offline Accelerator, may not continue to succeed. Our subscribers may stop their subscriptions or other spending on our products or services because we no longer serve their needs or if we are unable to successfully compete with current and new competitors in both retaining our existing subscribers and attracting new subscribers, which would adversely impact our business, results of operations and prospects.

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

The internet industry is rapidly evolving and subject to continual technological changes. As the internet infrastructure continues to develop, the internet may become more easily accessible through alternative technological innovations in the future, which would make our existing products and services less attractive to our users. For example, an increasing number of users access the internet via devices other than PCs, including mobile phones and other hand-held devices, which requires us to upgrade our software and website to make our services easily accessible by users of mobile devices. Although as of the date of this prospectus, approximately 5% of our existing users access the acceleration and online streaming services through mobile devices, if our mobile-based services fail to become popular, we may lose those users and fail to attract new users, which may further adversely impact our growth. In addition, user demands for internet content may also shift over time. Currently, internet users appear to have significant demand for multimedia acceleration, online streaming and online games services, and we expect such demand to continue. However, we cannot assure you that the behavior of internet users will not change in the future. If we do not upgrade our services in response to changes of users' demands in an effective and timely manner, the number of our users and advertisers may decrease. Furthermore, changes in technologies and user demands may require substantial capital expenditures in product development and infrastructure. We are increasingly extending to mobile devices in part through potentially pre-installed acceleration products in mobile phones and to living rooms through TV coverage (set-top boxes and IPTV) to further expand our user base and offer our users a wider range of access points. To achieve this, we are continually developing and upgrading products and services and seeking strategic cooperation with hardware manufacturers which may require significant resources from us. If we fail to implement our strategy successfully, or if our innovations cannot respond to the needs of our users, our business, results of operations and prospects may be materially and adversely affected. Failure to keep up with technological developments may cause our services to become less attractive, which in turn may materially and adversely affect our business, results of operations and prospects.

***We face and expect to continue to face copyright infringement claims and other related claims, including claims based on content available through our services, which could be time-consuming and costly to defend and may result in damage awards, injunctive relief and/or court orders, divert our management's attention and financial resources and adversely impact our business.***

Our success depends, in large part, on our ability to operate our business without infringing, misappropriating or otherwise violating third-party rights, including third-party intellectual property rights. Internet, technology and media companies are frequently involved in litigation based on allegations of infringement of intellectual property rights, unfair competition, invasion of privacy, defamation and other violations of other parties' rights.

In May 2014, we entered into a content protection agreement with the Motion Picture Association of America, Inc., or MPAA, whose members include six major U.S. entertainment content providers. We have agreed to implement a comprehensive system of measures designed to prevent unauthorized downloading of and access to such content providers' works. Among these content protection measures, we have agreed to (1) implement a filtering system

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that will be applied to these content providers' video content, (2) filter these content providers' video content prior to making any such content available to our users through our websites or client applications, (3) adopt state-of-the-art fingerprinting-based filtering technologies, (4) cooperate with these content providers going forward to ensure the effectiveness of our content protection measures, and (5) incorporate additional content protection measures to the extent that they are necessary to effectively protect against copyright infringement. Due to the technological complexities of such content protection measures, we may fail to satisfy certain obligations under such agreement for technological or other reasons which may be out of our control. Even if we comply with all of our obligations under the content protection agreement, the implementation of content protection measures may affect our users' experience or otherwise make our services and products less competitive than those of our competitors, which could in turn materially and adversely affect our business, financial condition and results of operations. In the event that the content protection agreement is terminated or we are otherwise deemed not to be fully compliant with its material terms, the content providers may initiate a lawsuit or other proceeding against us, including for any past claims that they might otherwise have made prior to entering into the agreement. In addition, other third party content providers may still initiate lawsuits or other proceedings against us.

In the ordinary course of our business, we receive written notices from third parties claiming that certain content in our network or on one or more of our websites infringe their copyrights and threatening to take legal actions against us. We have in the past received claims that content and games on our websites infringes third parties' copyrights and requesting us to cease distribution, marketing or displaying such content or games on our websites. Based on our knowledge, we do not think any such allegations are substantiated. However, claims alleging copyright infringement or other claims arising from the content accessible through our distributed computing network, or on our websites or through our other services, such as any potential legal proceeding initiated by MPAA members or the Motion Picture Association Inc., or MPA, with or without merit, may lead to damage awards and/or court orders, diversion of our management's attention and financial resources and negative publicity affecting our brand and reputation, and therefore adversely affect our results of operations and business prospects.

We were subject to a total of 176 lawsuits, 114 lawsuits, 72 lawsuits and 4 lawsuits in China for alleged copyright infringement in 2011, 2012, 2013 and the three months ended March 31, 2014, respectively. Approximately 96.4% of these lawsuits were rejected by relevant PRC courts, withdrawn by the plaintiffs or settled as of March 31, 2014. Among these lawsuits, we have only lost three lawsuits where we were ordered to pay monetary damage in the amount of RMB56,350 (US\$9,054). As of March 31, 2014, we accrued approximately US\$1.0 million in litigation expenses related to cases filed before then, which included US\$0.8 million in copyright infringement litigation. Such amounts included amounts owed pursuant to out-of-court settlements. As of March 31, 2014, we had 17 copyright infringement lawsuits pending against us with an aggregate amount of claimed damages of approximately RMB16.3 million (US\$2.6 million) and the majority of such amount relates to claims against the Gougou website.

The copyright infringement lawsuits pending against us involve claims alleging copyright infringement arising in connection with videos available on Xunlei Kankan and third-party content allegedly accessible through links provided by Gougou, a web search engine. In December 2010, we sold the domain name, trademark rights and copyright interests in

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software relating to Gougou to a third party. As part of the purchase agreement, the third-party buyer assumed all existing and future liabilities related to Gougou, including liabilities resulting from intellectual property claims by third parties, and agreed to indemnify us for any future losses from such liabilities. However, the risk remains that the buyer may either become unwilling or, through liquidation or other events, unable to honor its obligations under the purchase agreement to assume liabilities related to Gougou, in which case we may be held liable for any liabilities related to Gougou.

***The premium acceleration services and other value-added services we provide to our subscribers may expose us to additional copyright infringement claims, which could materially and adversely affect our existing business model.***

We provide subscribers limited space to temporarily store content downloaded on our servers for optimal acceleration performance. Subscribers may also request our cloud servers to transmit a file on their behalf and upload it to their properties. See "Business Our Platform Cloud accelerator Subscription services." In addition, certain of our services allow users to upload files after they create accounts with us, converting the files into links and sharing such links with designated persons. We may be liable for transmitting or temporarily storing content or creating links representing content on behalf of our subscribers if such content infringes third-party intellectual property rights, and any such potential legal liabilities could materially and adversely affect our existing business model.

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

We cannot assure you that holders of patents purportedly relating to our resource discovery network, products or services, if any such holders exist, would not seek to enforce such patents against us in China, the United States or any other jurisdictions. Based on our own analysis, we do not believe that we are currently infringing any third-party patents of which we are aware. However, our analysis may have failed to identify all relevant patents and patent applications. For example, there may be currently pending applications, unknown to us, that may later result in issued patents that are infringed by our products, services or other aspects of our business. There could also be existing patents of which we are not aware that our products may inadvertently infringe. Third parties may attempt to enforce such patents against us. Further, the application and interpretation of China's patent laws and the procedures and standards for granting patents in China are still evolving and are uncertain, and we cannot assure you that PRC courts or regulatory authorities would agree with our analysis. Any patent infringement claims, regardless of their merits, could be time-consuming and costly to us. If we were found to infringe third-party patents and were not able to adopt non-infringing technologies, we may be severely limited in our ability to operate our business, and our results of operations could be materially and adversely affected.

***The intellectual property protection mechanism we have implemented may not be effective or sufficient and may subject us to future litigation or result in our inability to continue providing certain of our existing services in China.***

We may not have obtained licenses for all digital media content available via our services and the scope of the licenses we obtained for certain content may not be broad enough to cover all fashions we currently employ to distribute, market or display such content. For digital media

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content we have lawfully obtained from an authorized licensor, we may not be able to timely detect the expiration of the licensing period of certain of the content available via our services and disable access to such content via our services in a timely manner. We have been involved in litigations based on allegations from rights owners that we have infringed their copyright interests in such content. Assisted by our intellectual property team dedicated to copyright protection, we have implemented internal procedures to meet the requirements under relevant PRC laws and regulations to monitor and review the content we license before it is released on Xunlei Kankan and remove any infringing content promptly after we receive notice of infringement from the legitimate rights holder. See also "Business Intellectual Property digital media data monitoring and copyright protection" for more details. However, due to the significant amount of digital media content available on Xunlei Kankan, or accessible through our resource discovery network and other services, we generally do not seek to identify infringing content absent receiving any notice of infringement. In addition, we organize and recommend to our users, digital media content accessible through our services and provided on certain reputable audio-visual websites that have a cooperation relationship with us. As such, we may be exposed to the risk of copyright infringement liability in the event that such content has not been duly licensed to us or to the operators of those websites. Moreover, some rights owners may not send us a notice before bringing a lawsuit against us. Thus, our inability to identify unauthorized content hosted on our website or servers, or accessible through our network has subjected us to, and is expected to continue to subject us to, claims of infringement of third-party intellectual property rights or other rights. In addition, we may be subject to administrative actions brought by the National Copyright Administration of the PRC or its local branches for alleged copyright infringement.

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



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risks relating to intellectual property infringement, we may have to substantially modify, limit or, in extreme cases, terminate some of our services. Any of such changes could materially affect our users' experience and in turn have a material adverse impact on our business.

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

Although we have not been subject to claims or lawsuits outside China, we cannot assure you that we will not 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 services in the United States and other jurisdictions, the ownership of our ADSs by investors, the extraterritorial application of foreign law by foreign courts or for other reasons. We have attracted and expect to continue to attract attention from intellectual property owners outside of China, despite our efforts to control access to our products and services by users outside China. For example, the Recording Industry Association of America filed a letter with the Office of the United States Trade Representative in November 2010 accusing certain of our divested or discontinued products of facilitating intellectual property infringement. Although we take steps to block IP addresses that are located in certain jurisdictions, including the United States, from accessing certain of our services, such efforts may not be technologically successful with 100% accuracy, and any unintended access to our services may increase our risk of becoming subject to copyright laws in such jurisdictions. Even if our efforts to block IP addresses located in the United States or other jurisdictions are successful, recent efforts to amend the laws in such jurisdictions, such as bills intended to expand the extraterritorial scope of the U.S. Copyright Act, may increase our risk of becoming subject to copyright laws in such jurisdictions. In addition, as a publicly listed company, we may be exposed to increased risk of litigation.

Although U.S. copyright laws, including the Digital Millennium Copyright Act (17 U.S.C. § 512), or the DMCA, provide safeguards or "safe harbors" from claims in the United States for monetary relief for copyright infringement for certain entities that host user-uploaded content or provide information location tools that may link to infringing content, these safe harbors apply only to companies that comply with specified statutory requirements. We do not currently satisfy all of the statutory requirements of any DMCA safe harbor. If we are ever held to be subject to United States copyright law, that could increase our risk of direct or indirect copyright liability for our resource discovery, acceleration or other services. If a claim of infringement brought against us in the United States or other jurisdictions is successful, we may be required to (i) pay substantial statutory or other damages and fines, (ii) remove relevant content from our website, (iii) discontinue products or services and/or (iv) seek royalty or license agreements that may not be available on commercially reasonable terms or at all.

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

Our patents, trademarks, trade secrets, copyrights and other intellectual property rights are important assets for us. Events that are outside of our control may pose a threat to our intellectual property rights. For example, effective intellectual property protection may not be available in China and some other jurisdictions in which our services are distributed or made available through the internet. Also, the efforts we have made to protect our proprietary

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rights may not be sufficient or effective. Any significant impairment of our intellectual property rights could harm our business or our competitiveness. Also, protecting our intellectual property rights is costly and time consuming. Any increase in the unauthorized use of our intellectual property could make it more expensive to conduct our business and harm our results of operations.

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

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

***The success of our business depends on our ability to maintain and enhance a strong brand. If we fail to sustain or improve the strength of our brand, we may subsequently experience difficulty in maintaining market share.***

We believe that maintaining and enhancing our Xunlei brand is of significant importance to the success of our business. A well-recognized brand is critical to increasing our user base and, in turn, enhancing our attractiveness to advertisers, subscribers and paying users. Since the Chinese internet market is highly competitive, maintaining and enhancing our brand depends largely on our ability to retain a significant market share in China, which may be difficult and expensive.

We have developed our reputation and established a leading position by providing our users with a superior acceleration and video viewing experience. We will continue to conduct, various marketing and brand promotion activities. We cannot assure you, however, that these activities will be successful and achieve the brand promotion effects we expect. In addition, any negative publicity in relation to our services or our marketing or promotion practices, regardless of its veracity, could harm our brand image and, in turn, result in a reduced number of users and advertisers. Historically there has been negative publicity about our company, our products and services and certain key members of our management team, which has adversely affected our brand, public image and reputation. If we fail to maintain and enhance our brand, or if we incur excessive expenses in this effort, our business, financial condition and results of operations may be materially and adversely affected. Our operations rely on our networks and servers, which can suffer failures and business interruptions. Unexpected network

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interruption caused by system failures or computer viruses, for example, or any malfunction, capacity constraint or operation interruption for any extended period may have a material adverse impact on our business.

The satisfactory performance, stability, security and availability of our website and our network infrastructure are critical to our reputation and our ability to attract and retain users and advertisers. Our network provides a database of information regarding file index, advertising records, premium licensed digital media content and various other facets of the business to assist management and help ensure effective communication among various departments and offices of our company. A key element of our business is to generate a high volume of user traffic on our resource discovery network and Xunlei Kankan website. Accordingly, any failure to maintain the satisfactory performance, stability, security and availability of our network, website or technology platform may cause significant harm to our reputation and our ability to attract and maintain internet users, which may affect our users' interest in paying for our services and our advertisers' interest in advertising their products and services on our website. From time to time, our users in certain locations may not be able to gain access to our network or our website for a period of time lasting from several minutes to several hours, due to server interruptions, power shutdowns, internet connection problems or other reasons. Although we have not experienced an extended period of such server interruptions, power shutdowns or internet connection problems across our entire network, we cannot assure you that such instances will not occur in the future. Any server interruptions, break-downs or system failures, including failures which may be attributable to events within or outside our control that could result in a sustained shutdown of all or a material portion of our network or website, could reduce the attractiveness of our service offerings. In addition, any substantial increase in the volume of traffic on our network or website will require us to increase our investment in bandwidth, expand and further upgrade our technology platform. Our network systems are also vulnerable to damage from computer viruses, fires, floods, earthquakes, power losses, telecommunication failures, computer hacking and similar events. We do not maintain insurance policies covering losses relating to our network systems. As a result, any capacity constraints or operation interruptions for an extended period may have a materially adverse impact on our revenues and results of operations.

***If we change advertising business model or fail to retain existing advertisers or attract new advertisers, our revenues may be materially and adversely affected.***

Historically, we generate a substantial portion of our revenues from online advertising. Although the revenues generated from online advertising decreased by 22.3% from US\$61.8 million in the year ended December 31, 2012 to US\$48.0 million in the year ended December 31, 2013 and by 37.0% from US\$11.9 million in the three months ended March 31, 2013 to US\$7.5 million in the same period in 2014 after we discontinued delivering advertisements on Xunlei Accelerator to further improve our user experience and enhance user engagement on Xunlei Accelerator, we expect that the online advertising will continue to be an important revenue source generated from our video streaming services. Our large user base and relatively long user time spent on our website provide advertisers with a broad reach and optimal monetization results. We offer advertising services substantially through contracts entered into with third-party advertising agencies. We cannot assure you that we can continue to retain our advertising agencies and advertisers, or attract new advertising agencies and advertisers. The number of advertisers that use our online advertising services has dropped in

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the recent years. The number of advertisers decreased from 485 in 2011 to 420 in 2012 and 399 in 2013, and from 127 in the three months ended March 31, 2013 to 103 in the same period in 2014. If we cannot retain our existing advertisers or develop new advertisers in the future, our revenues generated from online advertising will be materially and negatively affected. In addition, if any advertising agencies or advertisers determine that their expenditures on our online video website do not generate expected returns, they may allocate a portion or all of their advertising budgets to others and reduce or discontinue business with us. Since our arrangements with third-party advertising agencies are typically one-year framework agreements, such advertising arrangements may be easily amended or terminated without incurring liabilities. Failure to retain existing advertising agencies and advertisers or attract new advertising agencies and advertisers may materially and adversely affect our business, financial condition and results of operations.

A number of our advertisers are e-commerce companies and online game operators. The online game and e-commerce industries in China are rapidly evolving, and the growth of these industries and their demand for online advertising services is uncertain and may be affected by factors out of our control. We also have significant brand advertising and are seeking to further expand this portion of advertising. However, we cannot assure you that we will be able to retain existing advertising agencies and advertisers or attract more advertising agencies and advertisers for brand advertising, and if we fail to do so, our business, results of operations and prospects may be materially and adversely affected.

***If the online advertising industry does not further grow in China, our profitability and prospects may be materially and adversely affected.***

Many advertisers in China have limited experience with online advertising, have historically allocated an insignificant portion of their advertising budgets to online advertising and may consider online advertising a less attractive channel than traditional broadcast and print media in promoting their products and services. Our profitability and prospects largely depend on the continuing development of the online advertising industry in China and may be affected by a number of factors, many of which are beyond our control, including:

development of a larger user base with demographic characteristics attractive to advertisers;

our ability to keep up with technological innovation and improvements in the measurement of user traffic and online advertising;

acceptance of online advertising as an effective marketing channel;

changes in government regulations or policies affecting the online advertising industry; and

increased internet usage in China.

***We are strictly regulated in China. Any lack of requisite licenses or permits applicable to our business and any changes in government policies or regulations may have a material and adverse impact on our business, financial condition and results of operations.***

Our business is subject to governmental supervision and regulations by the relevant PRC governmental authorities including the State Council, the Ministry of Industry and Information Technology (formerly the Ministry of Information Industry), or MIIT, the General Administration of Press and Publication, Radio, Film and Television (established in March 2013 as a result of institutional reform integrating the State Administration of Radio, Film and Television, and the

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General Administration of Press and Publication), or GAPPRFT, Ministry of Culture, or MOC and other relevant government authorities. Together these government authorities promulgate and enforce regulations that cover many aspects of operation of telecommunications and internet information services, including entry into the telecommunications industry, the scope of permissible business activities, licenses and permits for various business activities and foreign investment.

A license for online transmission of audio-visual programs is required for the display of video content on our websites. See "Regulation Regulation on online transmission of audio-visual programs." Shenzhen Xunlei, the operator of our online video streaming platform, has obtained a license for online transmission of audio-visual programs. The list of websites covered by such license has not included www.xunlei.com and the list of terminals has not included mobile and TV devices. In addition, the business categories as indicated in such license fail to cover all the business activities that we are currently engaging, such as the transmission of political news. We plan to apply for an update of our license for online transmission of audio-visual programs to cover the website of www.xunlei.com, the terminals of mobile devices and TVs and expanding the business categories to cover all of our current business activities. However, we cannot assure you that we will be able to obtain such updated license in a timely manner or at all. Due to our failure to update our license for online transmission of audio-visual programs, we may be given a warning, ordered to rectify our violations and/or fined up to RMB30,000. In severe cases, our license for online transmission of audio-visual programs may be revoked.

We source digital media content from various content providers, including China-based television and movie production studios, online video sites, media companies and online game companies. In dealing with content providers, we take a series of measures to monitor and protect copyright of such content. For details of such content monitoring and copyright protection measures, see "Business Intellectual property digital media data monitoring and copyright protection." However, we cannot guarantee that the content providers have the legal right to license us the content or are in full compliance with all the relevant PRC permits and licenses set forth by GAPPRFT, and the remedies provided by these content providers, if any, may not be sufficient to compensate us for potential regulatory sanctions imposed by GAPPRFT due to violations of the approval and permit requirements. Nor can we ensure that any such sanctions will not adversely affect either the general availability of video content on our website or our reputation. In addition, such risks may persist due to ambiguities and uncertainties relating to the implementation and enforcement of the applicable regulations. We also source some audio-visual programs directly from foreign content providers. PRC law requires approval from GAPPRFT for introducing and broadcasting foreign movies and television programs into China. See "Regulation Regulation on foreign movies and television programs." However, we have not obtained relevant approvals from GAPPRFT for introducing and broadcasting such foreign audio-visual programs. In practice, it is not uncommon for internet content providers in China to introduce and broadcast foreign audio-visual programs without such approvals. If at a later stage GAPPRFT or its local branch specifically determines and requires us to rectify and obtain the approvals for our introduction and online broadcasting of overseas audio-visual programs, we may not be able to obtain such approval in a timely manner or at all. In such case, the PRC government would have the power to, among other things, levy fines against us, confiscate our income, order us to cease certain content

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service, or require us to temporarily or permanently discontinue the affected portion of our business.

Pursuant to the relevant PRC regulations promulgated by the State Council Information Office, or SCIO, internet news information service entities engaging in news publishing services, current political news bulletin board services or dissemination of current political news to the public via internet are required to obtain an internet news license from SCIO. See "Regulation Regulation on internet news dissemination." The content we currently provide on our websites include some current political news from third party news providers. Currently we do not hold an internet news license from SCIO and we plan to apply for such internet news license. However, we cannot assure you that we will be able to obtain such license in a timely manner or at all. If we fail to obtain such license or fail to timely remove the current political news related content due to the large volume of content we provide, we may be ordered by SCIO or the local SCIO branches at the provincial level to cease any internet news services, and in severe cases, as determined by SCIO or the local SCIO branches in writing, MIIT may order us to cease all the internet information services or require the internet service provider to disconnect us from the internet.

If the PRC government considers that we were operating without the proper licenses or approvals or promulgates new laws and regulations that require additional licenses or imposes additional restrictions on the operation of any part of our business, it has the power to, among other things, levy fines, confiscate our income, revoke our business licenses, and require us to discontinue our business or impose restrictions on the affected portion of our business. Any of these actions by the PRC government may have a material and adverse effect on our results of operations. In addition, the PRC government may promulgate regulations restricting the types and content of advertisements that may be transmitted online, which could have a direct adverse impact on our business.

***Concerns about collection and use of personal data could damage our reputation, deter current and potential users from using our services and substantially harm our business and results of operations.***

Pursuant to the applicable PRC laws and regulations concerning the collection, use and sharing of personal data, our PRC subsidiaries and affiliated entities are required to keep our users' personal information confidential and are prohibited from disclosing such information to any third parties without the users' consent. In December 2012 and July 2013, new laws and regulations were issued by the standing committee of the PRC National People's Congress and MIIT to enhance the legal protection of information security and privacy on the internet. The laws and regulations also require internet operators to take measures to ensure confidentiality of information of users. Concerns about our practices with regard to the collection, use or disclosure of personal information or other privacy-related matters, even if unfounded, could damage our reputation and operating results.

We apply strict management and protection to any information provided by users, and under our privacy policy, without our users' prior consent, we will not provide any of our users' personal information to any unrelated third party. While we strive to comply with our privacy guidelines as well as all applicable data protection laws and regulations, any failure or perceived failure to comply may result in proceedings or actions against us by government entities or others, and could damage our reputation. User and regulatory attitudes towards

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

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

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 subscribers and other 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 subscribers and other 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.

The channels for the payment of our services and products typically comprise of third-party online system, fixed phone line and mobile phone payment. Although we have been able to control our payment handling fees by encouraging our subscribers to use the third-party online system, which charges relatively less amount of handling fees compared with other payment channels, the subscribers may change their habits to make payments through mobile phones or other channels with higher costs. Approximately 32%, 36%, 18% and 18% of the payments were made by our subscribers via distribution channels such as mobile service operators in 2011, 2012, 2013 and the three months ended March 31, 2014, respectively. If a majority of subscribers use the mobile phone as their payment channels and the cost remains unchanged or even increases in the future, our cost of operations may significant increase. If we fail to minimize the associated payment handling fees and further diversify the payment channels, our business, prospects and results of operations may be adversely affected.

We also do not have control over the security measures of our third-party payment service providers, and security breaches of the online payment systems that we use could expose us to litigation and possible liability for failing to secure confidential customer information and could, among other things, damage our reputation and the perceived security of all of the

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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, there may be billing software errors that would damage customer 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 and users may be discouraged from purchasing our internal mobile products, which may have an adverse effect on our business and results of operations.

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

A large portion of our advertising revenues are generated from a limited number of advertising agencies. We typically enter into advertising agreements with third-party advertising agencies that represent the advertisers, and under these agreements, the advertising fees are paid to us by the advertising agencies after we deliver our services. In consideration for the third-party advertising agencies' services, we pay them rebates based on the value of business they bring to us. Thus, the financial soundness of our advertisers and advertising agencies with whom we sign these advertising contracts may affect our collection of accounts receivable. We make a credit assessment of our advertisers and advertising agencies to evaluate the collectability of the advertising service fees before entering into any advertising contract. However, we cannot assure you that we are or will be able to accurately assess the creditworthiness of each advertising agency or advertiser, as applicable, and any inability of advertisers or advertising agencies, especially those that accounted for a significant percentage of our amounts receivables in the past, to pay us in a timely manner may adversely affect our liquidity and cash flows. Recently, the financial conditions of a limited number of our small to medium size advertising agency customers have deteriorated. This has adversely affected the collectability of our accounts receivables from them, and consequently lowered our operating margins and profits. In addition, the online advertising market in China is dominated by a small number of large advertising agencies. If the large advertising agencies that we have business relationships with demand higher rebates for their agency services, our results of operations will be materially and adversely affected.

***Our continual expansions based on our subscription-based revenue model would require more capital investment. However, we may not be able to generate sufficient returns and offset these additional capital investment, or to obtain sufficient capital to meet the additional capital requirements of these changes to our business.***

In order to implement our development strategies to expand our infrastructure and services across internet-enabled devices, and to further accelerate the conversion of our users into subscribers, we will make continual capital investments in terms of acquiring additional bandwidth to support our subscription services and more research and development efforts into investigating user needs and more frequent updates to subscriber-only services. We may also need additional capital to purchase more content for our online content library. In addition, our plan to provide more diversified and enhanced value-added services, such as more exclusive online games offering, requires large amount of capital expenditures. Thus, we will continue to incur substantial capital expenditures on an ongoing basis, and it may become difficult for us to meet such capital requirements.



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To date, we have financed our operations primarily through private placements of preferred shares to investors cash flow from operations and bank loans. However, if we fail to retain a sufficient number of new users, attract new subscribers and convert such users into paying users or subscribers, we may not be able to generate sufficient revenues, to cover our investment in various expansion efforts, and our business may be materially and adversely affected.

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

our future business development, financial condition and results of operations;

general market conditions for financing activities by companies in our industry; and

macroeconomic, political and other conditions in China and elsewhere.

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

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

The operation of our extensive resource discovery network and our online video and online game business require significant upfront capital expenditures as well as continual, substantial investment in content, technology and infrastructure. Since inception, we have invested substantially in research and development to maintain our technology leadership, in equipment to increase our network capacity and in expanding the content library for our online video business. Most of our capital expenditures, such as expenditures on servers and other equipment and license fees for professionally produced digital media content, are based upon our estimation of potential future demand and we are generally required to pay the entire purchase price and license fees up front. As a result, our cash flow may be negatively affected in the periods in which such payments are made. We may not be able to quickly generate sufficient revenue from such expenditures, which may negatively affect our results of operations within certain periods thereafter; and if we over-estimate future demand for our services, we may not be able to achieve expected rates of return on our capital expenditures, or at all.

In addition, content license fees and bandwidth and other costs are subject to change and are determined by market supply and demand. The market prices for professionally produced digital media content, especially popular movies, television serial dramas and other shows, have increased significantly in China during the past few years. Due to the improving monetization perspective of online video advertising, online video operators are generating more revenues and are competing aggressively to license popular movies, television serial dramas and other shows, and the increasingly intense content bidding process has in turn led to increases in license fees of professionally produced content in general. Moreover, as the market develops, the expectations of copyright owners, distributors and industry associations may continue to rise, and as such they may demand higher licensing fees for professionally produced digital media content. These factors, together with our plan to expand our content library, will result in increased content costs. In addition, if bandwidth and other providers cease their business with us or raise the prices of their products and services, we will incur additional costs to find alternative service providers or to accept the increased costs in order to provide our services. If we cannot pass on the increased costs and expenses to our users and advertisers, or if our costs to deliver our services do not decline commensurate with any future declines in the prices we charge our users and advertisers, we may fail to achieve profitability.

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

Before 2010, we mainly entered into non-exclusive agreements with smaller online game developers to operate their games on our websites. Starting in 2010, we started to enter into exclusive operating agreements with online game developers so that we can gain exclusive rights to certain online games and, in addition to offering these games on our own websites, also have the option of sub-licensing these games to other websites to diversify our game revenue stream. Exclusive arrangements of this type require more initial capital investment in acquiring operating rights for the games, and involve more business risks, such as risks associated with the potential failure to find appropriate sub-licensees for the games or failure to engage a sufficient number of game players to make these games profitable for us. We expect that we will continue to make investments to acquire operating rights under such exclusive operating arrangements. If we are unable to generate sufficient revenues in these markets to obtain sufficient return for our investments, our future results of operations and financial condition could be materially and adversely affected.

In addition, to operate online games in China, a variety of permits and approvals are required. For example, publication of online games, music works and other internet publishing activities are subject to the regulation of the GAPPRFT, which requires operators of online games and other internet publishing services to obtain an internet publication license prior to providing any such services. See "Regulation Regulation on internet publication". Shenzhen Xunlei has obtained an internet publication license for the publication of internet games and is in the process of applying for expansion of the business scope therein to include the publication of music works and other internet publishing activities, and Xunlei Games Development (Shenzhen) Co., Ltd., or Xunlei Games, is in the process of applying for the internet publication license for its publication of online games. However, there is no assurance that we will be granted such licenses. Applicable regulations also specify that each online game must be screened and approved in advance by GAPPRFT before it is allowed to be launched online. Also, an imported online game should be approved in advance by MOC before its initial operation while a domestically developed online game should be filed with MOC within 30 days of commencing operations. See "Regulation Regulation on online games." We license from online game developers and operate MMOGs, and we share profits with these developers. We require developers of certain online games to obtain the requisite approvals from GAPPRFT, and make the filings with MOC, for relevant online games. As of the date of this prospectus, most of our online games currently in operation exclusively by us have obtained GAPPRFT's approval and completed filing with MOC. However, we cannot assure you that we or such online game developers can obtain GAPPRFT's approvals or complete the filings with MOC for all the games in a timely manner or at all. If we or such online game developers fail to obtain these licenses, approvals or filings in a timely manner or at all, the relevant authority may challenge the commercial operation of our online games and determine that we are in violation of the relevant laws and regulations regarding online games, it would have the power to, among other things, levy fines against us, confiscate our income generated from operation of our online games and require us to discontinue our online game business.

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

We face significant competition in different areas of our business. Although we currently have a leading presence in the China market for cloud acceleration products and services, we cannot guarantee we will be able to maintain our leading position in the future. We may face potential competition from leading Chinese internet companies if they start to allocate resources and focus on the development in this business sector, such as Tencent and Baidu. With more entrants into the cloud acceleration business, aggressive price cutting by competitors may result in the loss of our existing subscribers. We may have to take actions to retain our user base and attract more subscribers, which could adversely affect our profitability. If we fail to compete effectively, our market share would decrease and our results of operations would be materially and adversely affected.

In addition, our Xunlei Kankan website competes with other major online video companies such as Youku.com, Tudou.com and iQiyi.com. We also face competition for advertising budgets of our advertisers from other internet companies and other forms of media.

Some of our existing or potential competitors have a longer operating history and significantly greater financial resources than we do, and in turn may be able to attract and retain more users and advertisers. Our competitors may compete with us in a variety of ways, including by conducting brand promotions and other marketing activities and making acquisitions. If we are not able to effectively compete in any aspect of our business our overall user base may shrink, which will reduce the number of our subscribers or make us less attractive to advertisers, which would have a material and adverse effect on our business, financial condition 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 services, particularly our resource discovery network and our online video website, which would materially and adversely affect our results of operations.***

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

***Advertisements we display may subject us to penalties and other administrative actions.***

Under PRC advertising laws and regulations, advertisement channels such as us are obligated to monitor the advertising content they display to ensure that such content is true, accurate and in full compliance with applicable laws and regulations. PRC advertising laws and regulations set forth certain content requirements for advertisements in the PRC including, among other things, prohibitions on false or misleading content, superlative wording, socially destabilizing content or content involving obscenities, superstition, violence, discrimination or infringement of the public interest. In providing advertising services, we are required to review the

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supporting documents provided to us by advertising agencies or advertisers for the relevant advertisements and verify that the content of the advertisements complies with applicable PRC laws and regulations. Prior to distributing advertisements that are subject to government censorship and approval, we are obligated to verify that such censorship has been performed and approval has been obtained. Violation of these regulations may result in penalties, including fines, confiscation of advertising income, orders to 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 the SAIC, or its local branches may revoke violators' licenses or permits for their advertising business operations.

To fulfill these monitoring functions specified by the PRC laws and regulations set forth above, we employ several measures. Almost all of our advertising contracts require that advertising agencies or advertisers that contract with us: (i) must ensure the advertising content provided to us is true, accurate and in full compliance with PRC laws and regulations; (ii) ensure such content does not infringe any third-party's rights and interests; and (iii) indemnify us for any liabilities arising from such advertising content. In addition, a team of our employees reviews all advertising materials to ensure the content does not violate relevant laws and regulations before displaying such advertisements. However, 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 application of these laws and regulations, and we have occasionally received fines for certain inappropriate advertisements posted on Xunlei Kankan, and may be subject to similar fines and penalties in the future. If we are found to be in violation of applicable PRC advertising laws and regulations in the future, we may be subject to penalties and our reputation may be harmed, which may have a material and adverse effect on our business, financial condition and results of operations.

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

We have granted share-based compensation awards, including share options and restricted shares, to various employees, key personnel and other non-employees to incentivize performance and align their interests with ours. We adopted a share incentive plan on December 30, 2010, or the 2010 Plan, a second share incentive plan on November 18, 2013, as supplemented, or the 2013 Plan, and a third share incentive plan on April 24, 2014, as supplemented, or the 2014 plan. Under the 2010 Plan, we are authorized to issue a maximum number of 26,822,828 common shares of our company upon the exercise of the options or other types of awards (excluding an aggregate of 8,410,200 shares already issued to the directors who are our founders upon exercise of founder options, which grants were not covered under the 2010 Plan). As of the date of this prospectus, options to purchase a total of 21,374,267 common shares of our company were outstanding under the 2010 Plan. Under the 2013 Plan, we are authorized to issue a maximum number of 9,073,732 restricted shares to members of our senior management, counsel or consultant to our company. Under the 2014 Plan, we are authorized to issue a maximum number of 14,195,412 restricted shares to our directors, officers, employees and advisors or consultants to our company. As of the date of this prospectus, 6,767,618 restricted shares (excluding those forfeited) have been granted to certain executive officers and other employees under the 2013 Plan. We have not granted any award under the 2014 Plan as of the date of this prospectus. Our unrecognized share-based

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compensation expense amounting to US\$18.5 million as of the date of this prospectus relates to the restricted shares granted under the 2013 Plan. Out of this amount, US\$5.6 million of unrecognized share-based compensation expense is related to the restricted shares granted from January 1, 2014 to the date of this prospectus. All of these unrecognized expenses may be recognized upon completion of this offering if the vesting of these restricted shares is accelerated by the administrator of the 2013 Plan, and however, we have no plan to accelerate the vesting of the restricted shares upon the completion of this offering. See "Management Share incentive plans" for detailed discussion.

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

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

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

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

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*We may not be able to effectively identify or pursue targets for acquisitions or investment, and even if we complete such transactions, we may be unable to successfully integrate the acquired businesses into, or realize anticipated benefits to our business, which may adversely affect our growth and results of operations.*

We expect to selectively acquire or invest in businesses that complement our existing business in the future. We may not, however, be able to identify suitable targets for acquisitions or investments in the future. Even if we are able to identify suitable candidates, we may be unable to complete a transaction on terms commercially acceptable to us. If we fail to identify appropriate candidates or complete the desired transactions, our growth may be impeded.

Even if we complete the desired acquisitions or investment, such acquisitions and investment may expose us to new operational, regulatory, market and geographic risks and challenges, including:

diversion of our management's attention and other resources from our existing business;

our inability to maintain the key business relationships and the reputation of the businesses we acquire or invest in;

our inability to retain key personnel of the acquired or invested company;

uncertainty of entry into markets in which we have limited or no prior experience and in which competitors have stronger market positions;

failure to comply with laws and regulations as well as industry or technical standards of the markets into which we expand;

our dependence on unfamiliar affiliates and partners of the companies we acquire or invest in;

unsatisfactory performance of the businesses we acquire or invest in;

our responsibility for the liabilities associated with the businesses we acquire, including those that we may not anticipate;

our inability to integrate acquired technology into our business and operations;

our inability to develop a successful business model and to monetize and generate revenues from the businesses we acquire; and

our inability to maintain internal standards, controls, procedures and policies.

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

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

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from our working capital and potentially have a material adverse impact on our results of operations.

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

The global financial markets have experienced significant disruptions since 2008 and the United States, Europe and other economies went into a recession. The recovery from the lows of 2008 and 2009 has been uneven and is facing new challenges, including the escalation of the European sovereign debt crisis since 2011 and the slowdown of the Chinese economy in 2012. It is unclear whether the Chinese economy will resume its high growth rate. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world's leading economies, including China's. There have also been concerns over unrest in the Middle East and Africa, which have resulted in volatility in oil and other markets. There have also been concerns about the economic effect of the earthquake, tsunami and nuclear crisis in Japan and tensions in the relationship between China and Japan. The mobile internet products and services industry may be affected by economic downturns. A prolonged slowdown in the world economy, including in the Chinese economy, may lead to a reduced amount of mobile internet advertising, which could materially and adversely affect our business, financial condition and results of operations. Certain of our products and services may be viewed as discretionary by our users, who may choose to discontinue or reduce spending on such products and services during an economic downturn. In such an event, our ability to retain existing users and increase new users will be adversely affected, which would in turn negatively impact our business and results of operations.

Moreover, a slowdown or disruption in the global or Chinese economy may have a material and adverse impact on financings available to us. The weakness in the economy could erode investor confidence, which constitutes the basis of the credit market. The recent financial turmoil affecting the financial markets and banking system may significantly restrict our ability to obtain financing in the capital markets or from financial institutions on commercially reasonable terms, or at all. Although we are uncertain about the extent to which the recent global financial and economic crisis and slowdown of Chinese economy may impact our business in the short-term and long-term, there is a risk that our business, results of operations and prospects would be materially and adversely affected by any global economic downturn or disruption or slowdown of Chinese economy.

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

The successful operation of our business depends on the performance of the internet infrastructure and telecommunications networks in China. In China, almost all access to the internet is maintained through state-owned telecommunications operators under the administrative control and regulatory supervision of the MIIT. Moreover, we have entered into contracts with various subsidiaries of a limited number of telecommunications service providers in each province for network-related services. On the one hand, if the internet industry in China does not grow as quickly as expected, our business and operations will be negatively affected. We have limited access to alternative networks or services in the event of disruptions, failures or other problems with China's internet infrastructure or the telecommunications networks provided by telecommunications service providers. Our network and website regularly

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serve a large number of users and advertisers. With the expansion of our business, we may be required to upgrade our technology and infrastructure to keep up with the increasing traffic on our website. However, we have no control over the costs of the services provided by telecommunications service providers. If the prices we pay for telecommunications and internet services rise significantly, our results of operations may be materially and adversely affected. If internet access fees or other charges to internet users increase, our user traffic may decline and our business may be harmed. On the other hand, if the internet industry grows faster than expected and we cannot react to the market demands in a timely manner in terms of our research and development effort, the user experience and the attractiveness of our services may be harmed, which will negatively impact our business and results of operations.

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

We will be subject to reporting obligations under the U.S. securities laws after this offering. Our reporting obligations as a public company will place a significant strain on our management, operational and financial resources and systems for the foreseeable future. Prior to this offering, we have been a private company and have had limited accounting personnel and other resources with which to address our internal control over financial reporting. In preparing our consolidated financial statements, we and our independent registered public accounting firm identified one material weakness, one significant deficiency and other control deficiencies, each as defined in the standards established by U.S. Public Company Accounting Oversight Board, in our internal control over financial reporting as of December 31, 2013.

The material weakness identified related to the lack of accounting resources in U.S. GAAP and SEC reporting requirements, and the significant deficiency related to the lack of documented comprehensive U.S. GAAP accounting manuals and financial reporting procedures and lack of related implementation controls. Neither we nor our independent registered public accounting firm undertook a comprehensive assessment of our internal control under the Sarbanes-Oxley Act for purposes of identifying and reporting material weaknesses and other control deficiencies in our internal control over financial reporting. Following the identification of the material weakness, significant deficiency and other control deficiencies, we have taken measures and plan to continue to take measures to remedy these deficiencies. For details of our proposed remedies, see "Management's discussion and analysis Internal control over financial reporting." However, the implementation of these measures may not fully address these deficiencies in our internal control over financial reporting, and we cannot conclude that they have been fully remedied. Our failure to correct these control deficiencies or our failure to discover and address any other control deficiencies could result in inaccuracies in our financial statements and could also impair our ability to comply with applicable financial reporting requirements and related regulatory filings on a timely basis. As a result, our business, financial condition, results of operations and prospects, as well as the trading price of our ADSs, may be materially and adversely affected. Moreover, ineffective internal control over financial reporting significantly hinders our ability to prevent fraud.

Upon completion of this offering, we will become subject to the Sarbanes-Oxley Act of 2002. Section 404 of the Sarbanes-Oxley Act, or Section 404, will require that we include a report from management on the effectiveness of our internal control over financial reporting in our annual report on Form 20-F beginning with our annual report for the fiscal year ending



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December 31, 2015. In addition, once we cease to be an "emerging growth company" as such term is defined in the JOBS Act, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. If we fail to timely achieve and maintain the adequacy of our internal controls, our management and our independent registered public accounting firm may conclude that our internal control over financial reporting is not effective. This could adversely impact the market price of our ADSs due to a loss of investor confidence in the reliability of our reporting processes. We will need to incur costs and use management and other resources in order to comply with Section 404. In addition, after we 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.

During the course of documenting and testing our internal control procedures, in order to satisfy the requirements of Section 404, we may identify other weaknesses and deficiencies in our internal control over financial reporting. In addition, if we fail to maintain the adequacy of our internal control over financial reporting, as these standards are modified, supplemented or amended from time to time, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404. If we fail to achieve and maintain an effective internal control environment, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial information. This could in turn limit our access to capital markets, harm our results of operations, and lead to a decline in the trading price of our ADSs.

Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the stock exchange on which we list, regulatory investigations and civil or criminal sanctions. We may also be required to restate our financial statements from prior periods.

***We have limited business insurance coverage.***

Insurance companies in China currently do not offer as extensive an array of insurance products as insurance companies do in more developed economies. We do not have any business liability or disruption insurance to cover our operations. We have determined that the costs of insuring for these risks and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. Any uninsured occurrence of business disruption may result in our incurring substantial costs and the diversion of resources, which could have an adverse effect on our results of operations and financial condition.

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

Our operations may be vulnerable to interruption and damage from natural and other types of catastrophes, including earthquakes, fire, floods, hail, windstorms, severe winter weather (including snow, freezing water, ice storms and blizzards), environmental accidents, power loss, communications failures, explosions, man-made events such as terrorist attacks and similar events. Due to their nature, we cannot predict the incidence, timing and severity of catastrophes. If any such catastrophe or extraordinary event occurs in the future, our ability to

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operate our business could be seriously impaired. Such events could make it difficult or impossible for us to deliver our services and products to our users and could decrease demand for our products. Because we do not carry property insurance and significant time could be required to resume our operations, our financial position and results of operations could be materially and adversely affected in the event of any major catastrophic event.

In addition, our business could be adversely affected by the outbreak of influenza A (H1N1), avian influenza, H7N9, severe acute respiratory syndrome (SARS) or other pandemics. Any occurrence of these pandemic diseases or other adverse public health developments in China or elsewhere could severely disrupt our staffing or the staffing of our business partners and otherwise reduce the activity levels of our work force and the work force of our business partners, causing a material and adverse effect on our business operations.

**Risks related to our corporate structure**

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

Current PRC laws and regulations place certain restrictions on foreign ownership of companies that engage in internet businesses, including the provision of online video and online advertising services. For example, foreign investors' equity interests in value-added telecommunication service providers may not exceed 50%. In addition, foreign investors are prohibited from investing in or operating entities engaged in, among others, internet cultural operating service (including online game operation services), internet news service, and production and online transmission of audio-visual programs service. We are a Cayman Islands company and Giganology Shenzhen and Xunlei Computer, our PRC subsidiaries, are considered foreign-invested enterprises. Accordingly, neither of these two PRC subsidiaries is eligible to provide value-added telecommunication services and the aforementioned internet related services in China. As a result, we conduct our operations in China principally through contractual arrangements among Giganology Shenzhen, our wholly-owned PRC subsidiary, and Shenzhen Xunlei and its shareholders. Shenzhen Xunlei holds the licenses and permits necessary to conduct our resource discovery network, online video, online advertising, online games and related businesses in China and hold various operating subsidiaries that conduct a majority of our operations in China. Our contractual arrangements with Shenzhen Xunlei and its shareholders enable us to exercise effective control over Shenzhen Xunlei and Shenzhen Xunlei's operating subsidiaries and hence treat them as our consolidated entities and consolidate their results. For a detailed discussion of these contractual arrangements, see "Corporate history and structure."

We cannot assure you, however, that we will be able to enforce these contracts. Although we believe we are in compliance with current PRC regulations, we cannot assure you that the PRC government would agree that these contractual arrangements comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. PRC laws and regulations governing the validity of these contractual arrangements are uncertain and the relevant government authorities have

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broad discretion in interpreting these laws and regulations. If the PRC government determines that we do not comply with applicable laws and regulations, it could revoke our business and operating licenses, require us to discontinue or restrict our operations, restrict our right to collect revenues, block our website, require us to restructure our operations, impose additional conditions or requirements with which we may not be able to comply, or take other regulatory or enforcement actions against us that could be harmful to our business. The imposition of any of these penalties would result in a material and adverse effect on our ability to conduct our business.

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

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

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

Shenzhen Xunlei or its shareholders may fail to take certain actions required for our business or follow our instructions despite their contractual obligations to do so. If they fail to perform their obligations under their respective agreements with us, we may have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, which may not be effective. As of the date of this prospectus, Mr. Sean Shenglong Zou, our co-founder, chairman and chief executive officer, owns 76% of the equity interest in Shenzhen Xunlei, our variable interest entity. Under the equity pledge agreement among Giganology Shenzhen and the shareholders of Shenzhen Xunlei, as amended, the shareholders of Shenzhen Xunlei have pledged all of their equity interests in Shenzhen Xunlei to Giganology Shenzhen to guarantee

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Shenzhen Xunlei and its shareholders' performance of their respective obligations under the related contractual arrangements. In addition, the shareholders of Shenzhen Xunlei have completed the registration of equity pledge under the equity pledge agreement with the competent governmental authority. If any of the shareholders of Shenzhen Xunlei, especially Mr. Sean Shenglong Zou due to his significant equity interest in Shenzhen Xunlei, fails to perform his or her obligations under the contractual arrangements, we may have to enforce these agreements to transfer his or her equity interests to another appointee of Giganology Shenzhen.

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

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

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

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

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

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

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As a director and executive officer of our company, Mr. Zou and Mr. Cheng each has a duty of loyalty and care to us under Cayman Islands law. We are not aware that other publicly listed companies in China with a similar corporate and ownership structure as ours have brought conflicts of interest claims against the shareholders of their respective variable interest entities. However, we cannot assure you that when conflicts arise, the shareholders of Shenzhen Xunlei will act in the best interests of our company or that conflicts will be resolved in our favor. If we cannot resolve any conflicts of interest or disputes between us and the shareholders of Shenzhen Xunlei, we would have to rely on legal proceedings, which may be expensive, time-consuming and disruptive to our operations. There is also substantial uncertainty as to the outcome of any such legal proceedings.

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

We are a holding company, and in the future, we may rely principally on dividends and other distributions on equity paid by our wholly-owned PRC subsidiaries including Giganology Shenzhen and Xunlei Computer, for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders and service any debt we may incur. If Giganology Shenzhen incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. In addition, the PRC tax authorities may require us to adjust our taxable income under the contractual arrangements Giganology Shenzhen currently has in place with Shenzhen Xunlei, our variable interest entity, as well as the intellectual property framework agreement between Xunlei Computer and Shenzhen Xunlei, in a manner that would materially and adversely affect its ability to pay dividends and other distributions to us. As of March 31, 2014, we had cash or cash equivalents of approximately RMB474.3 million (US\$77.1 million) and US\$10.7 million located within the PRC, of which RMB396.9 million (US\$64.5 million) is held by Shenzhen Xunlei and its subsidiaries. The transfer of all the cash or cash equivalents is subject to PRC government's restrictions on currency conversion.

Under PRC laws and regulations, Giganology Shenzhen and Xunlei Computer, as wholly foreign-owned enterprises in the PRC, may pay dividends only out of its accumulated after-tax profits as determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign-owned enterprises such as Giganology Shenzhen and Xunlei Computer are required to set aside at least 10% of their accumulated after-tax profits each year, if any, to fund certain statutory reserve funds, until the aggregate amount of such a fund reaches 50% of their respective registered capital. At their discretion, wholly foreign-owned enterprises may allocate a portion of their after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends. Any limitation on the ability of Giganology Shenzhen and Xunlei Computer to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business. See also " Risks related to doing business in China Our global income may be subject to PRC taxes under the PRC EIT Law, which may have a material adverse effect on our results of operations."

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*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 this offering to make loans to our PRC subsidiaries and variable interest entities or to make additional capital contributions to our PRC subsidiaries, which may materially and adversely affect our liquidity and our ability to fund and expand our business.*

In utilizing the proceeds we receive from this offering in the manner described in "Use of proceeds," as an offshore holding company with PRC subsidiaries, we may (i) make additional capital contributions to our PRC subsidiaries, (ii) establish new PRC subsidiaries and make capital contributions to these new PRC subsidiaries, (iii) make loans to our PRC subsidiaries or variable interest entities, or (iv) acquire offshore entities with business operations in China in an offshore transaction. However, most of these uses are subject to PRC regulations and approvals. For example:

capital contributions to our PRC subsidiaries, whether existing ones or newly established ones, must be approved by the PRC Ministry of Commerce or its local counterparts;

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

loans by us to our variable interest entities, which are domestic PRC entities, must be approved by the National Development and Reform Commission and must also be registered with SAFE or its local branches.

On August 29, 2008, SAFE promulgated the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign Invested Enterprises, or SAFE Circular 142, regulating the conversion by a foreign-invested enterprise of foreign currency registered capital into Renminbi by restricting how the converted Renminbi may be used. SAFE Circular 142 provides that the Renminbi capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable governmental authority and unless otherwise provided by law, such Renminbi capital may not be used for equity investments within the PRC. In addition, SAFE strengthened its oversight of the flow and use of the Renminbi capital converted from foreign currency registered capital of a foreign-invested company. The use of such Renminbi capital may not be altered without SAFE approval, and such Renminbi capital may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been used. Violations of SAFE Circular 142 could result in severe monetary or other penalties. We expect that if we convert the net proceeds we receive from this offering into Renminbi pursuant to SAFE Circular 142, our use of Renminbi funds will be for purposes within the approved business scope of our PRC subsidiaries. The business scopes of Giganology Shenzhen and Xunlei Computer include "technical services," which we believe permits Giganology Shenzhen to purchase or lease servers and other equipment for its own technical data and research and to provide operational support to our variable interest entities.

However, we may not be able to use such Renminbi funds to make equity investments in the PRC through our PRC subsidiaries.

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

As part of our contractual arrangements with our variable interest entities, these entities hold certain assets that are important to the operation of our business, including patents for the proprietary technology and related domain names and trademarks. If any of our variable interest entity or its subsidiaries goes bankrupt and all or part of its assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. Under the contractual arrangements, our variable interest entity and its subsidiaries may not, in any manner, sell, transfer, mortgage or dispose of their assets or legal or beneficial interests in the business without our prior consent. If any of our variable interest entities undergoes a voluntary or involuntary liquidation proceeding, the unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.

**Risks related to doing business in China**

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

Substantially all of our assets and operations are located in China. Accordingly, our business, financial condition, results of operations and prospects may be influenced to a significant degree by political, economic and social conditions in China generally and by continued economic growth in China as a whole.

The Chinese economy differs from the economies of most developed countries in many respects, including the level of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the government. In addition, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. The Chinese government also exercises significant control over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies.

While the Chinese economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations. In addition, in the past the Chinese government has implemented certain measures, including interest rate increases, to control the pace of economic growth.

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These measures may cause decreased economic activity in China, which may adversely affect our business and operating results.

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

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

In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past three decades has significantly enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully integrated legal system, and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, the interpretation and enforcement of these laws and regulations involve uncertainties. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy. These uncertainties may affect our judgment on the relevance of legal requirements and our ability to enforce our contractual or tort rights. In addition, the regulatory uncertainties may be exploited through unmerited or frivolous legal actions or threats in attempts to extract payments or benefits from us.

Furthermore, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all and may have retroactive effect. As a result, we may not be aware of our violation of any of these policies and rules until sometime after the violation. In addition, any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention.

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

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

The PRC government extensively regulates the internet industry, including foreign ownership of, and the licensing and permit requirements pertaining to, companies in the internet industry. These internet-related laws and regulations are relatively new and evolving, and their interpretation and enforcement involve significant uncertainty. As a result, in certain



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circumstances it may be difficult to determine what actions or omissions may be deemed to be in violations of applicable laws and regulations. Issues, risks and uncertainties relating to PRC regulation of the internet business include, but are not limited to, the following:

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

There are uncertainties relating to the regulation of the internet business in China, including evolving licensing practices and the requirement for real-name registrations. This means that permits, licenses or operations at some of our companies may be subject to challenge, or we may fail to obtain permits or licenses that may be deemed necessary for our operations or we may not be able to obtain or renew certain permits or licenses. If we fail to maintain any of these required licenses or approvals, we may be subject to various penalties, including fines and discontinuation of or restriction on our operations. Any such disruption in our business operations may have a material and adverse effect on our results of operations. For example, we are providing mobile applications to mobile device users free of charge and we do not believe we need to obtain a separate operating license in addition to the operating licenses for the value added telecommunications service, or the ICP License, which we have already obtained. Although we believe this is in line with the current market practice, there can be no assurance that we will not be required to apply for an operating license for our mobile applications in the future and if so, we may not qualify or succeed in obtaining such license.

New laws and regulations may be promulgated that will regulate internet activities, including online video, online games and online advertising businesses. If these new laws and regulations are promulgated, additional licenses may be required for our operations. If our operations do not comply with these new regulations after they become effective, or if we fail to obtain any licenses required under these new laws and regulations, we could be subject to penalties.

In June 2010, MOC promulgated the Provisional Measures on the Administration of Online Games, or the Online Game Measures, which became effective on August 1, 2010. The Online Game Measures provide that any entity engaging in online game operation activities should obtain an Online Culture Operating Permit and must meet certain requirements such as a minimum amount of the registered capital. Online game developers are generally involved in the purchase of servers and bandwidth, the control and management of game data, the maintenance of game systems and certain other maintenance tasks in our operation of online games. There exist uncertainties on MOC's interpretation and implementation of these measures. If MOC determines in the future that such Online Culture Operating Permit or relevant requirement apply to the online game developers for their involvement in the online game operations, we may have to terminate our revenue sharing arrangements with certain unqualified online game developers and may even be subject to various penalties, which may negatively impact our results of operations and financial condition.

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

***Regulation and censorship of information disseminated over the internet in China may adversely affect our business, and we may be liable for videos and other digital media content that are displayed on our platform.***

China has enacted regulations governing telecommunication service providers, internet and wireless access and the distribution of news and other information. Under these regulations, internet content providers, or ICPs, like us, are prohibited from posting or displaying over the internet or wireless networks content that, among other things, violates PRC laws and regulations. If an ICP finds that prohibited content is transmitted on its website or stored in its electronic bulletin service system, it must terminate the transmission of such information or delete such information immediately and keep records and report to relevant authorities. Failure to comply with these requirements could result in the revocation of the ICP License and other required licenses and the closure of the offending websites. Cloud network operators or website operators may also be held liable for prohibited content displayed on, retrieved from or linked to such network or website. Since December 2009, the Chinese government has been increasing its efforts on cracking down inappropriate content disseminated over the internet and wireless networks.

Subject to interpretation by the relevant authorities, it may not be possible for us to determine in all cases the type of content that could result in liability for us. In addition, we may not be able to control or restrict all of the digital media content generated or placed on our network by our users, despite our attempt to monitor such content. To the extent that regulatory authorities find any portion of our content on our network or website objectionable or requiring any license or permit that we have not obtained, they may require us to limit or eliminate the dissemination of such information or otherwise curtail the nature of such content, and keep records and report to relevant authorities, which may reduce our user traffic. In addition, we may be subject to significant penalties for violations of those

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regulations arising from prohibited content displayed on, retrieved from or uploaded to our network or website, including a suspension or shutdown of our operations. The enforcement activities may be intensified in connection with any ongoing government campaigns. For example, in April 2014, the Chinese government initiated a campaign to enhance and enforce its scrutiny on the dissemination of pornographic content on the internet in China. As a result, various literary and visual and audio content websites, including certain widely known websites, were subject to administrative penalties ranging from fines to proposed license revocation to suspension of website operations, due to unhealthy and indecent content on these websites. We conducted an internal compliance investigation in order to ensure that the content transmitted by our products are in compliance with the standards set out by the authorities. As of the date of this prospectus, we have not received any warning or order from any government authorities. However, we cannot be sure that our internal investigation was sufficient to remove all content that may be viewed unhealthy, indecent or otherwise problematic. In addition, while we maintain a regular internal monitoring and compliance protocol, we cannot ascertain that we would not fall foul of any changing or new government regulations or standards in the future. If we receive a public warning from the relevant government authorities or our licenses for acceleration or online video streaming services are revoked, our reputation would be harmed and if the operation of our acceleration or online video streaming services is suspended, our revenues and results of operation may be materially and adversely affected.

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

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

Currently, there is no PRC law or regulation specifically governing virtual asset property rights. As a result, there is uncertainty as to who the legal owner of virtual assets is, whether and how the ownership of virtual assets is protected by law, and whether an operator of online games such as us would have any liability to game players or other interested parties (whether in contract, tort or otherwise) for loss of such virtual assets. Based on recent PRC court judgments, the courts have typically held online game operators liable for losses of virtual assets by game players, and ordered online game operators to return the lost virtual items to game players or pay damages and losses. In case of a loss of virtual assets, we may be sued by our game players or users and held liable for damages, which may negatively affect our reputation and business, financial condition and results of operations.

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

The issuance and use of "virtual currency" in the PRC has been regulated since 2007 in response to the growth of the online games industry in China. In January 2007, the Ministry of Public

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Security, MOC, MIIT and GAPPRFT jointly issued a circular regarding online gambling which has implications for the use of virtual currency. To curtail online games that involve online gambling, as well as address concerns that virtual currency could be used for money laundering or illicit trade, the circular (a) prohibits online game operators from charging commissions in the form of virtual currency in relation to winning or losing of games; (b) requires online game operators to impose limits on use of virtual currency in guessing and betting games; (c) bans the conversion of virtual currency into real currency or property; and (d) prohibits services that enable game players to transfer virtual currency to other players. On June 4, 2009, MOC and the Ministry of Commerce jointly issued a notice regarding strengthening the administration of online game virtual currency, or the Virtual Currency Notice. Furthermore, MOC issued the Online Game Measures in June 2010, which provides, among other things, that virtual currency issued by online game operators may only be used to exchange its own online game products and services and may not be used to pay for the products and services of other entities.

We issue virtual currency to our clients for them to purchase various items to be used in online games and premium services. Although we believe we do not offer online game virtual currency transaction services, we cannot assure you that the PRC regulatory authorities will not take a view contrary to ours. For example, certain virtual items we issue to users based on in-game milestones they achieve or time spent playing games are transferable and exchangeable for our virtual currency or the other virtual items we issue to users. If the PRC regulatory authorities deem such transfer or exchange a virtual currency transaction, then we may be deemed to be engaging in the issuance of virtual currency and we may also be deemed to be providing transaction platform services that enable the trading of such virtual currency. Simultaneously engaging in both of these activities is prohibited under the Virtual Currency Notice. In that event, we may be required to cease either our virtual currency issuance activities or such deemed "transaction service" activities and may be subject to certain penalties, including mandatory corrective measures and fines. The occurrence of any of the foregoing could have a material adverse effect on our online games business and results of operations.

In addition, the Virtual Currency Notice prohibits online game operators from setting game features that involve the direct payment of cash or virtual currency by players for the chance to win virtual items or virtual currency based on random selection through a lucky draw, wager or lottery. The notice also prohibits game operators from issuing currency to game players through means other than purchases with legal currency. Although we believe that we are generally in compliance with such requirements and have taken adequate measures to prevent any of the above-mentioned prohibited activities, we cannot assure you that the PRC regulatory authorities will not take a view contrary to ours and deem such feature as prohibited by the Virtual Currency Notice, thereby subjecting us to penalties, including mandatory corrective measures and fines. The occurrence of any of the foregoing could materially and adversely affect our online games business and results of operations.

***Intensified government regulation of the internet industry in China could restrict our ability to maintain or increase user traffic to Xunlei Kankan or the number of users to our online games.***

The PRC government has, in recent years, intensified regulation on various aspects of the internet industry in China. For example, in January 2011, MIIT and seven other PRC central government authorities jointly issued a circular entitled Implementation Scheme regarding Parental Guardianship Project for Minors Playing Online Games, under which online game operators are required to adopt various measures to maintain a system to communicate with

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the parents or other guardians of minors playing their online games and are required to monitor the online game activities of minors and suspend the accounts of minors if so required by their parents or guardians. These restrictions could limit our ability to increase our online game business among minors. See "Regulation Regulation on anti-fatigue system, real-name registration system and parental guardianship project." Failure to implement these restrictions, if detected by the relevant government agencies, may result in fines and other penalties for us, including the shutting down of our online games operations and license revocation. Furthermore, if these restrictions were expanded to apply to adult game players in the future, our online games business could be materially and adversely affected.

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

***Fluctuations in exchange rates may have a material adverse effect on your investment.***

Fluctuation in the value of the Renminbi may have a material adverse effect on the value of your investment. The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under this policy, the Renminbi was permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. For almost two years after reaching a high against the U.S. dollar in July 2008, the Renminbi traded within a narrow band against the U.S. dollar, remaining within 1% of its July 2008 high. As a consequence, the Renminbi fluctuated sharply since July 2008 against other freely traded currencies, in tandem with the U.S. dollar. In June 2010, the PRC government announced that it would increase Renminbi exchange rate flexibility and since that time the Renminbi has gradually appreciated against the U.S. dollar. However, it remains unclear how this flexibility

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might be implemented. There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in greater fluctuation of the Renminbi against the U.S. dollar.

Our financial statements are expressed in U.S. dollars, and most of our assets, costs and expenses are denominated in Renminbi. Substantially all of our revenues were denominated in Renminbi. We principally rely on dividends and other distributions paid by our subsidiaries in China which are denominated in Renminbi. Our results of operations and the value of your investment in our ADSs will be affected by the foreign exchange rate between U.S. dollars and Renminbi. To the extent we hold assets denominated in Renminbi, any depreciation of the Renminbi against the U.S. dollar could result in a reduction in the value of our Renminbi denominated assets. Similarly, should we repatriate any portion of the net proceeds to us from this offering or cash from other offshore financing activities into China, such amount would also be affected by shifts in the exchange rate between the Renminbi and the U.S. dollar. On the other hand, a decline in the value of Renminbi against the U.S. dollar could reduce the U.S. dollar equivalent amounts of our financial results, the value of your investment in our company and the dividends we may pay in the future, if any, all of which may have a material adverse effect on the prices of our ADSs.

Limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. We did not enter into any forward contracts to hedge our exposure to Renminbi-U.S. dollar 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 successfully hedge our exposure 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.

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

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in Renminbi. Under our current corporate structure, our Cayman Islands holding company primarily relies on dividend payments from our wholly-owned PRC subsidiaries, to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior SAFE approval by complying with certain procedural requirements. However, approval from or registration with appropriate government authorities is required where the Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. Specifically, under the existing exchange restrictions, without prior approval of SAFE, cash generated from the operations of our PRC subsidiaries in China may be used to pay dividends by our PRC subsidiaries to our company and pay employees of our PRC subsidiaries who are located outside China in a currency other than the Renminbi. With prior approval from SAFE, cash generated from the operations of our PRC subsidiaries and affiliated entity may be used to pay off debt in a currency other than the Renminbi owed by our PRC subsidiaries and variable interest entities to entities outside China, and make other capital expenditures outside China in a currency other than the Renminbi. If our variable interest

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entity liquidates, the proceeds from the liquidation of its assets may be used outside of the PRC or be given to investors who are not PRC nationals. The PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

***The approval of the China Securities Regulatory Commission may be required in connection with this offering under a regulation adopted in August 2006, and, if required, we cannot assure you that we will be able to obtain such approval.***

On August 8, 2006, six PRC regulatory agencies, including the China Securities Regulatory Commission, or CSRC, promulgated the Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the M&A Rules, which became effective on September 8, 2006 and was amended on June 22, 2009. The M&A Rules, among other things, require offshore special purpose vehicles, or SPVs, formed for the purpose of an overseas listing and controlled by PRC companies or individuals, to obtain CSRC approval prior to listing their securities on an overseas stock exchange. The application of the M&A Rules remains unclear. Our PRC legal counsel has advised us that, based on their understanding of the current PRC laws, rules and regulations:

CSRC currently has not issued any definitive rule or interpretation concerning whether offerings like ours under this prospectus are subject to the M&A Rules; and

given that (i) our PRC subsidiaries were directly established by us as wholly foreign-owned enterprises, and we have not acquired any equity interest or assets of a PRC domestic company owned by PRC companies or individuals as defined under the M&A Rules that are our beneficial owners after the effective date of the M&A Rules and (ii) no provision in this regulation clearly classifies contractual arrangements as a type of transaction subject to this regulation, we are not required to submit an application to CSRC for its approval of the listing and trading of our ADSs on the [NYSE/NASDAQ Global Market].

Our PRC legal counsel also advised that because there has been no official interpretation or clarification of the M&A Rules since adoption, there is uncertainty as to how these rules will be interpreted or implemented. If it is determined that the CSRC approval is required for this offering, we may face sanctions by CSRC or other PRC regulatory agencies for failure to seek the CSRC approval for this offering. These sanctions may include fines and penalties on our operations in the PRC (although to our knowledge, no definitive rules or interpretations have been issued to determine or quantify such fines or penalties), delays or restrictions on the repatriation of the proceeds from this offering into the PRC, restrictions on or prohibition of the payments or remittance of dividends by our PRC subsidiaries, or other actions that may have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ADSs. CSRC or other PRC regulatory agencies may also take actions requiring us, or making it advisable to us, to halt this offering before the settlement and delivery of the ADSs that we are offering. Consequently, if you engage in market trading or other activities in anticipation of and prior to the settlement and delivery of the ADSs we are offering, you would be doing so at the risk that the settlement and delivery may not occur.

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

Among other things, the M&A Rules and certain regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. For example, the M&A Rules require that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise or a foreign company with substantial PRC operations, if certain thresholds under the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings, issued by the State Council on August 3, 2008, are triggered. Moreover, the Anti-Monopoly Law promulgated by the Standing Committee of the National People's Congress on August 30, 2007 and took effect on August 1, 2008 requires that transactions which are deemed concentrations and involve parties with specified turnover thresholds (i.e., during the previous fiscal year, (i) the total global turnover of all operators participating in the transaction exceeds RMB10 billion and at least two of these operators each had a turnover of more than RMB400 million within China, or (ii) the total turnover within China of all the operators participating in the concentration exceeded RMB2 billion, and at least two of these operators each had a turnover of more than RMB400 million within China) must be cleared by the Ministry of Commerce before they can be completed. In addition, according to the Implementing Rules Concerning Security Review on the Mergers and Acquisitions by Foreign Investors of Domestic Enterprises issued by the Ministry of Commerce in August 2011, mergers and acquisitions by foreign investors involved in an industry related to national security are subject to strict review by the Ministry of Commerce. These rules also prohibit any transactions attempting to bypass such security review, including by controlling entities through contractual arrangements. We believe that our business is not in an industry related to national security. However, we cannot preclude the possibility that the Ministry of Commerce or other government agencies may publish interpretations contrary to our understanding or broaden the scope of such security review in the future. Although we have no current definitive plans to make any acquisitions, we may elect to grow our business in the future in part by directly acquiring complementary businesses in China. Complying with the requirements of these regulations to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the Ministry of Commerce, may delay or inhibit our ability to complete such transactions.

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

SAFE has promulgated several regulations that require PRC residents and PRC corporate entities to register with local branches of SAFE in connection with their direct or indirect offshore investment activities. These regulations apply to our shareholders who are PRC residents and may apply to any offshore acquisitions that we make in the future. Under these foreign exchange regulations, PRC residents who make, or have previously made prior to the implementation of these foreign exchange regulations, direct or indirect investments in offshore special purpose vehicles, or SPVs, will be required to register those investments. In addition, any PRC resident who is a direct or indirect shareholder of an SPV, is required to



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update the previously filed registration with the local branch of SAFE, with respect to that SPV, to reflect any material change. Moreover, the PRC subsidiaries of that SPV are required to urge the PRC resident shareholders to update their registration with the local branch of SAFE. If any PRC shareholder fails to make the required registration or update the previously filed registration, the PRC subsidiaries of that SPV may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to their SPV parent, and the SPV may also be prohibited from injecting additional capital into its PRC subsidiaries. Moreover, failure to comply with the various foreign exchange registration requirements described above could result in liabilities for such PRC subsidiaries under PRC laws for evasion of applicable foreign exchange restrictions. Furthermore, the persons-in-charge and other persons at such PRC subsidiaries who are held directly liable for the violations may be subject to criminal sanctions.

These foreign exchange regulations provide that PRC residents include both PRC citizens and individuals who are non-PRC citizens but primarily reside in the PRC due to their economic ties to China. We have requested PRC residents holding direct or indirect interest in our company to our knowledge to make the necessary applications, filings and amendments as required under SAFE regulations. Mr. Sean Shenglong Zou, Mr. Hao Cheng and Ms. Fang Wang have completed the registration and amendment registration with the local SAFE branch in relation to all our previous private financings and their subsequent ownership changes by April 2012 as required under the SAFE regulations and are in the process of applying for the relevant amendment registrations with the local SAFE branch in relation to their ownership changes in our Company after April 2012. However, we may not be informed of the identities of all the PRC residents holding direct or indirect interest in our company, and we cannot provide any assurances that these PRC residents will comply with our request to make or obtain any applicable registrations or comply with other requirements required by SAFE regulations. The failure or inability of our PRC resident shareholders to make any required registrations or comply with other requirements under SAFE regulations may subject such PRC residents or our PRC subsidiaries to fines and legal sanctions and may also limit our ability to raise additional financing and contribute additional capital into or provide loans to (including using the proceeds from this offering) our PRC subsidiaries, limit our PRC subsidiaries' ability to pay dividends or otherwise distribute profits to us, or otherwise adversely affect us.

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

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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.***

In December 2006, the People's Bank of China promulgated the Administrative Measures of Foreign Exchange Matters for Individuals, which set forth the respective requirements for foreign exchange transactions by individuals (both PRC or non-PRC citizens) under either the current account or the capital account. On February 15, 2012, SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies, or the Stock Option Rules, which replaced the Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Ownership Plans or Stock Option Plans of Overseas Publicly-Listed Companies issued by SAFE on March 28, 2007. Under the Stock Option Rules and other relevant rules and regulations, PRC residents who participate in stock incentive plan in an overseas publicly-listed company are required to register with SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of such overseas publicly listed company or another qualified institution selected by such PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. We and our PRC employees who have been granted stock options will be subject to these regulations upon the completion of this offering. Failure of our PRC stock option holders to complete their SAFE registrations may subject these PRC residents to fines and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute dividends to us, or otherwise materially adversely affect our business.

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

We face uncertainties on the reporting and consequences on private equity financing transactions, private share exchange transactions and private transfer of shares, including private transfer of public shares, in our company by non-resident investors. According to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises issued by the PRC State Administration of Taxation on December 10, 2009, with retroactive effect from January 1, 2008, or SAT Circular 698, where a non-resident enterprise transfers the equity interests in a PRC resident enterprise indirectly through a disposition of equity interests in an overseas holding company in a non-public market, or an Indirect Transfer, and such overseas holding company is located in a tax jurisdiction that: (a) has an effective tax rate less than 12.5% or (b) does not tax foreign income of its residents, the non-resident enterprise, as the seller, shall report such Indirect Transfer to the competent tax authority of the PRC resident enterprise within 30 days of execution of the equity transfer agreement for such Indirect Transfer. However, the term "Indirect Transfer" is not clearly defined, and it is understood that the relevant PRC tax authorities have the authority to request information on a wide range of foreign entities that

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have no direct contact with the PRC. Moreover, the tax authorities have not yet promulgated any formal provisions or made any formal announcement as to the procedure for reporting an Indirect Transfer to the relevant tax authority. In addition, there are no official interpretations concerning how to determine whether a foreign investor has adopted an abusive arrangement in order to reduce, avoid or defer PRC tax. Given the aforementioned uncertainties with respect to the interpretation and application of the SAT Circular 698, we cannot determine whether our offshore transactions where non-resident investors were involved should be subject to the SAT Circular 698, nor can we identify the filing procedures related thereto. Therefore, neither we nor our non-resident investors have undertaken the filing formalities for our offshore transactions. Nevertheless, SAT Circular 698 may be determined by the tax authorities to be applicable to our offshore transactions where non-resident investors were involved. The PRC tax authorities may request non-resident investors to conduct a filing regarding the transactions and request our PRC subsidiaries to assist in the filing. In addition, if the tax authorities consider that the foreign investor has adopted an abusive arrangement without reasonable commercial purposes and for the purpose of avoiding or reducing PRC tax, they will disregard the existence of the overseas holding company that is used for tax planning purposes and recharacterize the Indirect Transfer. As a result, gains derived from such Indirect Transfer may be subject to PRC withholding tax at the rate of up to 10% and our relevant subsidiaries or variable interest entities may be held liable for paying such tax. SAT Circular 698 also provides that when a non-resident enterprise transfers its equity interests in a PRC resident enterprise to a related party at a price lower than the fair market value, the competent tax authorities have the power to make a reasonable adjustment to the taxable income of the transaction. As a result, we and our non-resident investors may be at risk of being taxed under SAT Circular 698 and may have to expend additional resources and costs to comply with SAT Circular 698 or to establish that we and our non-resident investors should not be taxed under SAT Circular 698, which may have a material adverse effect on our financial condition and results of operations or non-resident investors' investments in us.

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

The Chinese government has provided various tax incentives to our subsidiaries in China. These incentives include reduced enterprise income tax rates. For example, under the PRC Enterprise Income Tax Law which became effective in January 2008, or the EIT Law, the statutory enterprise income tax rate is 25%. The EIT Law permits companies established before March 16, 2007 to continue to enjoy their existing tax incentives, adjusted by certain transitional phase-out rules set forth in the Circular to Implementation of the Transitional Preferential Policies for the Enterprise Income Tax promulgated by the State Council on December 26, 2007, and provides tax incentives, subject to various qualification criteria. Pursuant to the circular, the income tax rates for us and our wholly-owned subsidiary established in the Shenzhen Special Economic Zone before March 16, 2007 were 24% for 2011 and are 25% starting from 2012. The EIT Law and its implementation rules also permit qualified "high and new technology enterprises," or HNTes, to enjoy a preferential enterprise income tax rate of 15% upon filing with relevant tax authorities. The qualification as a HNTe generally has a valid term of three years and the renewal of such qualification is subject to review by the relevant authorities in China. Shenzhen Xunlei, our variable interest entity, obtained its HNTe certificate in February 2011 with a valid period of three years and will apply for the renewal of the HNTe

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certificate in June 2014. In addition, the PRC government has provided various incentives to accredited "software enterprise" incorporated in the PRC in order to encourage development of the software industry. In December 2013, Shenzhen Xunlei obtained the certificate of the Key Software Enterprise for the years ended December 31, 2013 and 2014, which enables Shenzhen Xunlei to enjoy the preferential tax rate of 10% for the years of 2013 and 2014. Xunlei Computer has been accredited as a "software enterprise" and become profitable since 2013 and thus enjoys a two-year income tax exemption for 2013 and 2014 and a 50% income tax reduction for 2015, 2016 and 2017. Moreover, local governments have adopted incentives to encourage the development of technology companies. As approved by the relevant local tax authority, our wholly-owned subsidiary, Giganology Shenzhen, and our variable interest entity, Shenzhen Xunlei, were further exempt from enterprise income tax from the first year of profitable operation and are subject to phase-out tax reduction thereafter. Xunlei Computer and Shenzhen Xunlei currently benefit from the tax incentives. See "Management's discussion and analysis of financial condition and results of operation Taxation." We also benefited from government incentives in the form of cash subsidies in 2011.

Preferential tax treatment and other government incentives granted to Xunlei Computer and Shenzhen Xunlei by the local governmental authorities are subject to review and may be adjusted or revoked at any time. The discontinuation or reduction of any preferential tax treatment currently available to us and our wholly-owned PRC subsidiaries will cause our effective tax to increase, which could have a material adverse effect on our financial condition and results of operations. We cannot assure you that we will be able to maintain our current effective tax rate in the future.

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

Under the EIT Law and its implementation rules, an enterprise established outside of the PRC with a "de facto management body" within the PRC is considered a resident enterprise and will be subject to the enterprise income tax at the rate of 25% on its global income. The implementation rules define the term "de facto management bodies" as "establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise." On April 22, 2009, the SAT issued a circular, or SAT Circular 82, which provides certain specific criteria for determining whether the "de facto management body" of a PRC-controlled enterprise that is incorporated offshore is located in China. See "Regulation Regulations on Tax PRC enterprise income tax." Although SAT Circular 82 applies only to offshore enterprises controlled by PRC enterprises or PRC enterprise groups and not to those controlled by PRC individuals or foreigners, the determining criteria set forth in the SAT Circular 82 may reflect the SAT's general position on how the "de facto management body" test should be applied in determining the tax resident status of all offshore enterprises.

According to SAT Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its "de facto management body" in China and will be subject to PRC enterprise income tax on its worldwide income only if all of the following conditions set forth in the SAT Circular 82 are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise's financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise's primary

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assets, accounting books and records, company seals, and board and shareholder resolutions are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

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

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

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

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

China's overall economy and the average wage in China have increased in recent years and are expected to continue to grow. The average wage level for our employees has also increased in recent years. We expect that our labor costs, including wages and employee benefits, will continue to increase. Unless we are able to pass on these increased labor costs to our users by increasing prices for our products or services, our profitability and results of operations may be materially and adversely affected.

In addition, we have been subject to stricter regulatory requirements in terms of entering labor contracts with our employees and paying various statutory employee benefits, including pensions, housing fund, medical insurance, work-related injury insurance, unemployment insurance and childbearing insurance to designated government agencies for the benefit of our employees. Pursuant to the PRC Labor Contract Law, or the Labor Contract law, that became effective in January 2008, as amended on December 28, 2012 and effective as of July 1, 2013, and its implementation rules that became effective in September 2008, employers are subject to stricter requirements in terms of signing labor contracts, minimum wages, paying remuneration, determining the term of employees' probation and unilaterally terminating labor contracts. In the event that we decide to terminate some of our employees or otherwise change our employment or labor practices, the Labor Contract Law and its implementation rules may limit our ability to effect those changes in a desirable or cost-effective manner, which could adversely affect our business and results of operations. On October 28, 2010, the Standing Committee of the National People's Congress promulgated the PRC Social Insurance Law, or the Social Insurance Law, which became effective on July 1, 2011. According to the Social Insurance Law, employees must participate in pension insurance, work-related injury insurance, medical insurance, unemployment insurance and maternity insurance and the employers must, together with their employees or separately, pay the social insurance premiums for such employees.

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

***The audit report included in this prospectus is prepared by an auditor who is not inspected by the Public Company Accounting Oversight Board and, as such, you are deprived of the benefits of such inspection.***

Auditors of companies that are registered with the Securities and Exchange Commission, or the SEC, and traded publicly in the United States, including our independent registered public accounting firm, must be registered with the Public Company Accounting Oversight Board, or the PCAOB, and are required by the laws of the United States to undergo regular inspections by PCAOB to assess their compliance with the laws of the United States and professional standards. Because we have substantiated operations within the Peoples' Republic of China and the PCAOB is currently unable to conduct inspections of the work of our auditors as it relates

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to those operations without the approval of the Chinese authorities, our auditor's work related to our operations in China is not currently inspected by the PCAOB.

This lack of PCAOB inspections of audit work performed in China prevents the PCAOB from regularly evaluating audit work of any auditors that was performed in China including that performed by our independent registered public accounting firm. As a result, investors may be deprived of the full benefits of PCAOB inspections.

The inability of the PCAOB to conduct inspections of audit work performed in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures as compared to auditors in other jurisdictions that are subject to PCAOB inspections on all of their work. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

***Proceedings instituted recently 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.***

Proceedings instituted recently by the SEC against certain PRC-based accounting firms, including an independent registered public accounting firm which has a substantial role in the audit of our company, 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 certain PRC-based accounting firms, including an independent registered public accounting firm which has a substantial role in the audit of our company, 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' work papers related to their audits of certain PRC-based companies that are publicly traded in the United States and which are the subject of certain ongoing SEC investigations. On January 22, 2014, an initial administrative law decision was issued, sanctioning these accounting firms and suspending them from practicing before the SEC for a period of six months. On February 12, 2014, four of these PRC-based accounting firms appealed to the SEC against this sanction. Accordingly, the sanction will not become effective until after a full appeal process is concluded and a final decision is issued by the SEC. We were not and are not the subject of any SEC investigations nor are we involved in the proceedings brought by the SEC against the accounting firms. We may be adversely affected by the outcome of the proceedings, along with other U.S.-listed companies audited by these accounting firms. Our financial statements could be determined to not be in compliance with the requirements for financial statements of public companies registered under the Exchange Act, as amended, or the Exchange Act. Such a determination could ultimately lead to the delay or abandonment of this offering, or, after the completion of this offering, delisting of our common stock from the [NYSE/NASDAQ Global Market] or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our common stock in the United States.

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**Risks related to this offering**

*There has been no public market for our shares or ADSs prior to this offering, and you may not be able to resell our ADSs at or above the price you paid, or at all.*

Prior to this initial public offering, there has been no public market for our shares or ADSs. We will apply for our ADSs to be listed on the [NYSE/NASDAQ Global Market]. Our common shares will not be listed on any exchange or quoted for trading on any over-the-counter trading system. If an active trading market for our ADSs does not develop after this offering, the market price and liquidity of our ADSs will be materially and adversely affected.

Negotiations with the underwriters will determine the initial public offering price for our ADSs which may bear no relationship to their market price after the initial public offering. We cannot assure you that an active trading market for our ADSs will develop or that the market price of our ADSs will not decline below the initial public offering price.

*The market price for our ADSs may be volatile.*

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

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

regulatory developments affecting us, our advertisers or our industry;

announcements of studies and reports relating to our services or those of our competitors;

changes in the economic performance or market valuations of other internet companies in China;

actual or anticipated fluctuations in our quarterly results of operations and changes of our expected results;

changes in financial estimates by securities research analysts;

conditions in the internet or online advertising industry in China;



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announcements by us or our competitors of new services, acquisitions, strategic relationships, joint ventures or capital commitments;

additions to or departures of our senior management;

fluctuations of exchange rates between the Renminbi and the U.S. dollar;

release or expiry of lock-up or other transfer restrictions on our outstanding shares or ADSs; and

sales or perceived potential sales of additional shares or ADSs.

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

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

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

***Because our initial public offering price is substantially higher than our net tangible book value per share, you will experience immediate and substantial dilution.***

If you purchase ADSs in this offering, you will pay more for your ADSs than the amount paid by our existing shareholders for their common shares on a per ADS basis. As a result, you will experience immediate and substantial dilution of approximately US\$ \_\_\_\_\_ per ADS, representing the difference between an initial public offering price of US\$ \_\_\_\_\_ per ADS, the midpoint of the estimated initial public offering price range, and our net tangible book value per ADS as of March 31, 2014, after giving effect to the issuance of common shares upon our co-founders' exercise of their vested options, the automatic conversion of our various classes of preferred shares immediately upon the completion of this offering and net proceed to us from this offering. In addition, you may experience further dilution to the extent that our common shares are issued upon the exercise of share options.

***Because we do not expect to pay dividends in the foreseeable future after this offering, 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 after this offering 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. 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,

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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 after this offering or even maintain the price at which you purchased the ADSs. You may not realize a return on your investment in our ADSs and you may even lose your entire investment in our ADSs.

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

Sales of our ADSs or common shares in the public market after this offering, or the perception that these sales could occur, could cause the market price of our ADSs to decline. Upon completion of this offering, we will have Class A common shares outstanding represented by ADSs, assuming the underwriters do not exercise their over-allotment option. All ADSs sold in this offering will be freely transferable without restriction or additional registration under the Securities Act of 1933, as amended, or the Securities Act.

Upon completion of this offering, certain holders of our common shares will have the right to cause us to register under the Securities Act the sale of their shares, subject to the 180-day lock-up period in connection with this offering. Registration of these shares under the Securities Act would result in ADSs representing these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. Sales of these registered shares in the form of ADSs, in the public market could cause the price of our ADSs to decline.

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

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

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

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less than the cost of mailing them. In these cases, the depositary may decide not to distribute such property to you.

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

Your ADSs are transferable on the books of the depositary. However, the depositary may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary deems it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

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

We are incorporated in the Cayman Islands and conduct substantially all of our operations in China through our PRC subsidiaries and variable interest entities. Substantially all of our directors and officers reside outside the United States and a substantial portion of their assets are located outside of the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the Cayman Islands or in the United States in the event that you believe that your rights have been infringed under the U.S. securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

There are uncertainties as to whether Cayman Islands courts would:

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

impose liabilities against us, in original actions brought in the Cayman Islands, based on certain civil liability provisions of U.S. securities laws that are penal in nature.

There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will in certain circumstances recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits. For more information regarding the relevant laws of the Cayman Islands and China, see "Enforceability of civil liabilities."

Our corporate affairs are governed by our memorandum and articles of association, as amended and restated from time to time, and by the Companies Law (2013 Revision) and common law of the Cayman Islands. The rights of shareholders to take legal action against us and our directors, actions by minority shareholders and the fiduciary 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 English common law, which provides persuasive, but not binding, authority in a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents

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in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States and provides significantly less protection to investors. In addition, shareholders in Cayman Islands companies may not have standing to initiate a shareholder derivative action in U.S. federal courts.

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

***Our management has discretion as to the use of the net proceeds from this offering, and such use may not produce income or increase our ADS price.***

We intend to use the net proceeds of this offering for, among other things, establishing a customer service center and cloud computing data centers to better serve our subscribers, acquiring digital media content and exclusive online game licenses, investing in technology, infrastructure and product and service development efforts and other general corporate purposes. However, our management will have considerable discretion in the application of the net proceeds received by us. For more information, see "Use of proceeds." You will not have the opportunity, as part of your investment decision, to assess whether proceeds are being used appropriately. You must rely on the judgment of our management regarding the application of the net proceeds of this offering. The net proceeds may be used for corporate purposes that do not improve our efforts to maintain profitability or increase our ADS price. The net proceeds from this offering may be placed in investments that do not produce income or that lose value.

***Our dual class common 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 A common shares and ADSs may view as beneficial.***

Upon the completion of this offering, we plan to divide our common shares into Class A common shares and Class B common shares. Holders of Class A common shares will be entitled to one vote per share, while holders of Class B common shares will be entitled to \_\_\_\_\_ votes per share. We will issue Class A common shares represented by our ADSs in this offering. We will re-designate \_\_\_\_\_ of our issued and outstanding common shares and preferred shares as Class B common shares. Due to the disparate voting powers attached to these two classes, we anticipate that our existing principal shareholders will collectively own approximately \_\_\_\_\_ % of the total voting power of our outstanding common shares immediately after this offering, assuming the underwriters do not exercise their over-allotment option to purchase additional ADSs. Such shareholders will have considerable influence over matters requiring shareholder approval, including election of directors and significant corporate transactions, such as a merger or sale of our company or our assets. In particular, our founder and chief executive officer, Mr. Sean Shenglong Zou, and his affiliates will own approximately \_\_\_\_\_ % of our outstanding common shares, representing \_\_\_\_\_ % of our total voting power after this offering. This concentrated control will limit your ability to influence corporate matters and could discourage others from pursuing any potential merger, takeover or other change of control transactions that holders of Class A common shares and ADSs may view as beneficial.

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

We are an "emerging growth company," as defined in the JOBS Act, and we may take advantage of certain exemptions from various requirements applicable to other public companies that are not emerging growth companies including, most significantly, not being required to comply with the auditor attestation requirements of Section 404 for so long as we are an emerging growth company. As a result, if we elect not to comply with such auditor attestation requirements, our investors may not have access to certain information they may deem important.

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

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

We plan to adopt an amended and restated memorandum and articles of association that will become effective immediately upon the closing of this offering. Our new memorandum and articles of association will contain certain provisions that could limit the ability of others to acquire control of our company, including a provision that grants authority to our board directors to establish from time to time one or more series of preferred shares without action by our shareholders and to determine, with respect to any series of preferred shares, the terms and rights of that series. The provisions could have the effect of depriving our shareholders of the opportunity to sell their shares at a premium over the prevailing market price by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transactions.

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

After this offering, our directors, executive officers and principal shareholders will beneficially own approximately \_\_\_\_\_% of our outstanding common shares, representing \_\_\_\_\_% of our total voting power assuming the underwriters do not exercise their over-allotment option to purchase additional ADSs. These shareholders, if acting together, could exert substantial influence over matters such as electing directors and approving material mergers, acquisitions or other business combination transactions. This concentration of ownership may also discourage, delay or prevent a change in control of our company, which could have the dual effect of depriving our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and reducing the price of our ADSs. These actions may be taken even if they are opposed by our other shareholders, including those who purchase ADSs in this offering. In addition, these persons could divert business opportunities away from us to themselves or others.

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

Upon completion of this offering, we will become a public company in the United States. As a public company, we will incur significant accounting, legal and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act, as well as rules subsequently implemented by the Securities and Exchange Commission and the [NYSE/NASDAQ Global Market], require significantly heightened corporate governance practices of public companies, including Section 404 relating to internal control over financial reporting. As a company with less than US\$1.0 billion in revenues for our last fiscal year, we qualify as an "emerging growth company" pursuant to the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. These provisions include exemption from the auditor attestation requirement under Section 404 of the Sarbanes-Oxley Act of 2002 in the assessment of the emerging growth company's internal control over financial reporting and permission to delay adopting new or revised accounting standards until such time as those standards apply to private companies. However, we have elected to "opt out" of this provision and, as a result, we will comply with new or revised accounting standards as required when they are adopted for public companies. This decision to opt out of the extended transition period under the JOBS Act is irrevocable.

We expect these and other rules and regulations applicable to public companies will increase our accounting, legal and financial compliance costs and will make certain corporate activities more time-consuming and costly. After we are no longer an "emerging growth company," we expect to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and the other rules and regulations of the SEC. Compliance with these rules and requirements may be especially difficult and costly for us because we may have difficulty locating sufficient personnel in China with experience and expertise relating to U.S. GAAP and U.S. public company reporting requirements, and such personnel may command high salaries relative to similarly experienced personnel in the United States. If we cannot employ sufficient personnel to ensure compliance with these rules and regulations, we may need to rely more on outside legal, accounting and financial experts, which may be costly. If we fail to comply with these rules and requirements, or are perceived to have weaknesses with respect to our compliance, we could become the subject of a governmental enforcement action and investor confidence could be negatively impacted and the market price of our ADSs could decline. In addition, we will incur additional costs associated with our public company reporting requirements. We are currently evaluating and monitoring developments with respect to these rules and regulations, and we cannot predict or estimate with reasonable certainty the amount of additional costs we may incur or the timing of such costs.

***There is a significant risk that we will be classified as a passive foreign investment company, which could subject United States investors in the ADSs or common shares to significant adverse United States income tax consequences.***

Whether we will be a "passive foreign investment company", or "PFIC", for United States federal income tax purposes for any taxable year will depend upon the value of our assets (which could be determined based on the market value of our ADSs from time to time, which may be volatile) and the nature and composition of our assets and income for such year. Although the law in this regard is unclear, we treat Shenzhen Xunlei as being owned by us for

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United States federal income tax purposes, not only because we exercise effective control over the operation of such entity but also because we are entitled to substantially all of the economic benefits associated with this entity, and, as a result, we consolidate this entity's operating results in our consolidated financial statements. If it were determined, however, that we are not the owner of Shenzhen Xunlei for United States federal income tax purposes, we may be treated as a PFIC for our current taxable year and any future taxable year.

We currently hold, and may continue to hold, a substantial amount of cash. As cash is treated as a passive asset, there is a significant risk that we will become a PFIC for the current or future taxable years. The determination of whether we are a PFIC for any particular year will depend upon the composition of our income and assets and the value of our assets from time to time, including, in particular, the value of our goodwill and other unbooked intangibles (which may depend upon the market value of our ADSs and common shares from time-to-time, which may be volatile) and may also be affected by how, and how quickly, we spend our liquid assets and cash (including the cash raised in this offering). Because there are uncertainties in the application of the relevant rules and PFIC status is a factual determination made annually after the close of each taxable year, including ascertaining the fair market value of our assets on a quarterly basis and the character of each item of income we earn, there can be no assurance that we will not be a PFIC for the current taxable year or any future taxable year.

If we were to be classified as a PFIC in any taxable year, a U.S. Holder (as defined in "Taxation United States federal income tax considerations") would be subject to special rules generally intended to reduce or eliminate any benefits from the deferral of United States federal income tax that a U.S. Holder could derive from investing in a non-United States corporation that does not distribute all of its earnings on a current basis. Further, if we are classified as a PFIC for any year during which a U.S. Holder holds our ADSs or common shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. Holder holds our ADSs or common shares. For more information see the section titled "Taxation United States federal income tax considerations Passive foreign investment company considerations."

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## Conventions which apply to this prospectus

Unless we indicate otherwise, all information in this prospectus reflects the following:

no exercise by the underwriters of their option to purchase up to additional ADSs representing  
Class A common shares from us; and

conversion of all outstanding series A, series A-1, series B, series C, series D and series E preferred shares  
into Class A common shares and Class B common shares immediately upon the  
completion of this offering.

Except where the context otherwise requires and for purposes of this prospectus only:

"we," "us," "our company," "our," and "Xunlei" refer to Xunlei Limited, a Cayman Islands company, and its consolidated subsidiaries and variable interest entities, including our variable interest entity, or VIE, controlled by us, and the VIE's subsidiaries;

"China" or "PRC" refers to the People's Republic of China, excluding, for the purpose of this prospectus only, Taiwan, Hong Kong, and Macau;

"digital media content" refers to videos, music, games, software and documents transmitted in digital form;

"monthly active users" refers to the number of internet users who activated and used a Xunlei acceleration product for at least 60 minutes within a month; under this method, a user that activated and used multiple Xunlei acceleration products with the same user information would count only once no matter how many times such user activated and used the acceleration products;

"monthly unique visitors" in relation to our platform, refers to the number of different individual visitors who access Xunlei products (including websites and software) on our platform from the same computer at least once within a month; under this method, a user that used Xunlei products on two different computers would be counted as two unique visitors as he or she accessed the Xunlei product from different computers; in relation to our Xunlei Kankan website, refers to the number of different individual visitors to our Xunlei Kankan website from the same computers; For the purposes of the calculation, each visit counts only once no matter how many times the user from the same computer accesses the Xunlei Kankan website;

"shares" or "common shares" refers to our Class A and Class B common shares, par value US\$0.00025 per share;

"preferred shares" refers to our series A, series A-1, series B, series C, series D and series E convertible preferred shares, par value US\$0.00025 per share, collectively;

"ADSs" refers to our American depositary shares, each of which represents Class A common shares, and  
"ADRs" refers to any American depositary receipts that evidence our ADSs;

all references to "RMB" or "Renminbi" refer to the legal currency of China; and

all references to "US\$," "dollars" or "U.S. dollars" refer to the legal currency of the United States.



## Edgar Filing: Xunlei Ltd - Form F-1

We use U.S. dollar as reporting currency in our financial statements and in this prospectus. Transactions in Renminbi are recorded at the rates of exchange prevailing when the transactions occur. On May 16, 2014, the noon buying rate set forth in the H.10 statistical release of the Federal Reserve Board was RMB6.2327 to US\$1.00.

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## **Special note regarding forward-looking statements**

This prospectus contains forward-looking statements that involve risks and uncertainties. All statements other than statements of historical facts are forward-looking statements. 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.

You can identify these forward-looking statements by words or phrases such as "may," "will," "expect," "anticipate," "aim," "estimate," "intend," "plan," "believe," "likely to" or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, but are not limited to, statements about:

our growth strategies;

our future business development, results of operations and financial condition;

our ability to maintain and strengthen our leading market position in China;

our ability to increase and retain subscribers for our premium acceleration and other services;

our ability to develop new products and services and attract, maintain and monetize user traffic;

trends and competition in the internet industry in China;

our ability to handle intellectual property rights-related matters;

our expectation regarding the use of proceeds from this offering; and

general economic and business conditions in China.

You should read thoroughly this prospectus and the documents that we refer to in this prospectus with the understanding that our actual future results may be materially different from and worse than what we expect. Other sections of this prospectus include additional factors which could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, 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. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

This prospectus also contains statistical data and estimates that we obtained from industry publications and reports generated by third parties, including industry data from iResearch and Analysys International. Statistical data in these publications and reports also include projections based on a number of assumptions. The internet industry may not grow at the rate projected by market data, or at all. Failure of this market to grow at the projected rate may have a material and adverse effect on our business and the market price of our ADSs. In addition, the rapidly changing nature of the internet industry results in significant uncertainties for any projections or estimates relating to the growth prospects or future condition of our market. Furthermore, if any one or more of the assumptions underlying the market data are later found to be incorrect, actual results may differ from the projections based on these assumptions. You should not place undue reliance on these forward-looking

statements.

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## Use of proceeds

We estimate that we will receive net proceeds from this offering of approximately US\$ \_\_\_\_\_ million after deducting underwriting discounts and commissions and the estimated offering expenses payable by us. These estimates are based upon an assumed initial offering price of US\$ \_\_\_\_\_ per ADS, the midpoint of the estimated initial public offering price range shown on the front cover page of this prospectus. [We will not receive any of the proceeds from the sale of ADSs by the selling shareholders.] A US\$1.00 change in the assumed initial public offering price of US\$ \_\_\_\_\_ per ADS would, in the case of an increase, increase and, in the case of a decrease, decrease the net proceeds of this offering by US\$ \_\_\_\_\_ million, assuming the sale of \_\_\_\_\_ ADSs at US\$ \_\_\_\_\_ per ADS, the midpoint of the range shown on the front cover page of this prospectus and after deducting underwriting discounts and commissions and the estimated offering expenses payable by us.

The primary purposes of this offering are to create a public market for our shares for the benefit of all shareholders, retain and attract talented employees by providing them with equity incentives and obtain additional capital. We plan to use the net proceeds of this offering as follows:

US\$ \_\_\_\_\_ million to invest in technology, infrastructure and product development efforts;

US\$ \_\_\_\_\_ million to acquire digital media content and exclusive online game licenses; and

the balance for other general corporate purposes, including working capital needs and potential acquisitions.

The amounts and timing of any expenditures will vary depending on the amount of cash generated by our operations, competitive and technological developments and the rate of growth, if any, of our business. Accordingly, our management will have significant flexibility in applying the net proceeds of the offering. If an unforeseen event occurs or business conditions change, we may use the proceeds of this offering differently than as described in this prospectus.

In utilizing the proceeds from this offering, we are permitted under PRC laws and regulations to provide funding to our PRC subsidiaries and variable interest entities only through loans or capital contributions, and only if we satisfy the applicable government registration and approval requirements. We cannot assure you that we will be able to meet these requirements on a timely basis, if at all. See "Risk factors Risks related to our corporate structure PRC regulation of loans to, and direct investment in, PRC entities by offshore holding companies and governmental control of currency conversion may restrict or prevent us from using the proceeds of this offering to make loans to our PRC subsidiaries and variable interest entities or to make additional capital contributions to our PRC subsidiaries, which may materially and adversely affect our liquidity and our ability to fund and expand our business."

Pending use of the net proceeds, we intend to hold our net proceeds in demand deposits or invest them in interest-bearing government securities.

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## **Dividend policy**

We have not previously declared or paid cash dividends and we have no plan to declare or pay any dividends in the near future on our shares or ADSs. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

We are a holding company incorporated in the Cayman Islands. We rely principally on dividends from our subsidiaries in China for our cash requirements, including any payment of dividends to our shareholders. PRC regulations may restrict the ability of our PRC subsidiaries to pay dividends to us. See "Regulation Regulation on dividend distributions."

Our board of directors has complete discretion as to whether to distribute dividends, subject to applicable laws. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant. If we pay any dividends, we will pay our ADS holders to the same extent as holders of our Class A common shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. See "Description of American Depositary Shares." Cash dividends on our Class A common shares, if any, will be paid in U.S. dollars.

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## Capitalization

The following table sets forth our capitalization as of March 31, 2014:

on an actual basis;

on a pro forma basis to reflect the planned re-designation of common shares and preferred shares into the equivalent number of Class A and Class B common shares upon the completion of this offering, and the unaudited pro forma presentation does not include the series E preferred share issued in April 2014 and the repurchase transactions which occurred in April 2014;

on an Article 11 pro forma basis as adjusted to reflect (1) the series E preferred shares issued in April 2014, (2) the repurchase transactions occurred in April 2014, and (3) our planned re-designation of common shares and preferred shares into the equivalent number of Class A and Class B common shares upon the completion of this offering. Please refer to the unaudited pro forma condensed consolidated financial information on page P-2 for additional information;

on a pro forma as adjusted basis to reflect (1) the planned re-designation of common shares and preferred shares into the equivalent number of Class A and Class B common shares, (2) the issuance and sale of series E preferred shares in April 2014, (3) the repurchase transactions which occurred in April 2014, and (4) the issuance and sale of Class A common shares in the form of ADSs by us in this offering at an assumed initial public offering price of US\$ per ADS, the midpoint of the estimated initial public offering price range shown on the front cover of this prospectus, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

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You should read this table together with our consolidated financial statements and the related notes included elsewhere in this prospectus and the information under "Management's Discussion and Analysis of Financial Condition and Results of Operations."

(in US\$ thousands)	As at March 31, 2014			
	Actual	Pro forma(1) (unaudited)	Article 11 Pro forma as adjusted(2) (unaudited)	Pro forma as adjusted(3) (unaudited)
<b>Mezzanine equity</b>				
Series E preferred shares (US\$0.00025 par value); 127,613,933 shares authorized, 70,975,491 shares issued and outstanding on an actual basis; nil outstanding on a pro forma basis, outstanding on a pro forma as adjusted basis	115,721			
Series D preferred shares (US\$0.00025 par value); 18,000,000 shares authorized, 10,580,397 issued and outstanding on an actual basis; nil outstanding on a pro forma basis, outstanding on a pro forma as adjusted basis	41,722			
<b>Equity</b>				
Series C preferred shares (US\$0.00025 par value; 5,728,264 shares authorized, 5,728,264 issued and outstanding on an actual basis; nil outstanding on a pro forma basis, outstanding on a pro forma as adjusted basis)		1		
Series B preferred shares (US\$0.00025 par value; 30,308,284 shares authorized, 30,308,284 shares issued and outstanding on an actual basis; nil outstanding on a pro forma basis or a pro forma as adjusted basis)		8		
Series A-1 preferred shares (US\$0.00025 par value; 36,400,000 shares authorized, 36,400,000 shares issued and outstanding on an actual basis; nil outstanding on a pro forma basis or a pro forma as adjusted basis)		9		
Series A preferred shares (US\$0.00025 par value; 27,932,000 shares authorized, 26,416,560 shares issued and outstanding on an actual basis; nil outstanding on a pro forma basis or a pro forma as adjusted basis)		7		
Common shares (US\$0.00025 par value; 355,532,959 shares authorized, 70,521,104 shares issued and 61,447,372 shares outstanding on an actual basis; Class A common shares and Class B common shares issued and 245,012,554 shares outstanding on a pro forma basis and Class A common shares and Class B common shares issued and outstanding on a pro forma as adjusted basis)	15	61	65	
Additional paid-in capital <sup>(3)</sup>	115,130	272,552	338,746	
Accumulated other comprehensive income	5,085	5,085	5,085	
Statutory reserve	4,478	4,478	4,478	
Treasury shares (US\$0.00025 par value, 9,073,732 shares as at March 31, 2014, 9,073,732 shares on a pro forma basis and outstanding on a pro forma as adjusted basis)	2	2	2	
Retained earnings	2,487	2,487		
Total Xunlei Limited's shareholders' equity <sup>(4)</sup>	127,222	284,665	348,376	
Non-controlling interest	(135)	(135)	(135)	
Total capitalization <sup>(4)</sup>	127,087	284,530	348,241	

Notes:

- (1) The unaudited pro forma presentation does not include (1) the series E preferred shares issued in April 2014, (2) the repurchase transaction occurred in April 2014.
- (2) On an Article 11 pro forma as adjusted basis to reflect (1) the series E preferred shares issued in April 2014, (2) the repurchase transactions occurred in April 2014, and (3) our planned re-designation of common shares and preferred shares into the equivalent number of Class A and Class B common shares upon the completion of this offering. Please refer to the unaudited pro forma condensed consolidated financial information on page P-2 for additional information.
- (3) The pro forma as adjusted information discussed above is illustrative only. Our additional paid-in capital, total shareholders' equity and total capitalization following the completion of this offering are subject to adjustment based on the actual initial public offering price and other terms of this offering determined at pricing.
- (4) Assuming the number of ADSs offered by us as set forth on the cover page of this prospectus remains the same, and after deduction of underwriting discounts and commissions and the estimated offering expenses payable by us, a US\$1.00 change in the assumed initial public offering price of US\$                      per ADS would, in the case of increase, increase and, in the case of decrease, decrease each of additional paid-in capital, total equity and total capitalization by US\$                      million.



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## Dilution

Our net tangible book value as of March 31, 2014 was approximately US\$ \_\_\_\_\_ per common share and US\$ \_\_\_\_\_ per ADS. Net tangible book value per common share represents the amount of total tangible assets, minus the amount of total liabilities, divided by the total number of common shares outstanding. Our pro forma net tangible value as of March 31, 2014 was approximately US\$ \_\_\_\_\_ per common share and US\$ \_\_\_\_\_ per ADS. Dilution is determined by subtracting pro forma net tangible book value per common share from the assumed public offering price per common share.

Without taking into account any other changes in such net tangible book value after March 31, 2014, other than to give effect to (1) the planned re-designation of common shares and preferred shares into the equivalent number of Class A and Class B common shares, (2) our issuance and sale of series E preferred shares in April 2014, (3) the repurchase transactions which occurred in April 2014 and (4) our issuance and sale of \_\_\_\_\_ ADSs in this offering, at an assumed initial public offering price of US\$ \_\_\_\_\_ per ADS, the mid-point of the estimated public offering price range, and after deduction of underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma as adjusted net tangible book value at March 31, 2014 would have been US\$ \_\_\_\_\_ per outstanding common share, including common shares underlying our outstanding ADSs, or US\$ \_\_\_\_\_ per ADS. This represents an immediate increase in net tangible book value of US\$ \_\_\_\_\_ per common share, or US\$ \_\_\_\_\_ per ADS, to existing shareholders and an immediate dilution in net tangible book value of US\$ \_\_\_\_\_ per common share, or US\$ \_\_\_\_\_ per ADS, to purchasers of ADSs in this offering.

The following table illustrates the dilution on a per common share basis assuming that the initial public offering price per Class A common share is US\$ \_\_\_\_\_ and all ADSs are exchanged for Class A common shares:

	<b>Per common share</b>	<b>Per ADS</b>
Assumed initial public offering price	US\$	US\$
Net tangible book value as of March 31, 2014	US\$	US\$
Pro forma net tangible book value after giving effect to the conversion of our series A, series A-1, series B, series C, series D and series E preferred shares	US\$	US\$
Pro forma as adjusted net tangible book value after giving effect to the conversion of our series A, series A-1, series B, series C, series D and series E preferred shares and this offering	US\$	US\$
Dilution in net tangible book value to new investors in the offering	US\$	US\$

A US\$1.00 change in the assumed initial public offering price of US\$ \_\_\_\_\_ per ADS would, in the case of an increase, increase and, in the case of a decrease, decrease our pro forma as adjusted net tangible book value after giving effect to the offering by US\$ \_\_\_\_\_ million, the pro forma as adjusted net tangible book value per Class A common share and per ADS after giving effect to this offering by US\$ \_\_\_\_\_ per Class A

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common share and US\$ per ADS and the dilution in pro forma as adjusted net tangible book value per common share and per ADS to new investors in this offering by US\$ per Class A common share and US\$ per ADS, assuming no change to the number of ADSs offered by us as set forth on the cover page of this prospectus, and after deducting underwriting discounts and commissions and other offering expenses. The pro forma information discussed above is illustrative only. Our net tangible book value following the completion of this offering is subject to adjustment based on the actual initial public offering price of our ADSs and other terms of this offering determined at pricing.

The following table summarizes, on a pro forma as adjusted basis as of March 31, 2014, the differences between the shareholders as of March 31, 2014 and the new investors with respect to the number of common shares purchased from us, the total consideration paid and the average price per common share paid at an assumed initial public offering price of US\$ per ADS before deducting estimated underwriting discounts and commissions and estimated offering expenses.

	Common shares purchased		Total consideration		Average price	Average price
	Number <sup>(1)</sup>	Percent	Amount (in thousands of US\$)	Percent	per common share	per ADS
Existing shareholders	260,937,736		327,224			
New investors						
<b>Total</b>		<b>100%</b>		<b>100%</b>		

(1) Assuming automatic conversion of all existing shares into Class A common shares and Class B common shares, as we planned, upon completion of this offering. The total number of common shares does not include the common shares issued to Leading Advice Holdings Limited for grants under our 2013 Plan and 2014 Plan (except for restricted shares that have already vested), which are not deemed outstanding.

A US\$1.00 change in the assumed initial public offering price of US\$ per ADS would, in the case of an increase, increase and, in the case of a decrease, decrease total consideration paid by new investors, total consideration paid by all shareholders, average price per Class A common share and average price per ADS paid by all shareholders by US\$ million, US\$ million, US\$ and US\$, respectively, assuming the sale of ADSs at US\$, the mid-point of the range set forth on the cover page of this prospectus.

The discussion and tables above also assume no exercise of any outstanding stock options as of the date of this prospectus. As of the date of this prospectus, there were common shares issuable upon exercise of outstanding stock options at a weighted average exercise price of US\$ per common share and there were Class A common shares available for future issuance upon the exercise of future grants. To the extent that any of these options are exercised or any of these restricted share units are vested, there will be further dilution to new investors.

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## **Enforceability of civil liabilities**

We were incorporated in the Cayman Islands to take advantage of certain benefits associated with being a Cayman Islands exempted company:

political and economic stability;

an effective judicial system;

a favorable tax system;

the absence of exchange control or currency restrictions; and

the availability of professional and support services.

However, certain disadvantages accompany incorporation in the Cayman Islands. These disadvantages include, but are not limited to, the following:

the Cayman Islands has a less developed body of securities laws as compared to the United States and these securities laws provide significantly less protection to investors as compared to the United States; and

Cayman Islands companies may not have standing to sue before the federal courts of the United States.

Our constituent documents do not contain provisions requiring that disputes, including those arising under the securities laws of the United States, between us, our officers, directors and shareholders, be arbitrated.

All of our operations are conducted outside the United States, and substantially all of our assets are located outside the United States. A majority of our officers are nationals or residents of jurisdictions other than the United States and a substantial portion of their assets are located outside the United States. As a result, it may be difficult for a shareholder to effect service of process within the United States upon these persons, or to enforce against us or them judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States.

We have appointed \_\_\_\_\_ as our agent upon whom process may be served in any action brought against us under the securities laws of the United States.

Maples and Calder, our counsel as to Cayman Islands law, and Zhong Lun Law Firm, our counsel as to PRC law, have advised us, respectively, that there is uncertainty as to whether the courts of the Cayman Islands and China, respectively, would:

recognize or enforce judgments of United States courts obtained against us or our directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States; or

entertain original actions brought in each respective jurisdiction against us or our directors or officers predicated upon the securities laws of the United States or any state in the United States.

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Maples and Calder has further advised us that although there is no statutory enforcement in the Cayman Islands of judgments obtained in the federal or state courts of the United States (and the Cayman Islands are not a party to any treaties for the reciprocal enforcement or recognition of such judgments), a judgment obtained in such jurisdiction will be recognized and enforced in the courts of the Cayman Islands at common law, without any re-examination of the merits of the underlying dispute, by an action commenced on the foreign judgment debt in the Grand Court of the Cayman Islands, provided that such judgment (a) is given by a foreign court of competent jurisdiction, (b) imposes on the judgment debtor a liability to pay a liquidated sum for which the judgment has been given, (c) is final, (d) is not in respect of taxes, a fine or a penalty; and (e) was not obtained in a manner and is not of a kind the enforcement of which is contrary to natural justice or the public policy of the Cayman Islands. However, the Cayman Islands courts are unlikely to enforce a punitive judgment of a United States court predicated upon the liabilities provision of the federal securities laws in the United States without retrial on the merits if such judgment gives rise to obligations to make payments that may be regarded as fines, penalties or similar charges.

Zhong Lun Law Firm has further advised us that the recognition and enforcement of foreign judgments are provided for under PRC Civil Procedures Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of PRC Civil Procedures Law based either on treaties between China and the country where the judgment is made or on reciprocity between jurisdictions provided that the foreign judgments do not violate the basic principles of laws of the PRC or its sovereignty, security, or social and public interest. However, China does not have any treaties or other form of reciprocity with the United States that provide for the reciprocal recognition and enforcement of foreign judgments. As a result, it is uncertain whether and on what basis a PRC court would enforce a judgment rendered by a court in the United States, and it may be inevitable to relitigate at a competent Chinese court in order to seek available remedies.

In addition, although U.S. shareholders may be able to originate actions against us in China in accordance with PRC law, it will be difficult for U.S. shareholders to do so, because we are incorporated under the laws of the Cayman Islands and it is difficult for U.S. shareholders, by virtue only of holding our ADSs or common shares, to establish a connection to the PRC for a PRC court to have subject matter jurisdiction as required by the PRC Civil Procedures Law. U.S. shareholders may be able to originate actions against us in the Cayman Islands based upon Cayman Islands law. However, we do not have any substantial assets other than certain corporate documents and records in the Cayman Islands and it may be difficult for a shareholder to enforce a judgment obtained in a Cayman Islands court in China, where substantially all of our operations are conducted.

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## Corporate history and structure

We commenced operations in January 2003 through the establishment of Shenzhen Xunlei Networking Technologies Co., Ltd., or Shenzhen Xunlei, together with its various subsidiaries in the PRC, currently operating our Xunlei internet platform.

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

Giganology Shenzhen has entered into a series of contractual arrangements with Shenzhen Xunlei and its shareholders. The contractual arrangements between Giganology Shenzhen, Shenzhen Xunlei and its shareholders enable us to (1) exercise effective control over Shenzhen Xunlei; (2) receive substantially all of the economic benefits of Shenzhen Xunlei in consideration for the technical and consulting services provided and the intellectual property rights licensed by Giganology Shenzhen; and (3) have an exclusive option to purchase all of the equity interests in Shenzhen Xunlei when and to the extent permitted under PRC laws and regulations.

As a result of these contractual arrangements, we are considered the primary beneficiary of Shenzhen Xunlei, and we treat it as our variable interest entity, or VIE, under the generally accepted accounting principles in the United States, or U.S. GAAP. We have consolidated the financial results of Shenzhen Xunlei and its subsidiaries in our consolidated financial statements in accordance with U.S. GAAP. The VIE contributed revenues in amounts of US\$87.5 million, US\$148.2 million, US\$180.2 million and US\$41.2 million for the years ended December 31, 2011, 2012 and 2013 and for the three months ended March 31, 2014, respectively, accounting for almost 100% of our total consolidated revenues for each of the relevant periods.

The existing PRC subsidiaries of Shenzhen Xunlei include the following:

Shenzhen Fengdong Networking Technologies Co., Ltd., which was established in December 2005, and it primarily engages in software development.

Shenzhen Xunlei KanKan Information Technologies Co., Ltd. (formerly named as 155 Networking (Shenzhen) Co., Ltd.), which was established in August 2008, and it primarily engages in software development.

Xunlei Networking Technologies (Beijing) Co., Ltd., which was established in June 2009, and it primarily engages in software development.

Xunlei Software (Shenzhen) Co., Ltd., which was established in January 2010, and it primarily engages in the development of software technology and the development of computer software.

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

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Shenzhen Wangxin Technologies Co., Ltd., which was established in September 2013, and it has not started operation as of the date of this prospectus and it will engage in sales and marketing activities of our services and products.

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

In November 2011, we established Xunlei Computer (Shenzhen) Co., Ltd., or Xunlei Computer, in China, which is the direct wholly owned subsidiary of Xunlei Network HK. Xunlei Computer primarily engages in the development of computer software and information technology services.

We previously pursued an initial public offering in 2011 with a view to obtaining additional funding for our business development and to providing liquidity to our existing investors. However, due to the adverse market conditions in the global capital market in the second half year of 2011, we decided not to proceed with the offering at that time.

The following diagram illustrates our corporate structure and subsidiaries and variable interest entity as of the date of this prospectus:

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

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



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The following is a summary of the currently effective contracts among our subsidiary, Giganology Shenzhen, our variable interest entity, Shenzhen Xunlei, and the shareholders of Shenzhen Xunlei.

***Agreements that provide us effective control over Shenzhen Xunlei***

*Business operation agreement*

Pursuant to the business operation agreement among Giganology Shenzhen, Shenzhen Xunlei and the shareholders of Shenzhen Xunlei, as amended, Shenzhen Xunlei's shareholders must appoint the candidates nominated by Giganology Shenzhen to be the directors on its board of directors in accordance with applicable laws and the articles of association of Shenzhen Xunlei, and must cause the persons recommended by Giganology Shenzhen to be appointed as its general manager, chief financial officer and other senior executives. Shenzhen Xunlei and its shareholders also agree to accept and strictly follow the guidance provided by Giganology Shenzhen from time to time relating to employment, termination of employment, daily operations and financial management. Moreover, Shenzhen Xunlei and its shareholders agree that Shenzhen Xunlei will not engage in any transactions that could materially affect its assets, business, personnel, liabilities, rights or operations, including but not limited to the amendment of Shenzhen Xunlei's articles of association, without the prior consent of Giganology Shenzhen and Xunlei Limited or their respective designees. For instance, in May 2011, Shenzhen Xunlei sought and obtained consent from Giganology Shenzhen and Xunlei Limited to increase its registered capital by RMB20 million and to revise its articles of association accordingly. The term of this agreement will expire in 2016 and may be extended at Giganology Shenzhen's request prior to the expiration date.

*Equity pledge agreement*

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

*Powers of attorney*

Pursuant to the irrevocable powers of attorney executed by each shareholder of Shenzhen Xunlei, each such shareholder appointed Giganology Shenzhen as its attorney-in-fact to exercise such shareholders' rights in Shenzhen Xunlei, including, without limitation, the power to vote on its behalf on all matters of Shenzhen Xunlei requiring shareholder approval in accordance with PRC laws and regulations and the articles of association of Shenzhen Xunlei. Each power of attorney will remain in force for 10 years from the date of execution unless the



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business operation agreement, as amended, among Giganology Shenzhen, Shenzhen Xunlei and the shareholders of Shenzhen Xunlei is terminated at an earlier date. The term may be extended at Giganology Shenzhen's discretion.

*Agreements that transfer economic benefits to us*

*Exclusive technology support and services agreement*

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

*Exclusive technology consulting and training agreement*

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

*Proprietary technology license contract*

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

*Intellectual properties purchase option agreement*

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

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

*Equity interests disposal agreement*

Pursuant to the equity interests disposal agreement among Giganology Shenzhen, Shenzhen Xunlei and the shareholders of Shenzhen Xunlei, as amended, Shenzhen Xunlei's shareholders irrevocably grant Giganology Shenzhen (or its designated representative(s)) an exclusive option to purchase all or part of their equity interests in Shenzhen Xunlei for RMB1.0 or the minimum amount of consideration permitted under PRC law. The term of the agreement will expire in 2016 and may be extended at Giganology Shenzhen's discretion.

*Loan agreements*

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

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

In the opinion of our PRC legal counsel:

the ownership structures of our variable interest entity and our subsidiaries in China, both currently and after giving effect to this offering, comply with all existing PRC laws and regulations; and

the contractual arrangements among Giganology Shenzhen, our PRC subsidiary, Shenzhen Xunlei and its 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.

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We have been advised by our PRC legal counsel, however, that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules. Accordingly, the PRC regulatory authorities may take a view that is contrary to the above opinion of our PRC legal counsel. We have been further advised by our PRC legal counsel that if the PRC government finds that the agreements that establish the structure for operating our business to provide digital media data transmission and streaming services, online games and other value-added telecommunication services do not comply with PRC government restrictions on foreign investment in the aforesaid business we engage in, we could be subject to severe penalties including being prohibited from continuing operations. See "Risk factors Risks related to our corporate structure If the PRC government finds that the agreements that establish the structure for operating our businesses in China do not comply with PRC governmental restrictions on foreign investment in internet-related business and foreign investors' mergers and acquisition activities in China, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations."

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## **Selected consolidated financial data**

The following selected consolidated statements of operations data for the years ended December 31, 2011, 2012 and 2013 and the selected balance sheet data as of December 31, 2012 and 2013 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary consolidated statements of operations data for the three months ended March 31, 2013 and 2014 and the summary balance sheet data as of March 31, 2014 are derived from our unaudited interim condensed consolidated financial statements included elsewhere in this prospectus. We have prepared the unaudited interim condensed consolidated financial statements on the same basis as our audited consolidated financial statements and include all adjustments, consisting only of normal and recurring adjustments, that we consider necessary for a fair statement of our financial position and operating results for the periods presented. Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP. Our historical results for any period are not necessarily indicative of results to be expected for any future period. You should read the following selected financial information in conjunction with the consolidated financial statements and related notes and the information under "Management's discussion and analysis of financial condition and results of operations" included elsewhere in this prospectus.

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(in thousands of US\$, except for share, per share and per ADS data)	For the Year Ended December 31,			For the Three Months Ended March 31,	
	2011	2012	2013	2013 (unaudited)	2014 (unaudited)
Revenues, net of rebates and discounts	87,471	148,200	180,244	41,319	41,190
Business tax and surcharges	(5,569)	(7,679)	(5,650)	(1,245)	(1,192)
<b>Net revenues</b>	<b>81,902</b>	<b>140,521</b>	<b>174,594</b>	<b>40,074</b>	<b>39,998</b>
Cost of revenues	(48,068)	(84,012)	(93,260)	(20,783)	(23,864)
<b>Gross profit</b>	<b>33,834</b>	<b>56,509</b>	<b>81,334</b>	<b>19,291</b>	<b>16,134</b>
Operating expenses(1)					
Research and development expenses	(12,142)	(20,357)	(28,832)	(6,093)	(7,079)
Sales and marketing expenses	(10,966)	(20,219)	(26,610)	(4,443)	(5,027)
General and administrative expenses	(18,601)	(18,474)	(23,073)	(4,409)	(6,068)
Total operating expenses	(41,709)	(59,050)	(78,515)	(14,945)	(18,174)
Net gain/(loss) from exchanges of content copyrights	4,742	4,666	1,020	(171)	826
<b>Operating (loss)/income</b>	<b>(3,133)</b>	<b>2,125</b>	<b>3,839</b>	<b>4,175</b>	<b>(1,214)</b>
Interest income	270	1,377	1,189	190	387
Interest expense	(339)	(1,400)			
Other income, net	1,415	564	4,679	588	1,123
Shares of (loss)/income from equity investee	(7)	(45)	25	(23)	(56)
(Loss)/income before income tax	(1,794)	2,621	9,732	4,930	240
Income tax benefit/(expense)	1,783	(2,239)	647	(862)	(62)
<b>Net (loss)/income</b>	<b>(11)</b>	<b>382</b>	<b>10,379</b>	<b>4,068</b>	<b>178</b>
Less: net loss attributable to non-controlling interest	(1)	(121)	(283)	167	(219)
<b>Net (loss)/income attributable to Xunlei Limited</b>	<b>(10)</b>	<b>503</b>	<b>10,662</b>	<b>3,901</b>	<b>397</b>
Beneficial conversion feature of series C convertible preferred shares from their modification		(286)			
Deemed contribution from series C preferred shareholders		2,979			
Contingent beneficial conversion feature of series C to a series C shareholder					(57)
Deemed dividend to series D shareholder from its modification					(279)
		(3,509)	(4,300)	(1,060)	(1,153)

Accretion of series D to convertible redeemable preferred shares redemption value					
Accretion of series E to convertible redeemable preferred shares redemption value					(2,525)
Amortization of beneficial conversion feature of series E					(933)
Allocation of net income to participating preferred shareholders			(4,094)	(1,828)	
Net (loss)/income attributable to Xunlei Limited's common shareholders	(10)	(313)	2,268	1,013	(4,550)
Weighted average number of common shares used in per share calculations					
Basic	59,143,208	61,447,372	61,447,372	61,447,372	61,447,372
Diluted	59,143,208	61,447,372	76,065,898	75,901,980	61,447,372
Net (loss)/income attributable to holders of common shares of Xunlei Limited per common share					
Basic	(0.00)	(0.01)	0.04	0.02	(0.07)
Diluted	(0.00)	(0.01)	0.01	0.01	(0.07)
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(in thousands of US\$, except for share, per share and per ADS data)	For the Year Ended			For the Three Months	
	2011	2012	December 31, 2013	2013	2014
			(unaudited)	(unaudited)	(unaudited)
Net (loss)/income attributable to holders of common shares of Xunlei Limited per ADS(2)					
Basic					
Diluted					
Weighted average number of common shares used in pro forma per share calculations					
Basic			172,400,906		245,012,554
Diluted			187,019,432		314,032,593
Pro forma earnings per common share (unaudited)(3)					
Basic			0.06		0.00
Diluted			0.05		0.00
Pro forma earnings per ADS (unaudited)(2)					
Basic					
Diluted					
Adjusted Article 11 pro forma net (loss)/income attributable to holders of common shares (unaudited)(4)					
Basic			(6,994)		823
Diluted			(6,994)		636
Weighted average number of common shares used in adjusted Article 11 pro forma (loss)/earnings per share calculations (unaudited)(4)					
Basic			260,757,736		260,757,736
Diluted			260,757,736		329,796,236
Adjusted Article 11 pro forma (loss)/earnings per common share (unaudited)(4)					
Basic			(0.03)		0.00
Diluted			(0.03)		0.00

Notes:

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

(in thousands of US\$)	For the Year Ended			For the Three Months	
	2011	2012	December 31, 2013	2013	2014
			(unaudited)	(unaudited)	(unaudited)
Research and development expenses	898	1,085	973	235	191
Sales and marketing expenses	73	46	43	9	12
General and administrative expenses	1,128	1,102	1,080	84	859

Total share-based compensation expenses	2,099	2,233	2,096	328	1,062
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(2) Each ADS represents Class A common shares.

(3) The unaudited pro-forma earnings per share give effect to our planned re-designation of common shares and preferred shares into the equivalent number of Class A and Class B common shares upon the completion of this offering. The unaudited pro forma presentation does not include (1) the Series E preferred shares issued in April 2014, and (2) the repurchase transaction occurred in April 2014.

(4) The unaudited adjusted Article 11 pro-forma net loss attributable to Xunlei Limited's common shareholders, loss per common share and weighted average number of common shares used in adjusted Article 11 pro forma loss per share calculation for the year ended December 31, 2013 give effect to (1) the series E preferred shares issued in March and April 2014, (2) the repurchase transactions occurred in April 2014, and (3) our planned re-designation of common shares and preferred shares into the equivalent number of Class A and Class B common shares upon the completion of this offering. The unaudited adjusted Article 11 pro-forma net income attributable to Xunlei Limited's common shareholders, earnings per common share and weighted average number of common shares used in adjusted Article 11 pro forma earnings per share calculation for the three months ended March 31, 2014 give effect to (1) the series E preferred shares issued in April 2014, (2) the repurchase transactions occurred in April 2014, and (3) our planned re-designation of common shares and preferred shares into the equivalent number of Class A and Class B common shares upon the completion of this offering. Please refer to our unaudited pro forma condensed consolidated financial information on pages P-17 and P-18 for additional information.



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(in thousands of US\$)	As at December 31,			As at March 31,		
	2012	2013(1)		2014		2014(2)
		2013	Pro forma (unaudited)	Actual (unaudited)	Pro forma (unaudited)	Pro forma (unaudited)

**Selected Consolidated Balance Sheet Data:**

Cash and cash equivalents	81,906	93,906	93,906	302,361	302,361	338,277
Short-term investments	6,523	40,993	40,993	32,339	32,339	32,339
Total current assets	163,830	193,781	193,781	385,409	385,409	421,325
Total assets	202,204	244,403	244,403	439,785	439,785	475,701

Accounts payables	31,834	39,820	39,820	36,922	36,922	36,922
Total current liabilities	79,544	105,385	105,385	100,961	100,961	101,018
Total liabilities	97,886	124,835	124,835	155,255	155,255	127,460

Mezzanine equity	35,990	40,290		157,443		
Total Xunlei Limited's shareholders' equity	67,968	79,194	119,484	127,222	284,665	348,376

Non-controlling interest	360	84	84	(135)	(135)	(135)
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Total liabilities and equity	202,204	244,403	244,403	439,785	439,785	475,701
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(in thousands of US\$)	For the Year Ended			For the Three Months	
	2011	2012	2013 (unaudited)	2013 (unaudited)	2014 (unaudited)

**Selected Cash Flow Statement Data:**

Net cash generated from operating activities	18,277	59,914	85,533	16,590	15,019
Net cash used in investing activities	(36,875)	(49,490)	(78,352)	(18,179)	(5,130)
Net cash generated from financing activities	50,032	17,692	2,487	1,307	199,620
Net increase/(decrease) in cash and cash equivalents	31,434	28,116	9,668	(282)	209,509
Effect of exchange rate changes	562	441	2,332	169	(1,054)
Cash and cash equivalents at beginning of year/period	21,353	53,349	81,906	81,906	93,906
Cash and cash equivalents at end of year/period	53,349	81,906	93,906	81,793	302,361

(1) on a pro forma basis to reflect the planned re-designation of common shares and preferred shares into the equivalent number of Class A and Class B common shares upon the completion of this offering, and the unaudited pro forma presentation does not include (1) the series E preferred shares issued in April 2014 and (2) the repurchase transaction occurred in April 2014.

(2) on an Article 11 pro forma as adjusted basis to reflect (1) the series E preferred shares issued in April 2014, (2) the repurchase transactions occurred in April 2014, and (3) our planned re-designation of common shares and preferred shares into the equivalent number of Class A and Class B common shares upon the completion of this offering. Please refer to the unaudited pro forma condensed consolidated financial information on page P-2 for additional information.

(3) on a pro forma as adjusted basis to reflect (1) the planned re-designation of common shares and preferred shares into the equivalent number of Class A and Class B common shares, (2) the issuance and sale of series E preferred shares in March and April of 2014, and (3) the issuance and sale of Class A common shares in the form of ADSs by us in this offering at an assumed initial public offering price of US\$ per ADS, the midpoint of the estimated initial public offering price range shown on the front cover of this prospectus, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

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## **Management's discussion and analysis of financial condition and results of operations**

### **Overview**

We are the 12<sup>th</sup> largest internet company in China, as measured by user base. According to iResearch, we had over 300 million monthly unique visitors in March 2014. Digital media content, such as video, music and games, is one of the most popular usages for internet users in China. We operate a powerful internet platform in China based on cloud computing to enable users to quickly access, manage and consume digital media content. We are increasingly extending into mobile devices in part through potentially pre-installed acceleration products in mobile phones and to living rooms through TV coverage (set-top boxes and IPTV) to further expand our user base and offer our users a wider range of access points. We aspire to deliver superior user experience in ease of access, management and consumption of digital media content anywhere, anytime, and on any device.

We are the No. 1 acceleration product provider in China as measured by market share in March 2014, according to iResearch. To address deficiencies of digital media content transmission over the internet in China, such as low speed and high delivery failure rates, we provide users with quick and easy access to digital media content on the internet through two core products, available to users for free and for a subscription fee, respectively. Our acceleration products and services include Xunlei Accelerator and our cloud acceleration subscription services (delivered through products such as Green Channel, Offline Accelerator and Yunbo). Benefitting from the large user base accumulated by our core product, Xunlei Accelerator, we have further developed various value-added services to meet a fuller spectrum of our users' digital media content access and consumption needs. These value-added products and services include Xunlei Kankan, online game and pay per view.

We have successfully monetized our large user base. We generate revenues primarily through the following services:

**Subscription services.** We provide cloud acceleration subscription services for subscribers to enable faster and more reliable access to digital media content. Revenues from subscription services contributed to 48.1% of our revenues in 2013 and 60.3% for the three months ended March 31, 2014. Subscription fees are time-based and are primarily collected up-front from subscribers on a monthly or yearly basis.

**Online advertising services.** We offer advertising services by providing marketing opportunities on our online video streaming websites and platform to our advertisers. Online advertising revenues contributed to 26.7% of our revenues in 2013 and 18.3% for the three months ended March 31, 2014 and the revenues are derived principally from various forms of advertisements that we place on Xunlei Kankan.

**Other internet value-added services.** We offer multiple other value-added services to our users, including online games and pay per view services. Revenues from other internet value-added services contributed to 25.2% of our revenues in 2013 and 21.4% for the three months ended March 31, 2014.

We have grown significantly in recent years. Our revenues increased from US\$87.5 million in 2011 to US\$148.2 million in 2012 and US\$180.2 million in 2013. We had net loss attributable to Xunlei Limited of US\$0.01 million in 2011, net income attributable to Xunlei Limited of

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US\$0.5 million in 2012 and US\$10.7 million in 2013, respectively. Our revenues were US\$41.3 million and US\$41.2 million for the three months ended March 31, 2013 and 2014, respectively. We had net income attributable to Xunlei Limited of US\$3.9 million for the three months ended March 31, 2013 and US\$0.4 million for the same period in 2014.

**Major factors affecting our results of operations**

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

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

*Our ability to continue to enhance and expand our service offerings and broaden our user base.*

As our industry evolves rapidly and user preference for our services may change quickly, our revenues and results of operations significantly depend on our ability to continue enhancing and expanding our service offerings to meet evolving user preference and market demands, and to broaden our user base. We will continue to devote significant research, development and marketing resources to enhance, expand and promote our service offerings and value propositions to users and to continue to explore new business opportunities and tap into new demographics and segments of internet users.

We have a proven track record of developing our service offerings to successfully address preferences of China's internet users. To address deficiencies of digital media content transmission over the internet in China, we provide users with quick and easy access to digital media content on the internet through two core products and services, Xunlei Accelerator and our cloud acceleration subscription services available to users for free and for a subscription fee, respectively. To meet our users' digital media content access and consumption needs, we have further developed various value-added services, including Xunlei Kankan, online game services and pay per view services. As part of our cloud-based home and mobile strategies, we are increasingly expanding our services to living room through set-top boxes and other audio video entertainment devices. Furthermore, we focus more on user behaviors and study users' life cycles on our platform, so that we can offer relevant services at the right time and encourage users to continue using our services. We believe that continuing to enhance and expand our service offerings and broaden our reach to multiple internet-enabled devices will help us maintain and expand our user base.

*Our ability to further monetize our user base.*

Our revenues and results of operations depend on our ability to further monetize our large user base, to convert more users to subscribers and to increase the spending of our subscribers.

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With enhanced knowledge of user behavior and preferences, we are able to convert more users to subscribers by offering a diverse range of premium services tailored to their individual needs. Our cloud acceleration subscription services, offer users value-added services for speed, and we had approximately 5.2 million subscribers as of March 31, 2014. Our pay per view services, launched in the second half of 2012, provide subscribers with access to our comprehensive content library of movies, TV and entertainment titles. These subscribers totaled approximately 155,000 as of March 31, 2014.

We intend to further monetize our user base and convert users to subscribers by expanding our offering of value-added services, such as cloud-based storage and implementation of cross device media access. We plan to provide one-stop services for our users, in terms of accessing digital media content and storage and synchronization of content across devices. Through these initiatives, we expect to grow the number of our subscribers.

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

Our results of operations depend on our ability to maintain our technology leadership, in particular, the performance of our cloud acceleration technology. This technology enables users to access content in an efficient manner. Our proprietary technology and highly scalable massive distributed computing network is our core competitive advantage, enabling us to deliver superior transmission acceleration services and streaming user experience. Our resource discovery network leverages our distributed computing power, computing and storage capacity and significantly reduces our reliance on servers operated by us, which in turn provides us with a clear cost advantage over our competitors. As part of our expansion strategy, we plan to devote substantial resources to research and development in order to better serve our users. Therefore, the expenses associated with our research and development are expected to increase in the near future.

***Our ability to control our costs and operating expenses.***

Our results of operations depend on our ability to control our costs and operating expenses. We expect our bandwidth costs to continue to increase as we grow our business and increase the number of subscribers. As we further expand our content library on Xunlei Kankan, our content cost will increase, which may affect our near-term profit margin, although we aim to secure the content in a cost efficient manner. In particular, we focus on licensing more newly released professionally produced content for Xunlei Kankan to attract users and enter into exclusive arrangements with TV stations to secure quality content, making our platform and user base more attractive to our advertisers. Our gross margin will be affected if our revenues do not grow in line with the increase in our content library for Xunlei Kankan. We also expect increased headcount as we grow our business, especially since we will invest in research and development to maintain our technology leadership.

**Description of certain statement of operations items**

***Revenues***

We derive our revenues primarily from cloud acceleration subscription services, online advertising and other internet value-added services including online games, content

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sublicensing and pay per view services. The following table sets forth the principal components of our revenues by amounts and percentages of our revenues for the periods presented.

(in thousands of US\$, except for percentages)	For the Year Ended December 31,		For the Year Ended December 31,		For the Year Ended December 31,		For the Three Months Ended		March 31,	
	2011		2012		2013		2013		2014	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
Subscriptions	25,574	29.2	51,055	34.4	86,733	48.1	18,839	45.6	24,849	60.3
Online advertising	38,331	43.8	61,795	41.7	48,028	26.7	11,933	28.9	7,518	18.3
Other internet value-added services	23,566	27.0	35,350	23.9	45,483	25.2	10,547	25.5	8,823	21.4
<b>Total</b>	<b>87,471</b>	<b>100.0</b>	<b>148,200</b>	<b>100.0</b>	<b>180,244</b>	<b>100.0</b>	<b>41,319</b>	<b>100.0</b>	<b>41,190</b>	<b>100.0</b>

*Subscriptions.* We introduced our cloud acceleration subscription services in March 2009 and we generated revenues from providing our users with exclusive services, such as access to high-speed online transmission, premium acceleration or access privileges, for a time-based subscription fee. The standard subscription fee is RMB10 (US\$1.6) per month or RMB99 (US\$15.9) per year, and we introduced a subscription packages of RMB15 (US\$2.4) per month or RMB149 (US\$23.9) per year in 2012 and RMB30 (US\$4.8) per month in late 2013 to cater to subscribers' different demands for acceleration speed and user experience, which are becoming increasingly popular among our subscribers. Our subscription revenues, as a percentage of our revenues, increased from 29.2% in 2011 to 34.4% in 2012 and further to 48.1% in 2013, and this percentage increased from 45.6% in the three months ended March 31, 2013 to 60.3% in the same period in 2014. We expect that the absolute amount of subscriptions revenues will continue to increase over time as we focus on further growing our subscriber base.

The most significant factor that directly affects our subscription revenues is the number of subscribers. We plan to further expand our subscriber base in the future by expanding our offering of fee-based services. We expect to improve the percentage of our subscribers to our overall user base. The following table sets forth the number of subscribers for our acceleration services we had as of the periods presented.

As of	December 31, 2011	December 31, 2012	December 31, 2013	March 31, 2014
Number of subscribers (in thousands)	2,791	4,017	5,087	5,170

*Online advertising.* Our online advertising revenues are derived principally from various forms of advertisements that we place on Xunlei Kankan. A significant majority of our advertisers purchase our online advertising services through third-party advertising agencies. As is customary in the advertising industry in China, we pay rebates to third-party advertising agencies and recognize revenues net of these rebates.

Historically, we placed advertisements on Xunlei Kankan and Xunlei Accelerator. In the first half of 2013, we made a decision to discontinue delivering advertisements on Xunlei Accelerator to further improve our user experience and enhance user engagement on Xunlei Accelerator. In the future, we will continue to focus on offering video advertisement on Xunlei Kankan, and we may not generate additional advertising revenues from Xunlei Accelerator from 2014 onwards.

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The following table sets forth the online advertising revenues we derive from different platforms by amounts and percentages of our total online advertising revenues for the periods presented:

(in thousands of US\$, except for percentages)	For the Year Ended December 31,						For the Three Months Ended March 31, 2014 (unaudited)	
	Amount	2011 % of Revenues	Amount	2012 % of Revenues	Amount	2013 % of Revenues	Amount	% of Revenues
Xunlei Kankan	27,041	70.5	44,962	72.8	44,884	93.5	7,486	99.6
Xunlei Accelerator	11,290	29.5	16,833	27.2	3,144	6.5	32	0.4
<b>Total online advertising revenues</b>	<b>38,331</b>	<b>100.0</b>	<b>61,795</b>	<b>100.0</b>	<b>48,028</b>	<b>100.0</b>	<b>7,518</b>	<b>100.0</b>

The most significant factors that directly affect our online advertising revenues are the average spending per advertiser and the number of advertisers that use our online advertising services.

The average spending per advertiser was approximately US\$79,000 in 2011. In 2012, we took initiatives to streamline our advertising service strategies to focus on increasing the average spending of our advertisers and to deepen relationship with them and as a result the average spending per advertiser increased significantly to approximately US\$147,000 in 2012. The same number decreased to approximately US\$120,000 in 2013, and such number decreased from approximately US\$94,000 in the three months ended March 31, 2013 to approximately US\$73,000 for the same period in 2014. The amount of average advertising spend per advertiser is the result of our total advertising revenues during a given period divided by the number of advertisers for that period.

The number of advertisers that use our online advertising services was 485 in 2011, and decreased slightly to 420 in 2012 and further to 399 in 2013, and the same number decreased from 127 in the three months ended March 31, 2013 to 103 for the same period in 2014. We calculate the number of advertisers during a given period as the number of advertisers to whom we have delivered advertising services during that period. An advertiser to whom we have delivered services more than once in a period is counted as one advertiser for that period.

*Other internet value-added services.* We actively seek new business opportunities that complement our existing core acceleration and video streaming related services offerings to further improve our overall user experience. We primarily derive other internet value-added services revenues from online games, content sublicensing and pay per view services. Revenues from other internet value-added services increased from US\$23.6 million in 2011 to US\$35.4 million in 2012 and US\$45.5 million in 2013, and the same number decreased from US\$10.5 million in the three months ended March 31, 2013 to US\$8.8 million for the same period in 2014.

A significant portion of revenues of other internet value-added services were generated from our online games. For the web games, we had approximately 49,000, 162,000 and 210,000 paying users for the years ended December 31, 2011, 2012 and 2013, and 77,799 paying users in the three months ended March 31, 2014. For the MMOGs, we had approximately 23,000, 292,000 and 181,000 paying users for the years ended December 31, 2011, 2012 and 2013, and 38,987 paying users in the three months ended March 31, 2014. The increase of paying users from 2011 to 2012 was primarily due to the launch of new games and updated versions of the old games. We calculate the number of paying users during a given period as the cumulative number of users that have purchased virtual items or other products and services for our web games or MMOGs at

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least once during the relevant period. The amount of revenue attributable to our new games with an operating history of less than 12 months is approximately US\$0.2 million in 2011, US\$4.4 million in 2012, US\$1.9 million in 2013 and US\$2.7 million in the three months ended March 31, 2014, respectively, representing 4.1%, 28.5%, 6.2%, 44.5% of our total revenues from online games in 2011, 2012, 2013 and in the three months ended March 31, 2014, respectively. The amount of revenue attributable to our old games with an operating history of more than 12 months is approximately US\$5.0 million in 2011, US\$11.1 million in 2012, US\$28.8 million in 2013 and US\$3.5 million in the three months ended March 31, 2014, respectively. In addition, our top five games accounted for approximately 4.0%, 7.7%, 11.5% and 8.1% of our total revenues in 2011, 2012, 2013 and in the three months ended March 31, 2014, respectively.

**Cost of revenues**

Our cost of revenues consists primarily of (i) bandwidth costs, (ii) content costs, (iii) payment handling fees, (iv) depreciation of servers and other equipment and (v) games revenue sharing costs and others. The following table sets forth the components of our cost of revenues by amounts and percentages of our revenues for the periods presented:

(in thousands of US\$, except for percentages)	For the Year Ended December 31,			For the Three Months Ended March 31,						
	2011	2012	2013	2013	2014					
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)					
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
Bandwidth costs	11,543	13.2	22,211	15.0	35,454	19.6	7,714	18.7	10,334	25.1
Content costs	27,681	31.7	46,671	31.5	35,964	20.0	7,927	19.2	8,047	19.5
Payment handling fees	5,569	6.4	8,505	5.7	12,401	6.9	3,084	7.5	3,165	7.7
Depreciation of servers and other equipment	2,572	2.9	3,271	2.2	4,317	2.4	949	2.3	1,363	3.3
Games revenue sharing costs and others	703	0.8	3,354	2.3	5,124	2.8	1,109	2.6	955	2.3
<b>Total</b>	<b>48,068</b>	<b>55.0</b>	<b>84,012</b>	<b>56.7</b>	<b>93,260</b>	<b>51.7</b>	<b>20,783</b>	<b>50.3</b>	<b>23,864</b>	<b>57.9</b>

**Bandwidth costs.** Bandwidth costs are the fees we pay to telecommunications carriers and other service providers for telecommunications services and for hosting our servers at their internet data centers. Bandwidth is a significant component of our cost of revenues. We expect our bandwidth costs to increase on an absolute basis primarily due to an increased need for bandwidth to support the growth of our premium acceleration services for our subscribers and our user traffic on Xunlei Kankan. We believe that our distributed computing network provides us significant cost advantages in providing transmission and streaming services compared with traditional client-server architecture that may require considerably more investment in infrastructure, including servers and bandwidth, to support the same level of user activities.

**Content costs.** Content costs primarily consist of content licensing fees that we pay to copyright owners or content distributors to expand our content library for Xunlei Kankan. Our content costs increased significantly from 2011 to 2012 primarily due to the fast expansion of our content library on Xunlei Kankan, especially with a focus on licensing more premium content as well as exclusive rights on certain movies and television series to attract users. The increase of our content costs is also due to an increase in unit cost of content acquisition of professionally produced content due to the increased market demand for such content in China. Furthermore, starting from April 2011, based on an accumulation of data gathered on historical viewing patterns of our content, we changed the content amortization method from straight line to accelerated method. We expect that although we will continue our investment in the content library, the content cost will not significantly increase in the near term as we aim to secure the content in a cost efficient manner.



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

*Depreciation of servers and other equipment.* Depreciation expense for servers and other equipment that are directly related to our business operations and technical support are included in our cost of revenues. We expect our depreciation expense to increase on an absolute basis as we continue to invest in additional servers and other equipment to accommodate the growth of our user and subscriber base, but to decrease as a percentage of our revenues over time.

*Games revenue sharing costs and others.* These costs mainly represent the share of online game revenue remitted to developers of exclusive licensed games.

**Operating expenses**

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

(in thousands of US\$, except for percentages)	For the Year Ended December 31,						For the Three Months Ended March 31,			
	2011		2012		2013		2013	2014		
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
Research and development expenses	12,142	13.9	20,357	13.7	28,832	16.0	6,093	14.7	7,079	17.2
Sales and marketing expenses	10,966	12.5	20,219	13.6	26,610	14.8	4,443	10.8	5,027	12.2
General and administrative expenses	18,601	21.3	18,474	12.5	23,073	12.8	4,409	10.7	6,068	14.7
<b>Total</b>	<b>41,709</b>	<b>47.7</b>	<b>59,050</b>	<b>39.8</b>	<b>78,515</b>	<b>43.6</b>	<b>14,945</b>	<b>36.2</b>	<b>18,174</b>	<b>44.1</b>

*Research and development expenses.* Research and development expenses consist primarily of salaries and benefits for our research and development personnel. Expenditures incurred during the research phase are expensed as incurred. Expenditures incurred for the development of the acceleration products prior to the establishment of technological feasibility are expensed when incurred. We expect our research and development expenses to increase in the near term as we continue to expand our research and development team to develop new products.

*Sales and marketing expenses.* Sales and marketing expenses consist primarily of salaries, sales commissions and benefits for our sales and marketing personnel and marketing and promotional expenses. We expect our sales and marketing expenses to increase in the near term as we expect to hire additional sales personnel and invest in brand enhancement efforts.

*General and administrative expenses.* General and administrative expenses consist primarily of salaries and benefits, professional service fees and other administrative expenses. We expect our general and administrative expenses to increase in the near term as our business continues to grow and we incur increased costs related to complying with our reporting obligations under the U.S. securities laws as a public company.



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**Taxation**

*Cayman Islands*

We are incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, we are not subject to tax on income or capital gains. Additionally, there is no withholding tax on dividends paid by us to our shareholders.

*China*

On March 16, 2007, the PRC National People's Congress promulgated the EIT Law, adopting a unified EIT rate of 25%. In addition, the EIT Law also provides a five-year transitional period starting from its effective date for those enterprises that were established before the date of promulgation of the EIT Law and that were entitled to preferential income tax rates under the then effective tax laws or regulations. On December 26, 2007, the State Council issued the "Circular for Implementation of the Transitional Preferential Policies for the Enterprise Income Tax." Pursuant to this Circular, the transitional income tax rates for enterprises established in the Shenzhen Special Economic Zone before March 16, 2007 were 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012, respectively.

As approved by the relevant tax authority, Giganology Shenzhen was further exempt from EIT for two years commencing from the first year of profitable operation after offsetting prior years' tax losses, followed by a 50% reduction for the next three years, or 2-year Exemption and 3-year 50% Reduction, as a software enterprise. The first year of profit operation of Giganology Shenzhen was 2006. According to the EIT Law, Giganology Shenzhen could still enjoy the tax holidays which were grandfathered by the EIT Law in 2011. Accordingly, the applicable EIT rates for Giganology Shenzhen were 24%, 25% and 25% for the year ended December 31, 2011, 2012 and 2013, and 25%, for the three months ended March 31, 2014.

On April 14, 2008, relevant PRC governmental regulatory authorities released further qualification criteria, application procedures and assessment processes for meeting the High and New Technology Enterprise, or HNTE status under the EIT Law which would entitle qualified and approved entities to a favorable statutory tax rate of 15%. In April 2009, the State Administration for Taxation, or SAT, issued Circular Guoshuihan [2009] No. 203 stipulating that entities qualified for the HNTE status should apply with the relevant tax authorities to enjoy the reduced EIT rate of 15% provided under the EIT Law starting from the year when the HNTE certificate becomes effective. In addition, an entity qualified for the HNTE status can continue to enjoy its remaining tax holiday from January 1, 2008 provided that it has obtained the HNTE certificate according to the new recognition criteria set by the EIT Law and the relevant regulations. In February 2011, Shenzhen Xunlei obtained the HNTE certificate with effect from January 1, 2011.

According to a policy of the PRC State tax bureau, enterprises that engage in research and development activities are entitled to claim 150% of the research and development expenses incurred in a year as tax deductible expenses in determining their tax assessable profits for that year, or Super Deduction. Shenzhen Xunlei has been claiming this Super Deduction in ascertaining its tax assessable profits and brought forward tax losses from 2009 onwards. In addition, following the approval by the relevant tax authority in July 2010, Shenzhen Xunlei was recognized as an enterprise engaged in software development activities. Accordingly, it is entitled to a tax holiday of 2-year Exemption and 3-year 50% Reduction from 2010 onwards. In

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December 2013, Shenzhen Xunlei obtained the certificate of the Key Software Enterprise for the years ended December 31, 2013 and 2014, which enables Shenzhen Xunlei to enjoy the preferential tax rate of 10% for the year of 2013. As a result, the applicable tax rate of Shenzhen Xunlei for the years ended December 31, 2011, 2012 and 2013 were 0%, 12.5% and 10%, respectively, and the applicable tax rate for the three months ended March 31, 2014 was 10%.

Pursuant to the relevant PRC regulations, Xunlei Computer is entitled to the 2-year Exemption and 3-year 50% Reduction treatment. The first year of profitable operation of Xunlei Computer is 2013. Our other subsidiaries and VIE's subsidiaries, which were established after January 1, 2008, are subject to EIT at a rate of 25%.

In addition, according to the EIT Law and its implementation rules, foreign enterprises, which have no establishment or place in the PRC but derive dividends, interest, rents, royalties and other income (including capital gains) from sources in the PRC are subject to PRC withholding tax, or WHT, at 10% (a further reduced WHT rate may be available according to the applicable double tax treaty or arrangement). The 10% WHT is generally applicable to any dividends to be distributed from Giganology Shenzhen and Xunlei Computer to us out of any profits of Giganology Shenzhen and Xunlei Computer derived after January 1, 2008. Although Xunlei Computer and Giganology Shenzhen had retained earnings as of March 31, 2014, the directors of the company decided to reinvest the retained earnings permanently in China and therefore no such WHT is required.

**Internal control over financial reporting**

In preparing our consolidated financial statements, we and our independent registered public accounting firm identified a material weakness, a significant deficiency and other control deficiencies in our internal control over financial reporting as of December 31, 2013. As defined in 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 a lack of accounting resources in U.S. GAAP and SEC reporting requirements, and the significant deficiency identified related to a lack of documented comprehensive U.S. GAAP accounting manuals and financial reporting procedures and lack of related implementation controls. Neither we nor our independent registered public accounting firm undertook a comprehensive assessment of our internal control under the Sarbanes-Oxley Act for purposes of identifying and reporting any weakness or significant deficiency in our internal control over financial reporting, as we and they will be required to do once we become a public company. Had we performed a formal assessment of our internal control over financial reporting or had our independent registered public accounting firm performed an audit of our internal control over financial reporting, additional control deficiencies may have been identified.

To remedy our identified material weakness, significant deficiency and other control deficiencies in connection with preparation of our consolidated financial statements, we have adopted several measures to improve our internal control over financial reporting. For example, we hired a chief financial officer and a senior financial officer, each of whom has a

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solid understanding of and extensive work experience involving U.S. GAAP and SEC financial reporting. We hired two internal auditors to expand our existing internal audit team and organized training sessions regarding U.S. GAAP for our accounting staff. In addition, we plan to further increase the number of employees with knowledge of U.S. GAAP and SEC regulations within our finance and accounting departments, implement a comprehensive ERP system and continue to provide our accounting and finance staff with U.S. GAAP training. We will continue to implement measures to remedy our internal control deficiencies in order to meet the deadline imposed by Section 404 of the Sarbanes-Oxley Act. We intend to remediate the material weakness and other control deficiencies in our internal control over financial reporting within one year after this offering. We also expect that we will incur significant costs in an amount of approximately US\$2 million in the implementation of remediation measures. However, the implementation of these measures may not fully address the deficiencies in our internal control over financial reporting. We are not able to estimate with reasonable certainty the costs that we will need to incur to implement these and other measures designed to improve our internal control over financial reporting. See "Risk factors Risks related to our business and industry If we fail to maintain an effective system of internal control over financial reporting, we may be unable to accurately report our financial results or prevent fraud, and investor confidence in our company and the market price of our ADSs may be adversely affected."

**Results of operations**

The following table sets forth a summary of our consolidated results of operations by amounts and percentages of our revenues for the periods indicated. This information should be read together with our consolidated financial statements and related notes included elsewhere in

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this prospectus. The results of operations in any period are not necessarily indicative of the results that may be expected for any future period.

(in thousands of US\$ except for percentage)	For the Year Ended December 31,						For the Three Months Ended			
	2011		2012		2013		2013		March 31,	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
							(unaudited)	(unaudited)		
Revenues, net of rebates and discounts	87,471	100.0	148,200	100.0	180,244	100.0	41,319	100.0	41,190	100.0
Business taxes and surcharges	(5,569)	(6.4)	(7,679)	(5.2)	(5,650)	(3.1)	(1,245)	(3.0)	(1,192)	(2.9)
Net revenues	81,902	93.6	140,521	94.8	174,594	96.9	40,074	97.0	39,998	97.1
Cost of revenues	(48,068)	(55.0)	(84,012)	(56.7)	(93,260)	(51.7)	(20,783)	(50.3)	(23,864)	(57.9)
<b>Gross profit</b>	<b>33,834</b>	<b>38.7</b>	<b>56,509</b>	<b>38.1</b>	<b>81,334</b>	<b>45.1</b>	<b>19,291</b>	<b>46.7</b>	<b>16,134</b>	<b>39.2</b>
<b>Operating expenses</b>										
Research and development expenses	(12,142)	(13.9)	(20,357)	(13.7)	(28,832)	(16.0)	(6,093)	(14.7)	(7,079)	(17.2)
Sales and marketing expenses	(10,966)	(12.5)	(20,219)	(13.6)	(26,610)	(14.8)	(4,443)	(10.8)	(5,027)	(12.2)
General and administrative expenses	(18,601)	(21.3)	(18,474)	(12.5)	(23,073)	(12.8)	(4,409)	(10.7)	(6,068)	(14.7)
<b>Total operating expenses</b>	<b>(41,709)</b>	<b>(47.7)</b>	<b>(59,050)</b>	<b>(39.8)</b>	<b>(78,515)</b>	<b>(43.6)</b>	<b>(14,945)</b>	<b>(36.2)</b>	<b>(18,174)</b>	<b>(44.1)</b>
Net gain/(loss) from exchanges of content copyrights	4,742	5.4	4,666	3.1	1,020	0.6	(171)	(0.4)	826	2.0
<b>Operating (loss)/income</b>	<b>(3,133)</b>	<b>(3.6)</b>	<b>2,125</b>	<b>1.4</b>	<b>3,839</b>	<b>2.1</b>	<b>4,175</b>	<b>10.1</b>	<b>(1,214)</b>	<b>(2.9)</b>
Interest income	270	0.3	1,377	0.9	1,189	0.7	190	0.5	387	0.9
Interest expense	(339)	(0.4)	(1,400)	(0.9)						
Other income, net	1,415	1.6	564	0.4	4,679	2.6	588	1.4	1,123	2.7
Share of (loss)/income from equity investee (loss)	(7)	(0.0)	(45)	(0.0)	25	0.0	(23)	(0.1)	(56)	(0.1)
<b>(Loss)/Income before income tax</b>	<b>(1,794)</b>	<b>(2.1)</b>	<b>2,621</b>	<b>1.8</b>	<b>9,732</b>	<b>5.4</b>	<b>4,930</b>	<b>11.9</b>	<b>240</b>	<b>0.6</b>
Income tax benefit / (expense)	1,783	2.0	(2,239)	1.5	647	0.4	(862)	(2.1)	(62)	(0.2)

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Net (loss)/income	(11)	(0.0)	382	0.3	10,379	5.8	4,068	9.8	178	0.4
Less: Net (loss)/income attributable to non-controlling interest	(1)	(0.0)	(121)	(0.1)	(283)	(0.2)	167	0.4	(219)	(0.5)
<b>Net (loss)/income attributable to Xunlei Limited</b>	<b>(10)</b>	<b>(0.0)</b>	<b>503</b>	<b>0.3</b>	<b>10,662</b>	<b>5.9</b>	<b>3,901</b>	<b>9.4</b>	<b>397</b>	<b>1.0</b>

*Three months ended March 31, 2014 compared with three months ended March 31, 2013.*

**Revenues.** Our revenues decreased slightly by 0.3% from US\$41.3 million in the three months ended March 31, 2013 to US\$41.2 million in the three months ended March 31, 2014. The decrease was mainly because the significant growth of the revenues from the subscription services was overshadowed by the decrease of revenues from the online advertising services.

Our revenues from subscription services increased by 31.9% from US\$18.8 million in the three months ended March 31, 2013 to US\$24.8 million for the same period in 2014. The increase was mainly attributable to a continuous increase in the number of our subscribers, which grew from 4.4 million as of March 31, 2013 to 5.2 million as of March 31, 2014.

Our online advertising revenues decreased by 37.0% from US\$11.9 million in the three months ended March 31, 2013 to US\$7.5 million for the same period in 2014, primarily due to less content investments. The average spending per advertiser slightly decreased from approximately US\$94,000 in the three months ended March 31, 2013 to US\$73,000 for the same period in 2014 and the decrease was primarily due to less content investment.

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Revenues derived from other internet value-added services decreased by 16.3% from US\$10.5 million in the three months ended March 31, 2013 to US\$8.8 million for the same period in 2014, primarily due to the decrease in content sublicensing revenues from US\$2.2 million to US\$0.9 million and the decrease in revenues from online games from US\$6.9 million to US\$6.2 million. The decrease in online games revenues was primarily attributable to the decrease in revenues derived from MMOGs and the decrease in content sublicensing revenues was due to the decrease in the exclusive contents we purchased in the three months ended March 31, 2014.

**Cost of revenues.** Our cost of revenues increased by 14.8% from US\$20.8 million in the three months ended March 31, 2013 to US\$23.9 million for the same period in 2014. The increase in our cost of revenues was primarily due to the increase in bandwidth costs associated with the expansion of our subscription and other services.

**Bandwidth costs.** Our bandwidth costs increased by 34.0% from US\$7.7 million in the three months ended March 31, 2013 to US\$10.3 million for the same period in 2014, primarily due to the increased bandwidth needs to support our subscription services and our increased provision of a larger amount of high-definition content on Xunlei Kankan. With the growth of our subscription services, bandwidth costs associated with subscription services have grown significantly.

**Content costs.** Our content costs were US\$7.9 million and US\$8.0 million in the three months ended March 31, 2013 and 2014, respectively.

**Payment handling fees.** Our payment handling fees increased by 2.6% from US\$3.1 million in the three months ended March 31, 2013 to US\$3.2 million for the same period in 2014, driven primarily by the rapid growth of our cloud acceleration subscription services.

**Depreciation of servers and other equipment.** Depreciation of servers and other equipment increased by 43.7% from US\$0.9 million in the three months ended March 31, 2013 to US\$1.4 million for the same period in 2014, as we acquired more servers and other equipment to accommodate the increased needs for acceleration and streaming services.

**Games revenue sharing costs and others.** These costs decreased by 13.9% from US\$1.1 million in the three months ended March 31, 2013 to US\$1.0 million for the same period in 2014, mainly because we generated less revenues from exclusive licensed games in 2014.

**Gross profit.** As a result of the above, our gross profit decreased by 16.4% from US\$19.3 million in the three months ended March 31, 2013 to US\$16.1 million for the same period in 2014. Gross profit margin decreased from 46.7% in the three months ended March 31, 2013 to 39.2% in the same period in 2014 due to the slight decrease in revenues and increase in cost of revenues.

**Operating expenses.** Our operating expenses increased by 21.6% from US\$14.9 million in the three months ended March 31, 2013 to US\$18.2 million for the same period in 2014, primarily due to increases in general and administrative expenses and research and development expenses and, to a lesser extent, due to an increase in sales and marketing expenses.

**Research and development expenses.** Our research and development expenses increased by 16.2% from US\$6.1 million in the three months ended March 31, 2013 to US\$7.1 million for the



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same period in 2014. The increase in our research and development expenses was primarily due to increases in headcount and salaries.

**Sales and marketing expenses.** Our sales and marketing expenses increased by 13.1% from US\$4.4 million in the three months ended March 31, 2013 to US\$5.0 million for the same period in 2014. The increase in our sales and marketing expenses was primarily due to our increased spending on marketing and promotion.

**General and administrative expenses.** Our general and administrative expenses increased by 37.6% from US\$4.4 million in the three months ended March 31, 2013 to US\$6.1 million in the same period in 2014. The increase in our general and administrative expenses primarily reflected the increase in salaries and benefits for general and administrative personnel and staff, and the increase in our professional service fees.

**Net (loss)/gain from exchanges of content copyrights.** We enter into agreements with third parties (mainly video streaming internet platforms) to exchange digital media content, which are non-monetary and similar to barter transactions. We had net loss from such exchange of content copyrights of US\$0.2 million in the three months ended March 31, 2013 and net gain of US\$0.8 million in the same period in 2014. The increase in net gain corresponds to the increase in the margin of the barter transactions in 2014 which was primarily due to the higher value associated with the content surrendered in 2014.

**Interest income.** Our interest income increased by 103.7% from US\$0.2 million in the three months ended March 31, 2013 to US\$0.4 million for the same period in 2014.

**Other income, net.** We recorded other income of US\$0.6 million in the three months ended March 31, 2013 and US\$1.1 million in the same period of 2014. The increase was primarily due to the increase in subsidy income and investment income from short-term investments.

**Income tax benefit/(expense).** We recorded an income tax expense of US\$0.8 million in the three months ended March 31, 2013 and US\$0.1 million for the same period in 2014. This primarily reflected lower taxable income of our subsidiaries and VIEs.

**Net (loss) income attributable to Xunlei Limited.** As a result of the above, we generated net income attributable to Xunlei Limited of US\$3.9 million for the three months ended March 31, 2013 and US\$0.4 million for the same period in 2014.

**Year ended December 31, 2013 compared with year ended December 31, 2012.**

**Revenues.** Our revenues increased by 21.6% from US\$148.2 million in 2012 to US\$180.2 million in 2013. The increase was primarily due to a substantial increase in our revenues from subscription services and other internet value added services, which was partially offset by the decrease in our online advertising services as a result of our decision to discontinue delivering advertisements on Xunlei Accelerator in the first half of 2013.

Our revenues from subscription services increased by 69.9% from US\$51.1 million in 2012 to US\$86.7 million in 2013. The increase was mainly attributable to a significant increase in the number of our subscribers, which grew from 4.0 million as of December 31, 2012 to 5.1 million as of December 31, 2013.

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Our online advertising revenues decreased by 22.3% from US\$61.8 million in 2012 to US\$48.0 million in 2013, primarily due to a decrease in advertising revenues from Xunlei Accelerator from US\$16.8 million to US\$3.1 million, as a result of our decision to discontinue delivering advertisements on Xunlei Accelerator in the first half of 2013. The average spending per advertiser slightly decreased from approximately US\$147,000 in 2012 to approximately US\$120,000 in 2013 and the number of advertisers decreased from 420 to 399 for the respective years.

Revenues derived from other internet value-added services increased by 28.7% from US\$35.4 million in 2012 to US\$45.5 million in 2013, primarily due to the increase in revenues from online games from US\$15.5 million to US\$30.7 million and the increase in pay per view revenues from US\$0.5 million to US\$2.0 million during the same period, which was partially offset by decrease in content sublicensing revenues from US\$15.2 million to US\$7.3 million. The increase in online games revenues were primarily attributable to an increase in the number of exclusive licensed games that we operated on our platform as well as the increased popularity of our existing games. The decrease in content sublicensing revenues was due to decrease in the exclusive contents that we purchased in 2013.

**Cost of revenues.** Our cost of revenues increased by 11.0% from US\$84.0 million in 2012 to US\$93.3 million in 2013. The increase in our cost of revenues was primarily due to the increase in bandwidth costs associated with the expansion of our subscription and other services and the increase in payment handling fees, which were partially offset by the significant decrease in content costs.

**Bandwidth costs.** Our bandwidth costs increased by 59.6% from US\$22.2 million in 2012 to US\$35.5 million in 2013, primarily due to the increased bandwidth needs to support our subscription services and our increased provision of a larger amount of high-definition content on Xunlei Kankan. With the growth of our subscription services, bandwidth costs associated with subscription services have grown significantly.

**Content costs.** Our content costs decreased by 22.9% from US\$46.7 million in 2012 to US\$36.0 million in 2013, primarily because we purchased less content in 2013.

**Payment handling fees.** Our payment handling fees increased by 45.8% from US\$8.5 million in 2012 to US\$12.4 million in 2013, driven primarily by the rapid growth of our cloud acceleration subscription services.

**Depreciation of servers and other equipment.** Depreciation of servers and other equipment increased by 32.0% from US\$3.3 million in 2012 to US\$4.3 million in 2013, as we acquired more servers and other equipment to accommodate the increased needs for acceleration and streaming services.

**Games revenue sharing costs and others.** These costs increased by 52.8% from US\$3.4 million in 2012 to US\$5.1 million for the same period in 2013, mainly because we generated more revenues from exclusive licensed games in 2013.

**Gross profit.** As a result of the above, our gross profit increased by 43.9% from US\$56.5 million in 2012 to US\$81.3 million for the same period in 2013. Gross profit margin increased from 38.1% in 2012 to 45.1% in 2013 due to changes in the revenue mix.

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**Operating expenses.** Our operating expenses increased by 33.0% from US\$59.1 million in 2012 to US\$78.5 million in 2013, primarily due to increases in research and development expenses and sales and marketing expenses and, to a lesser extent, due to an increase in general and administrative expenses.

**Research and development expenses.** Our research and development expenses increased by 41.6% from US\$20.4 million in 2012 to US\$28.8 million in 2013. The increase in our research and development expenses was primarily due to increases in headcount and salaries.

**Sales and marketing expenses.** Our sales and marketing expenses increased by 31.6% from US\$20.2 million in 2012 to US\$26.6 million in 2013. The increase in our sales and marketing expenses was primarily due to our increased spending on marketing and promotion and, to a lesser extent, due to increases in headcount and salaries.

**General and administrative expenses.** Our general and administrative expenses increased by 24.9% from US\$18.5 million in 2012 to US\$23.1 million in 2013. The increase in our general and administrative expenses was primarily due to the increase of professional services fees, the impairment charge of US\$0.8 million for one of our online games, increase in bad debt expenses of US\$0.2 million relating to the deterioration of a limited number of our small to medium size advertising agency customer's accounts receivables and expenses associated with a property we leased in October 2012 as our new office premises in Shenzhen.

**Net gain from exchanges of content copyrights.** We enter into agreements with third parties (mainly video streaming internet platforms) to exchange digital media content, which are non-monetary and similar to barter transactions. We had net gains from such exchange of content copyrights of US\$4.7 million in 2012 and US\$1.0 million in 2013. The decrease in net gain corresponds to the decrease in the content we purchased in 2013.

**Interest income.** Our interest income decreased by 13.7% from US\$1.4 million in 2012 to US\$1.2 million in 2013.

**Interest expense.** Our interest expense decreased from US\$1.4 million in 2012 to nil in 2013, because we repaid our outstanding bank loans in 2013.

**Income tax benefit/(expense).** We recorded an income tax expense of US\$2.2 million in 2012 and an income tax benefit of US\$0.6 million in 2013. This primarily reflected lower corporate income tax, the increased tax holiday available to Shenzhen Xunlei, and the higher deferred tax assets recognized in 2013 due to the change in the tax rate.

**Net (loss) income attributable to Xunlei Limited.** As a result of the above, we generated net income attributable to Xunlei Limited of US\$0.5 million in 2012 and US\$10.7 million in 2013.

***Year ended December 31, 2012 compared to year ended December 31, 2011***

**Revenues.** Our revenues increased by 69.4% from US\$87.5 million in 2011 to US\$148.2 million in 2012. The increase was primarily due to a substantial increase in our revenues from subscription services and online advertising services.

Revenues from subscription services increased significantly by 99.6% from US\$25.6 million in 2011 to US\$51.1 million in 2012. The increase was mainly attributable to a significant increase

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in the number of our subscribers, which grew from 2.8 million of December 31, 2011 to 4.0 million of December 31, 2012.

Our online advertising revenues increased by 61.2% from US\$38.3 million in 2011 to US\$61.8 million in 2012, primarily due to a significant increase in the average spending per advertiser from approximately US\$79,000 in 2011 to approximately US\$147,000 in 2012, which was in turn attributable to our initiatives to streamline our advertising service strategies in 2012. The increase, in light of the different advertising service platforms, was attributable to the increase of online advertising revenues contributed by Xunlei Kankan in the amount of US\$18.0 million and to a lesser extent by Xunlei Accelerator in the amount of US\$5.5 million. The number of advertisers decreased from 485 in 2011 to 420 in 2012.

Revenues derived from other internet valued-added services increased by 50.0% from US\$23.6 million in 2011 to US\$35.4 million in 2012, primarily due to the increase in revenues from online games from US\$5.2 million to US\$15.5 million, the generation of pay per view revenues of US\$0.5 million in 2012 as we started to provide online video subscription services that year and the increase in sublicensing revenues from US\$14.8 million in 2011 to US\$15.2 million in 2012. The increase in online games revenues was primarily attributable to an increase in the number of exclusive licensed games that we operated on our platform as well as the increased popularity of our existing games.

**Cost of revenues.** Our cost of revenues increased by 74.8% from US\$48.1 million in 2011 to US\$84.0 million in 2012. The increase in our cost of revenues was mainly due to the increase in content costs primarily associated with the expansion of Xunlei Kankan and the increase in bandwidth costs and payment handling fees as we grew our subscription services.

**Bandwidth costs.** Our bandwidth costs increased by 92.4% from US\$11.5 million in 2011 to US\$22.2 million in 2012, primarily due to the increased bandwidth needs to support our subscription services and our increased high-definition content on Xunlei Kankan. Since we introduced our subscription services in 2009, bandwidth costs associated with such services have grown significantly.

**Content costs.** Our content costs increased by 68.6% from US\$27.7 million in 2011 to US\$46.7 million in 2012, primarily due to our continuous efforts to expand our Kankan library, and to license more premium content and exclusive rights on certain movies and television series for sublicensing. The increase of our content costs is also due to the amortization of our content copyrights on an accelerated basis as a result of the change in our accounting policy in April 2011.

**Payment handling fees.** Our payment handling fees increased by 52.7% from US\$5.6 million in 2011 to US\$8.5 million in 2012, driven primarily by the rapid growth of our subscription services.

**Depreciation of servers and other equipment.** Depreciation of servers and other equipment increased by 27.2% from US\$2.6 million in 2011 to US\$3.3 million in 2012, as we acquired more servers and other equipment to accommodate the increased needs for acceleration and streaming services.

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*Games revenue sharing costs and others.* These costs increased significantly by 377.1% from US\$0.7 million in 2011 to US\$3.4 million in 2012, mainly because we generated more revenues from exclusive licensed games in 2012.

*Gross profit.* As a result of the above, our gross profit increased by 67.0% from US\$33.8 million in 2011 to US\$56.5 million in 2012.

*Operating expenses.* Our operating expenses increased by 41.6% from US\$41.7 million in 2011 to US\$59.1 million in 2012, primarily due to an increase in research and development expenses and sales and marketing expenses.

*Research and development expenses.* Our research and development expenses increased by 67.7% from US\$12.1 million in 2011 to US\$20.4 million in 2012. The increase in our research and development expenses was primarily due to increases in headcount and salaries.

*Sales and marketing expenses.* Our sales and marketing expenses increased by 84.4% from US\$11.0 million in 2011 to US\$20.2 million in 2012. The increase in our sales and marketing expenses was primarily due to our increased spending on marketing and promotion and, to a lesser extent, due to increases in headcount and salaries.

*General and administrative expenses.* Our general and administrative expenses slightly decreased from US\$18.6 million in 2011 to US\$18.5 million in 2012.

*Net gain from exchanges of content copyrights.* We had net gains from the exchange of content copyrights of US\$4.7 million in 2011 and 2012, respectively.

*Interest income.* Our interest income increased by 410.0% from US\$0.3 million in 2011 to US\$1.4 million in 2012.

*Interest expense.* Our interest expense increased from US\$0.3 million in 2011 to US\$1.4 million in 2012, because we borrowed more bank loans in 2012.

*Income tax benefit/(expense).* We recorded an income tax benefit of US\$1.8 million in 2011 which was primarily due to a deferred tax asset resulting from the change in the corporate tax rate, offset by a deferred tax liability recognized in relation to taxes applicable to unremitted retained earnings and reserves expected to be paid by the VIE to Giganology Shenzhen. We recorded an income tax expense of US\$2.2 million in 2012. The change primarily reflected higher taxable income, lower deferred tax assets recognized as well as an increase in the deferred tax liability provided in 2012. These were partially offset by the tax impact that Shenzhen Xunlei claimed 150% of its research and development expenses in assessing its taxable income.

*Net (loss) income attributable to Xunlei Limited.* As a result of the above, we incurred net loss attributable to Xunlei Limited of US\$0.01 million in 2011 and net income of US\$0.5 million in 2012.

## **Selected quarterly results of operations**

The following table sets forth our unaudited condensed consolidated quarterly results of operations for each of the eight quarters in the period from April 1, 2012 to March 31, 2014. You should read the following table in conjunction with our audited consolidated financial

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statements and the related notes included elsewhere in this prospectus. We have prepared the unaudited condensed consolidated quarterly financial information on the same basis as our audited consolidated financial statements. The unaudited condensed consolidated financial information includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results for the quarters presented.

**Selected quarterly results**

(in thousands of US\$)	For the three months ended							
	Jun 30, 2012 (unaudited)	Sept 30, 2012 (unaudited)	Dec 31, 2012 (unaudited)	Mar 31, 2013 (unaudited)	Jun 30, 2013 (unaudited)	Sept 30, 2013 (unaudited)	Dec 31, 2013 (unaudited)	Mar 31, 2014 (unaudited)
Revenues, net of rebates and discounts								
Subscription revenue	11,268	13,909	15,855	18,839	21,037	22,948	23,909	24,849
Advertising revenue	14,198	20,889	17,067	11,933	13,489	12,917	9,689	7,518
Other internet value-added services	7,378	9,083	11,369	10,547	12,319	12,656	9,961	8,823
Revenues, net of rebates and discounts	32,844	43,881	44,291	41,319	46,845	48,521	43,559	41,190
Business taxes and surcharges	(2,005)	(2,760)	(1,283)	(1,245)	(1,692)	(1,413)	(1,301)	(1,192)
Net revenues	30,839	41,121	43,008	40,074	45,153	47,108	42,258	39,998
Cost of revenues	(18,911)	(21,751)	(21,036)	(20,783)	(21,653)	(22,959)	(27,866)	(23,864)
<b>Gross profit</b>	<b>11,928</b>	<b>19,370</b>	<b>21,972</b>	<b>19,291</b>	<b>23,500</b>	<b>24,149</b>	<b>14,392</b>	<b>16,134</b>
<b>Operating expenses(1)</b>								
Research and development expenses	(4,625)	(5,738)	(5,913)	(6,093)	(6,612)	(7,594)	(8,533)	(7,079)
Sales and marketing expenses	(4,143)	(6,478)	(6,451)	(4,443)	(6,170)	(8,263)	(7,734)	(5,027)
General and administrative expenses	(4,589)	(4,649)	(4,901)	(4,409)	(4,354)	(5,508)	(8,803)	(6,068)
<b>Total operating expenses</b>	<b>(13,357)</b>	<b>(16,865)</b>	<b>(17,265)</b>	<b>(14,945)</b>	<b>(17,136)</b>	<b>(21,365)</b>	<b>(25,070)</b>	<b>(18,174)</b>
<b>Net (loss) / gain from exchanges of content copyright</b>	<b>(270)</b>	<b>401</b>	<b>1,161</b>	<b>(171)</b>	<b>(26)</b>	<b>519</b>	<b>699</b>	<b>826</b>
<b>Operating (loss) / income</b>	<b>(1,699)</b>	<b>2,906</b>	<b>5,868</b>	<b>4,175</b>	<b>6,338</b>	<b>3,303</b>	<b>(9,979)</b>	<b>(1,214)</b>
Interest income	332	420	410	190	283	413	303	387
Interest expense	(454)	(491)	(61)					
Other (loss) / income, net	(132)	(32)	142	588	613	853	2,625	1,123
Share of (loss) / income from equity investee	(102)	19	49	(23)	155	(5)	(102)	(56)
	<b>(2,055)</b>	<b>2,822</b>	<b>6,408</b>	<b>4,930</b>	<b>7,389</b>	<b>4,564</b>	<b>(7,153)</b>	<b>240</b>

<b>(Loss) / income before income tax</b>								
Income tax benefit / (expenses)	265	(787)	(3,211)	(862)	(1,587)	932	2,164	(62)
<b>Net (loss) / income</b>	<b>(1,790)</b>	<b>2,035</b>	<b>3,197</b>	<b>4,068</b>	<b>5,802</b>	<b>5,496</b>	<b>(4,989)</b>	<b>178</b>
Less: net (loss) / income attributable to non-controlling interest	(161)	27	217	167	(23)	(163)	(264)	(219)
<b>Net (loss) / income attributable to Xunlei Limited(2)</b>	<b>(1,629)</b>	<b>2,008</b>	<b>2,980</b>	<b>3,901</b>	<b>5,825</b>	<b>5,659</b>	<b>(4,725)</b>	<b>397</b>

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

(in thousands of US\$)	For the three months ended							
	Jun 30, 2012	Sept 30, 2012	Dec 31, 2012	Mar 31, 2013	Jun 30, 2013	Sept 30, 2013	Dec 31, 2013	Mar 31, 2014
Research and development expenses	287	305	272	235	254	235	249	191
Sales and marketing expenses	12	12	10	9	9	10	15	12
General and administrative expenses	312	318	191	84	113	137	746	859
<b>Total share-based compensation expenses</b>	<b>611</b>	<b>635</b>	<b>473</b>	<b>328</b>	<b>376</b>	<b>382</b>	<b>1,010</b>	<b>1,062</b>

(2) Our preferred shareholders have the right to participate in dividends pari passu with our common shareholders on an as-converted basis.

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Our quarterly revenues were primarily affected by the substantial increases in our revenues generated from subscription services and other internet value-added services and the changes in our advertising revenues in the eight quarters in the period from April 1, 2012 to March 31, 2014.

Since we commercialized cloud acceleration subscription services in March 2009, our revenues from these services increased significantly from approximately US\$11.3 million in the three months ended June 30, 2012 to approximately US\$24.8 million in the three months ended March 31, 2014. The increase was the result of a significant rise in the number of our subscribers.

Our online advertising revenues decreased significantly from approximately US\$17.1 million in the fourth quarter of 2012 to approximately US\$11.9 million in the first quarter of 2013. After we had achieved historical high advertising revenues in the third quarter of 2012 derived principally from the advertisements we placed on Xunlei Kankan and Xunlei Accelerator, we made a decision in the first quarter of 2013 to discontinue delivering advertisements on Xunlei Accelerator to further improve our users' experience and enhance user engagement on Xunlei Accelerator. Subsequently, we have been substantially decreasing advertisements on Xunlei Accelerator and, accordingly, online advertising revenues further decreased from approximately US\$13.5 million in the second quarter of 2013 to approximately US\$7.5 million in the first quarter of 2014.

Revenues from our internet value-added services increased from approximately US\$7.4 million in the second quarter of 2012 to approximately US\$12.7 million in the third quarter of 2013. Such revenues primarily came from online games, which accounted for a significant portion of our internet value-added services during the said period. The decrease of revenues in the first and fourth quarters of 2013 and the first quarter of 2014 is primarily because revenues from our content sub-licensing services decreased as a result of the impact of our decreased content acquisition in 2013 and revenues from key online games did not achieve the returns as we projected for them. However, we expect our overall internet value-added services to increase in the subsequent quarters of 2014 as we continue our investment in online games and our content library.

Our cost of revenues generally increased in the eight quarters ended March 31, 2014 as we continued to expand our business and incurred significant bandwidth costs and content costs in preparation for our future growth. The absolute amount of cost of revenues and our cost of revenues as a percentage of revenues significantly increased from the third quarter of 2013 to the fourth quarter of 2013 primarily due to additional bandwidth costs as a result of our need to increase investment to compete effectively.

**Liquidity and capital resources**

To date, we have financed our operations primarily through cash generated from operations, private placements of preferred shares to investors and bank loans. As of March 31, 2014, we had US\$302.4 million in cash and cash equivalents. As of the same date, we did not have any outstanding bank loans. We believe that our cash and the anticipated cash flow from operations and financings will be sufficient to meet our anticipated cash needs for the next 12 months.

We generate a significant portion of our revenues from customers in the advertising industry. Although our general credit term for our customers is 90 days, we typically are willing to accept delayed repayment up to one year from the invoice date given the general practices we



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have with our customers in the advertising industry. Our practice and collection history may continue to have an impact on our liquidity.

In the future, we may rely on dividends and other distributions on equity paid by our wholly-owned PRC subsidiaries for our cash and financing requirements. There may be potential restrictions on the dividends and other distributions by our PRC subsidiaries. For instance, if Giganology Shenzhen, our PRC subsidiary, incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. The PRC tax authorities may require us to adjust our taxable income under the contractual arrangements Giganology Shenzhen currently has in place with Shenzhen Xunlei in a way that would materially and adversely affect the latter's ability to pay dividends and other distributions to us. In addition, under PRC laws and regulations, Giganology Shenzhen, as a wholly foreign-owned enterprise in the PRC, may pay dividends only out of its accumulated profits as determined in accordance with PRC accounting standards and regulations. Wholly foreign-owned enterprises such as Giganology Shenzhen are required to set aside at least 10% of their accumulated after-tax profits each year, if any, to fund a statutory reserve fund, until the aggregate amount of such fund reaches 50% of their respective registered capital. At their discretion, wholly foreign-owned enterprises may allocate a portion of their after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends. See "Risk factors Risk related to our corporate structure We may rely principally on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have. Any limitation on the ability of Giganology Shenzhen and Xunlei Computer to pay dividends to us could have a material adverse effect on our ability to conduct our business." In addition, our investment made as registered capital and additional paid in capital of our subsidiaries, VIE and VIE's subsidiaries are also subject to restrictions in their distribution and transfer according to the laws and regulations in China. Owing to the above, our subsidiaries, VIE and VIE's subsidiaries in China are restricted in their ability to transfer their net assets to us in terms of cash dividends, loans or advances. As of December 31, 2012 and 2013, and March 31, 2014, the amount of the restricted net assets, which represents registered capital and additional paid-in capital cumulative appropriations made to statutory reserves, was US\$45.0 million, US\$49.2 million and US\$49.2 million, respectively.

As an offshore holding company, we are permitted, under PRC laws and regulations to provide funding from the proceeds of our offshore fund raising activities to our PRC subsidiaries only through loans or capital contributions, and to our variable interest entity only through loans, subject to the satisfaction of the applicable government registration and approval requirements. See "Risk factors Risks related to our corporate structure PRC regulation of loans to, and direct investment in, PRC entities by offshore holding companies and governmental control of currency conversion may restrict or prevent us from using the proceeds of this offering to make loans to our PRC subsidiaries and variable interest entities or to make additional capital contributions to our PRC subsidiaries, which may materially and adversely affect our liquidity and our ability to fund and expand our business" and see "Risk factors Risks related to doing business in China The approval of the China Securities Regulatory Commission may be required in connection with this offering under a regulation adopted in August 2006, and, if required, we cannot assure you that we will be able to obtain such approval." As a result, uncertainties exist as to our ability to provide prompt financial support to our PRC subsidiaries or variable interest entity when needed. Notwithstanding the

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forgoing, our PRC subsidiary, Giganology Shenzhen may use its own retained earnings (as opposed to RMB converted from foreign currency denominated capital) to provide financial support to Shenzhen Xunlei either through extended payment terms on amounts due to Giganology Shenzhen from Shenzhen Xunlei, or via entrusted loans from Giganology Shenzhen to Shenzhen Xunlei, or direct loans to its nominee shareholders, which would be contributed to the variable interest entity as capital injection. Such direct loans to the nominee shareholders would be eliminated in the consolidated financial statements against the VIE's share capital.

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

(in thousands of US\$)	For the Year Ended			For the Three	
	2011	2012	December 31, 2013	2013	Months Ended March 31, 2014
				(unaudited)(unaudited)	
Net cash generated from operating activities	18,277	59,914	85,533	16,590	15,019
Net cash used in investing activities	(36,875)	(49,490)	(78,352)	(18,179)	(5,130)
Net cash generated from financing activities	50,032	17,692	2,487	1,307	199,620
Net increase (decrease) in cash	31,434	28,116	9,668	(282)	209,509
Cash and cash equivalents at the beginning of year/period	21,353	53,349	81,906	81,906	93,906
Effect of exchange rate changes	562	441	2,332	169	(1,054)
Cash and cash equivalents at the end of year/period	53,349	81,906	93,906	81,793	302,361

As of March 31, 2014, we had cash or cash equivalents of approximately RMB474.3 million (US\$77.1 million) and US\$10.7 million located within the PRC, of which RMB396.9 million (US\$64.5 million) is held by Shenzhen Xunlei and its subsidiaries. We also had cash or cash equivalents of RMB64.8 million (US\$10.5 million), US\$204.0 million and 0.5 million Hong Kong dollars (US\$0.1 million) located outside of the PRC as of March 31, 2014.

***Operating activities***

Net cash generated from operating activities amounted to US\$15.0 million in the three months ended March 31, 2014, which was primarily attributable to a net income of US\$0.2 million, adjusted for certain non-cash expenses consisting principally of depreciation and amortization expenses of US\$10.4 million, share-based compensation of US\$1.1 million and a net change in working capital. The net change in working capital was primarily due to the decrease of accounts receivable amounting to US\$5.8 million, which was in line with the decrease of our advertising revenues and the increase in accounts payable amounting to US\$1.6 million primarily attributable to the increased procurement of bandwidth, partially offset by the increase in prepayment of other assets amounting to US\$2.5 million.

Net cash generated from operating activities amounted to US\$85.5 million in 2013, which was primarily attributable to a net income of US\$10.4 million, adjusted for certain non-cash expenses consisting principally of depreciation and amortization expenses of US\$43.4 million, share-based compensation of US\$2.1 million and a net change in working capital. The net change in working capital was primarily due to the decrease of accounts receivable amounting to US\$13.7 million, which was in line with the decrease of our advertising revenues, an increase in deferred revenue of US\$12.6 million as a result of increase in our subscription fees prepaid

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by our subscribers, and the increase in accounts payable of US\$5.9 million primarily attributable to the increased procurement of bandwidth.

Net cash generated from operating activities amounted to US\$59.9 million in 2012, which was primarily attributable to a net income of US\$0.4 million, adjusted for certain non-cash expenses consisting principally of depreciation and amortization expenses of US\$54.6 million, share-based compensation of US\$2.2 million and a net change in working capital. The net change in working capital was primarily due to the increase in accrued liabilities and other payable of US\$10.9 million arising from an increase in accrual of sales rebates of online advertising and accrued payroll and employees benefit provision, and the increase in deferred revenue in the amount of US\$8.5 million as our subscription revenues grew rapidly, partially offset by the increase of accounts receivable of US\$17.8 million as a result of the increase in online advertising revenues.

Net cash generated from operating activities amounted to US\$18.3 million in 2011, which was primarily attributable to a net loss of US\$0.01 million, adjusted for certain non-cash expenses consisting principally of depreciation and amortization expenses of US\$32.1 million, and partially offset by a net change in working capital. The net change in working capital was primarily due to the increase of accounts receivable of US\$19.9 million as a result of the increase in online advertising revenues and content sublicensing revenues, and the increase of prepayment and other assets amounting to US\$3.0 million to cope with the increasing scale of operations, which was partially offset by the increase in accrued liabilities and other payable of US\$6.6 million arising from increase in accrual of sales rebates of online advertising and the increase in deferred revenue in the amount of US\$4.9 million which increased in line with the growth of our subscription business.

***Investing activities***

Net cash used in investing activities largely reflects purchases of property and equipment in connection with the expansion and upgrade of our technology infrastructure, and purchases of intangibles assets.

Net cash used in investing activities amounted to US\$5.1 million in the three months ended March 31, 2014, which was primarily attributable to purchase of short-term investment of US\$83.4 million, purchase of intangible assets of US\$9.1 million and acquisition of property and equipment of US\$3.8 million, partially offset by proceeds from disposal of short-term investment of US\$92.0 million.

Net cash used in investing activities amounted to US\$78.4 million in 2013, primarily attributable to the purchase of short-term investment of US\$246.2 million, and purchase of intangible assets in the amount of US\$36.0 million, partially offset by proceeds from disposal of short-term investments of US\$213.5 million.

Net cash used in investing activities amounted to US\$49.5 million in 2012, mainly attributable to the purchase of intangible assets in the amount of US\$32.6 million, the acquisition of property, plant and equipment in the amount of US\$7.4 million and the purchase of short-term investment of US\$6.5 million.

Net cash used in investing activities amounted to US\$36.9 million in 2011, attributable to the purchase of intangible assets in the amount of US\$32.0 million and acquisition of property, plant and equipment in the amount of US\$4.2 million.

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Net cash generated from financing activities amounted to US\$199.6 million in the three months ended March 31, 2014, which was primarily due to our issuance of Series E preferred shares of US\$200 million, partially offset by payment of initial public offering expenses of US\$0.4 million.

Net cash generated from financing activities amounted to US\$2.5 million in 2013 due to government grant received.

Net cash provided by financing activities amounted to US\$17.7 million in 2012 due to our proceeds from series D preferred share issuance of US\$32.5 million and proceeds from bank borrowings of US\$20.5 million, partially offset by repayment of bank borrowings of US\$41.2 million.

Net cash provided by financing activities amounted to US\$50.0 million in 2011 due to our proceeds from series C preferred share issuance of US\$29.4 million and proceeds from bank borrowing of US\$20.6 million.

**Capital expenditures**

We made capital expenditures of US\$4.2 million, US\$7.4 million, US\$7.4 million and US\$3.8 million in the years ended December 31, 2011, 2012 and 2013 and in the three months ended March 31, 2014, respectively. In the past, our capital expenditures were primarily used to purchase servers and other equipment for our business. Our capital expenditures may increase in the near term as our business continues to grow.

**Contractual obligations and commercial commitments**

The following table sets forth our rental and bandwidth lease commitments as of March 31, 2014:

(in thousands of US\$)	Total	Payment due by period		
		Less than 1 year	1-2 years	2-3 years
Operating lease obligations <sup>(1)</sup>	4,814	2,801	1,320	693
Bandwidth lease obligations	24,733	21,818	2,520	395

(1) Operating lease obligations are primarily related to the lease of office space. These leases expire on different dates.

As of March 31, 2014, we had irrevocable purchase obligations for certain copyrights and online game licenses that had not been recognized in the amount of US\$8.4 million and US\$6.6 million, respectively.

**Off-balance sheet commitments and arrangements**

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. In addition, we have not entered into any derivative contracts that are indexed to our own shares and classified as shareholder's equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. Moreover, we do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

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**Inflation**

Since our inception, inflation in China has not materially impacted our results of operations. According to the National Bureau of Statistics of China, the consumer price index in China increased by 4.9% in 2011 and 2.6% in 2012, respectively. Although we have not in the past been materially affected by inflation since our inception, we can provide no assurance that we will not be affected in the future by higher rates of inflation in China.

**Market risks**

*Foreign exchange risk*

Our financing activities are denominated mainly in U.S. dollars. The Renminbi ("RMB") is not freely convertible into foreign currencies. Remittances of foreign currencies into the PRC and conversion of foreign currencies into RMB require approval by foreign exchange administrative authorities and certain supporting documentation. The State Administration for Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into other currencies. The revenues and expenses of our subsidiaries, and the consolidated VIE and its subsidiaries are generally denominated in RMB and their assets and liabilities are denominated in RMB. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge our exposure to such risk. Although in general, our exposure to foreign exchange risks should be limited, the value of your investment in our ADSs will be affected by the exchange rate between the U.S. dollar and the RMB because the value of our business is effectively denominated in RMB, while the ADSs will be traded in U.S. dollars.

The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The conversion of RMB into foreign currencies, including U.S. dollars, has been based on rates set by the People's Bank of China. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar. Under the revised policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy resulted in a more than 20% appreciation of the RMB against the U.S. dollar in the following three years. Since July 2008, however, the RMB has traded within a narrow range against the U.S. dollar. As a consequence, the RMB has fluctuated significantly since July 2008 against other freely traded currencies, in tandem with the U.S. dollar. On June 20, 2010, the People's Bank of China announced that the PRC government would further reform the Renminbi exchange rate regime and increase the flexibility of the exchange rate. It is difficult to predict how this new policy may impact the Renminbi exchange rate. To the extent that we need to convert U.S. dollars we receive from this offering into RMB for our operations, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount we receive from the conversion. Conversely, if we decide to convert the RMB into U.S. dollars for the purpose of making payments for dividends on our common shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amounts available to us.

*Interest rate risk*

Our exposure to interest rate risk primarily relates to the interest income generated by excess cash, which is mostly held in interest-bearing bank deposits. We have not used derivative financial instruments in our investment portfolio. Interest earning instruments carry a degree of interest rate risk. We have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in market interest rates. However, our future interest income may fall short of expectations due to changes in market interest rates.

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**Critical accounting policies**

We prepare our financial statements in conformity with U.S. GAAP, which requires us to make estimates and assumptions that affect our reporting of, among other things, assets and liabilities, contingent assets and liabilities and revenues and expenses. We regularly evaluate these estimates and assumptions based on the most recently available information, our own historical experiences and other factors that we believe to be relevant under the circumstances. Since our financial reporting process inherently relies on the use of estimates and assumptions, our actual results could differ from what we expect. This is especially true with some accounting policies that require higher degrees of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our audited consolidated financial statements because they involve the greatest reliance on our management's judgment.

***Revenue recognition***

***1. Subscription revenues***

We operate a VIP subscription program where subscribers can have access to acceleration services and other access privileges. The subscription fee is time-based and is collected up-front from subscribers except in the cases when they elect to pay via their mobile operators. The subscription fee is collected when the subscribers pay for their monthly phone bills. The terms of time-based subscriptions range from one to twelve months, with the subscribers having the option to renew the contracts. The receipt of subscription fees is initially recorded as deferred revenue and revenues are recognized ratably over the period of subscription as services are rendered. Unrecognized portion of the subscription fee beyond 12 months from balance sheet date is classified as non-current liability. We evaluated the principal versus agent criteria and determined that we are the principal in the transaction and accordingly record revenues on a gross basis. In determining whether to report revenues gross for the amount of subscription revenues, we assesses whether it maintains the principal relationship with the VIP subscribers, whether it bears the credit risk and whether it establishes prices for the end users. Payment handling fees levied by online system, fixed phone line and mobile payment channels are recorded as the cost of revenues in the same period as the revenues for the subscription fee are recognized.

***2. Advertising revenues***

Advertising revenues are derived principally from advertising arrangements where the advertisers pay to place their advertisements on our platform in different formats over a particular period of time. Such formats include but not limited to videos, banners, links, logos and buttons.

Advertisements on our platform are charged on the basis of duration, and advertising contracts are signed to establish the fixed price and the advertising services to be provided. We enter into advertising contracts with third-party advertising agencies that represents advertisers, as well as directly with advertisers. A typical contract term would range from a few days to three months. Both third party advertising agencies and direct advertisers are billed at the end of the display period and payments are due usually within three months.

Where our customers purchase multiple advertising spaces with different display periods in the same contract, we allocate the total consideration to the various advertising elements based on their relative fair values and recognize revenues for the different elements over their respective display periods. We determine the fair values of different advertising elements based on the prices charged when these elements were sold on a standalone basis. We recognize revenues

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on the elements delivered and defer the recognition of revenues for the fair value of the undelivered elements until the remaining obligations have been satisfied. Where all of the elements within an arrangement are delivered uniformly over the contract period, revenues are recognized on a straight line basis over the contract period.

*a) Transactions with third-party advertising agencies*

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

There is a persuasive evidence that an arrangement exists: we will enter into framework and execution contracts with the advertising agencies, specifying price, advertising content, format and timing;

Price is fixed and determinable: price charged to the advertising agencies are specified in the contracts, including relevant discount and rebate rates;

Services are rendered: we recognize revenues ratably over the contract period of display; and

Collectability is reasonably assured: we assess credit history of each advertising agency before entering into any framework and execution contracts. If the collectability from the agencies is assessed as not reasonably assured, we recognize revenues only when the cash is received and all the other revenues criteria are met.

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

We regularly monitor sales amount from each customer and adjust our estimated rebate at the end of each reporting period. Annual sales rebates are assessed on a quarterly basis based on the contracted rebate rates and the estimated sales amount for the full year, and actual sales to date and estimated sales for the rest of the year. Such rebates are adjusted at the year end based on actual sales amount achieved.

*b) Transactions with advertisers*

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

**3. Other internet value-added services**

**(1) Online game revenues**

Users play games through our platform free of charge and are charged for purchases of virtual items including consumable and perpetual items, which can be utilized in the online games to enhance their game-playing experience. Consumable items represent virtual items that can be consumed by a specific user within a specified period of time. Perpetual items represent virtual items that are accessible to the users' account over the life of the online game. Pursuant to

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contracts signed between us and the game developers, revenues from the sale of virtual items are shared based on a pre-agreed ratio for each game. We enter into both non-exclusive and exclusive licensing contracts with game developers.

*a) Non-exclusive game licensed contracts*

The games under non-exclusive licensed contracts are maintained, hosted and updated by the game developers. We mainly provide access to our platform and limited after-sale services to the game players. The determination of whether to record these revenues using the gross or net method is based on an assessment of various factors; the primary factors are whether we act as the principal in offering services to the game players or as agent in the transactions, and the specific requirements of each contract. We determined that for non-exclusive game licensed arrangements, the third party game developers are the principal given that the game developers design and develop the game services offered, have reasonable latitude to establish prices of virtual items, and are responsible for maintaining and upgrading the game content and virtual items. Accordingly, we record online game revenues, net of the portion remitted to the game developers.

Given that online games are managed and administered by the game developers for non-exclusive licensed games, we do not have access to the data on the consumption details and the types of virtual items purchased by the game players. However, we have data of when a particular user makes a purchase and logs into the game. We have adopted a policy to recognize revenues relating to both consumable and perpetual items, over the shorter of (1) estimated lives of the games and (2) the estimated lives of the user relationship with us, which were approximately two to six months for the periods presented.

Adjustments arising from the change of estimated lives of virtual items are applied prospectively as such change results from new information indicating a change in the game player behavioral patterns.

*b) Exclusive game licensed contracts*

For exclusive licensed contracts with game developers, the games are maintained and hosted by us. Accordingly, where we are determined to be the principal, we record online game revenues on a gross basis, with the amount remitted to the game developers reported as cost of revenues. Payment handling fees are recognized as cost of revenues when the related revenues are recognized.

For exclusive licensed games which are maintained on our servers, we have access to the data on the consumption details and types of virtual items purchased by the game players. We do not maintain information on consumption details of virtual items, and only have limited information related to the frequency of log-ons. Given that a substantial portion of the virtual items purchased by the game players in exclusive licensed games are perpetual items, our management determine that it would be most appropriate to recognize the related revenues over the shorter of (1) estimated lives of the games and (2) estimated life of the user relationship with us, which is approximately three months. Revenues relating to consumable items are recognized immediately upon consumption. Any changes in our estimates of lives of virtual items may result in our revenues being recognized on a basis different from prior periods and may cause our operating results to fluctuate.

For both non-exclusive and exclusive licensed games, we estimate the life of virtual items to be the shorter of the estimated lives of the games and the estimated lives of the user relationship.



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The estimated user relationship period is based on data collected from those users who have purchased virtual items. To estimate the life of the user relationship, we maintain a software system that captures the following information for each user: the date of first log-in, the date of first purchase for a virtual item, the date of last purchase for a virtual item and the date the user ceases to play the game. We estimate the life of the user relationship to be the average period from the first purchase of a virtual item to the date the user ceases to play the game. The estimate of the life of the user relationship is based only on the data of those users who have purchased virtual items and is made on a game-by-game basis.

To estimate the date the user plays the game for the last time, we selected all paying users that logged on during a particular month and continue to track these users' log-on behaviors over at least a six-month period to determine if each user is "active" or "inactive," which is determined based on a review of the period of inactivity or idle period from the user's last log-on. We observe the behaviors of these users to see whether they subsequently return to a game based on different inactive periods (e.g. not logging on) of one month, two months, three months and so forth. The percentage of users calculated that do not log back on is estimated to be the probability that users will not return to the game after a certain period of inactivity.

We consider a paying player to be inactive once he or she has reached a period of inactivity for which it is probable (defined as at least 80%) that a player will not return to a specific game. We believe that using an 80% threshold for the likelihood that a player will not return to a game is a reasonable estimate that achieves the magnitude of "probable" under the threshold described in ASC 450 Contingencies. We have consistently applied this threshold to our analysis. Based on our assessment, the inactive period ranges generally from one to three months depending on the games.

To estimate the life of the games, we consider both games that we operate as well as games in the market that are of a similar nature. We group these games by their nature, in categories such as simulation games, role playing games and others, which appeal to players belonging to different demographics. We estimate that the life of each group of the games to be the average period from the date of launch for such games to the date the games are expected to be removed from the website or terminated altogether. When we launch a new game, we estimate the life of the game and user relationship based on lives of other similar games in the market until the new game establishes its own history. We also consider the game's profile, attributes, target audience, and its appeal to players of different demographic groups in estimating the user relationship period.

The consideration of user relationship with each online game is based on our best estimate that takes into account all known and relevant information at the time of assessment. Adjustments arising from the changes of estimated lives of virtual items are applied prospectively as such changes are resulted from new information indicating a change in the game player behavioral patterns. Any changes in our estimates of lives of virtual items may result in our revenues being recognized on a basis different from prior periods and may cause our operating results to fluctuate. We periodically assess the estimated lives of the virtual items and any changes from prior estimates are accounted for prospectively. Any adjustments arising from changes in user relationship as a result of new information will be accounted as a change in accounting estimate in accordance with ASC 250 Accounting Changes and Error Corrections.

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Game players can purchase virtual currency via an online payment channel. We incur service fees levied by these payment channels, and such payment expenses are recorded as the cost of revenues when the related revenues are recognized.

**(2) Content sub-licensing revenues**

With copyright content that has been exclusively licensed to us, we have the right to sub-license the broadcasting rights on a recurring basis to third parties. We generate revenues from sub-licensing these broadcasting rights to third party customers, mainly video streaming internet platforms for cash, at a fixed rate for a fixed period of time that falls within the original exclusive license period. Revenues are recognized in full at the later of the delivery of the copy of the content with acceptance acknowledged by the customers and the commencement of the license period, as we are not obliged to provide any other services. We perform credit assessment of our customers prior to entering into contracts to ensure that collection of the arrangement fee is reasonably assured. We have no on-going obligation after delivery of the copy of the content.

**(3) Pay per view revenues**

We operate a pay per view program in which subscribers pay a monthly fee to watch and access a collection of movie contents. The subscription fee is time-based and is collected up-front from subscribers except in the cases where they elect to pay via their mobile operators. The subscription fee is collected when the subscribers pay for their monthly phone fees. The terms of time-based subscriptions range from one month to twelve months, with the subscribers having the option to renew the contracts. The receipt of payment is initially recorded as deferred revenue and revenue is recognized ratably over the period of subscription as services are rendered.

Viewers can also pay to watch each individual movie for an unlimited number of times. Revenues are recognized when the movie is broadcasted to the viewers.

**Barter transactions**

We also enter into agreements with third parties (mainly video streaming internet platform) to exchange content. The exchanged content provides rights for each respective party only to broadcast the content received on its own website; though, each party retains the right to continue broadcasting and or sub-license the rights to the content it surrendered in the exchange. These transactions are non-monetary transactions similar to barter transactions, and we follow ASC 845, Non-Monetary Transactions and ASC 360-10, Property, Plant, and Equipment.

Such barter transactions should be recorded at fair value of the surrendered assets in the transaction unless such fair value is not determinable within reasonable limits. We estimated the fair value of the content by gathering "price reference" of cash sub-licensing transaction of each exclusive content right and categorizing it into two buckets (1) cash transaction prices with established counterparties and (2) cash transaction prices with less established counterparties. With this information, we calculate an "average cash transaction price" for each category to be used as a reference for the non-monetary transaction. The attributable cost of the related exclusive Content Copyright surrendered is released and recorded as the cost of the barter transaction in accordance with ASC 926 Entertainment Films in which the cost is computed using the individual-film-forecast-computation method. This method calculates such cost based on the ratio of the estimated fair value of the exchanged content over the

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aggregate estimated fair value to be generated by the exclusive Content Copyrights for their whole license period or estimated useful lives. We revisit the forecast at each quarter or year end and make adjustment, when appropriate.

**Share-based compensation**

We awarded a number of share-based compensation options to our employees, officers and directors. The details of these share-based awards and the respective terms and conditions are described in "Share-based compensation" in note 17 to our audited consolidated financial statements for the years ended December 31, 2011, 2012 and 2013 and note 17 to our unaudited interim condensed consolidated financial statements for the three months ended March 31, 2013 and 2014.

Options are accounted for as equity-classified awards because there are no explicit repurchase rights specified in the award documents and the number of shares of our common shares issued under these awards are fixed and determined at the time of grants. All options are measured based on the fair value of the award on the grant date and recognized as compensation expenses based on the straight-line vesting method, net of estimated forfeitures, over the requisite service period, which is generally the vesting period.

The following table sets forth the options granted that were outstanding as of March 31, 2014:

<b>Date of Option Grant</b>	<b>Options outstanding</b>	<b>Exercise price (US\$)</b>	<b>Fair value of options (US\$)</b>	<b>Fair value of ordinary shares (US\$)</b>
prior to 2012	19,689,838			
March 1, 2012	254,542	3.97	1.01	2.83
August 1, 2012	15,917	3.97	1.10	3.01
March 1, 2013	75,000	3.97	1.17	3.20
August 1, 2013	445,000	3.97	1.13	3.23
November 18, 2013	456,761	2.11 3.97	0.99 1.60	3.15
March 5, 2014	492,000	2.93-3.97	0.91-1.20	3.06
<b>Total</b>	<b>21,429,058</b>			

We estimate the fair value of share options granted using the Black-Scholes option pricing model. The key assumptions used to determine the fair value of the options at the relevant grant dates were as follows:

	<b>For the Year Ended December 31,</b>			<b>For the Three Months Ended</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>March 31, 2014</b>
Risk-free interest rate <sup>(1)</sup>	1.32% to 2.26%	0.67% to 0.92%	0.77% to 1.76%	0.77% to 1.76%
Dividend yield <sup>(2)</sup>				
Volatility rate <sup>(3)</sup>	50.3% to 51.4%	53.9% to 54.5%	43.8% to 51.3%	40.07% to 43.30%
Expected term (in years) <sup>(4)</sup>	4.58	4.58	4.58	4.58

Notes:

(1) The risk-free interest rates of periods within the contractual life of the share options is based on the U.S. dollar Chinese government bond yield data from Bloomberg as of the valuation dates;

(2) We have no history or expectation of paying dividends on our common stock;

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(3) Expected volatility is estimated based on the average historical volatilities of shares of the comparable publicly listed companies from Bloomberg as of the valuation dates; and

(4) The expected term is estimated by assuming the share options will be exercised in the middle point between the vesting dates and maturity dates.

Total compensation costs recognized for the years ended December 31, 2011, 2012 and 2013 and the three months ended March 31, 2013 and 2014, respectively, are as follows:

(In thousands of US\$)	For the Year Ended			For the Three Months	
	2011	2012	December 31, 2013	Ended March 31, 2013 (unaudited)	2014 (unaudited)
Sales and marketing expenses	73	46	43	9	12
General and administrative expenses	1,128	1,102	1,080	84	859
Research and development expenses	898	1,085	973	235	191
<b>Total</b>	<b>2,099</b>	<b>2,233</b>	<b>2,096</b>	<b>328</b>	<b>1,062</b>

Determining the value of our share-based compensation expenses requires the input of highly subjective assumptions, including the expected life of the share-based awards, estimated forfeitures and the price volatility of the underlying shares. The assumptions used in calculating the fair value of share-based awards represent our best estimates, but these estimates involve inherent uncertainties and the application of our judgment. As a result, if factors change and we use different assumptions, our share-based compensation expenses could be materially different in the future.

We also awarded a number of restricted shares to our executive officers. On November 18, 2013, December 31, 2013, March 5, 2014 and March 31, 2014, we granted 7,605,238, 490,000, 1,830,000 and 270,000 restricted shares to our executive officers, respectively. In March 2014, 3,427,620 restricted shares were forfeited, and these are available for future grants to executive officers. The details of these share-based restricted shares and the respective terms and conditions are described in "Share-based compensation" in note 17 to our audited consolidated financial statements for the years ended December 31, 2011, 2012 and 2013 and note 17 to our unaudited interim condensed consolidated financial statements for the three months ended March 31, 2013 and 2014.

The restricted shares are accounted for as equity-classified awards because there are no explicit repurchase rights specified in the relevant documents and the number of shares of our common shares issued under these awards is fixed and determined at the time of grants. All restricted shares are measured based on the fair value of the awards on the grant date and recognized as compensation expenses based on the straight-line vesting method net of estimated forfeitures over the requisite service period. Upon the completion of this offering, the administrator of the applicable share incentive plan may immediately accelerate the vesting of restricted shares, and however, we have no plan to accelerate the vesting of the restricted shares upon the completion of this offering.

From April 1, 2014 to the date of this prospectus, we did not grant any options and restricted shares to our executive officers or employees.

***Fair value of our common shares***

Prior to the completion of this offering, we are a private company with no quoted market prices for our common shares. We have therefore estimated, with assistance from an independent valuation firm, the fair value of our common shares at certain dates in 2011, 2012, 2013 and in the three months ended March 31, 2014.

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The following table sets forth the fair values of our common shares estimated from March 21, 2011 to March 31, 2014:

<b>Date</b>	<b>Fair Value of common shares (per share)</b>	<b>Type of methodology</b>	<b>Type of valuation</b>	<b>Purpose of valuation</b>
March 21, 2011	5.65	Income approach	Contemporaneous	Valuation of ESOP
April 14, 2011	5.18	Income approach	Contemporaneous	Series C valuation
August 1, 2011	3.60	Income approach	Contemporaneous	Valuation of ESOP
January 31, 2012	3.36	Income approach	Contemporaneous	Series D valuation
March 1, 2012	2.83	Income approach	Contemporaneous	Valuation of ESOP
August 1, 2012	3.01	Income approach	Contemporaneous	Valuation of ESOP
March 1, 2013	3.20	Income approach	Contemporaneous	Valuation of ESOP
August 1, 2013	3.23	Income approach	Contemporaneous	Valuation of ESOP
November 18, 2013	3.15	Income approach	Contemporaneous	Valuation of ESOP (including restricted shares)
December 31, 2013	3.14	Income approach	Contemporaneous	Valuation of ESOP (including restricted shares)
March 5, 2014	3.06	Income approach	Contemporaneous	Series E valuation and valuation of ESOP (including restricted shares)
March 31, 2014	3.06	Income approach	Contemporaneous	Valuation of ESOP (including restricted shares)

We estimated the fair value of our common shares based on valuations performed by our management with the assistance of an independent valuer for options granted after January 1, 2008 and through March 31, 2014. Determining the fair values of our common shares requires our management to make complex and subjective judgments regarding our projected financial and operating results, the unique business risks, the liquidity of our common shares and operating history and prospects at the time of each grant. Therefore, these fair values are inherently uncertain and highly subjective.

In determining the fair values of our common shares as of each award grant date, we consider a number of objective and subjective factors that we believe market participants would consider, including (a) our business, financial condition, and results of operations, including related industry trends affecting our operations; (b) our forecasted operating performance and projected future cash flows; (c) the illiquid nature of our common shares; (d) liquidation preferences and other rights and privileges of our common shares; (e) market multiples of our most comparable public peers; (f) recent sales of our securities; and (g) market conditions affecting our industry. Therefore, we considered three generally accepted approaches to value our common shares: market approach, cost approach and income approach. We believe that the market approach and cost approach are inappropriate for the valuation. Firstly, the market approach requires market transactions of comparable assets as an indication of value, and we have not identified any current market transactions which are comparable. Secondly, the cost approach does not directly incorporate information about the economic benefits contributed by the underlying business. We decided to rely upon the income approach as the sole means of valuation since we believe we are a later-stage enterprise as opposed to an early-stage enterprise. We believe we have enough financial data on which to base a forecast of future results. In applying the income approach to determine the value of our common shares, a discount was applied to reach the final valuation of our common shares based on the fact that, inasmuch as we are a private company, there are impediments to liquidity, including lack of publicly available information and the lack of a trading market. The discounted cash flow

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method is a method within the income approach whereby the present value of future expected net cash flows is calculated using a discount rate.

The major assumptions used in calculating the fair values of our common shares include:

Weighted average cost of capital, or WACC: WACCs of 17.3%, 18.8%, 17.9%, 17.2%, 20.5%, 20.5%, 18.2%, 18.2%, 18.5%, 18.5%, 18.2% and 18.2% were used for dates as of March 21, 2011, April 14, 2011, August 1, 2011, January 31, 2012, March 1, 2012, August 1, 2012, March 1, 2013, August 1, 2013, November 18, 2013, December 31, 2013, March 5, 2014 and March 31, 2014, respectively. The WACCs were determined based on a consideration of the factors including risk-free rate, comparative industry risk, equity risk membership, company size and non-systematic risk factors;

Comparable companies: In deriving the WACCs, which are used as the discount rates under the income approach, three China-based online marketing companies and one U.S.-based online marketing company, all of which are listed in the U.S., were selected for reference as our guideline companies.

The income approach involves applying appropriate discount rates to estimated cash flows that are based on earnings forecasts. Our revenues and earnings growth rates, as well as major milestones that we have achieved, contributed significantly to the change in the fair value of our common shares from March 2011 to March 2014. However, these fair values are inherently uncertain and highly subjective. The assumptions used in deriving the fair values are consistent with our business plan. These assumptions include: the projected business performances can be achieved with the effort of our managements; there will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect our business; the operational and contractual terms stipulated in the relevant contracts and agreements will be honored; and the facilities and systems proposed are sufficient for future expansion in order to realized the growth potential of the business and maintain a competitive edge;

For the income approach, we forecasted our future debt-free net cash flows for five to six years subsequent to the valuation date and applied a H Model to calculate the terminal debt-free cash flow after five to six years. The net cash flow was then discounted to present value using a risk-adjusted discount rate, which was based on market inputs using a capital asset pricing model that reflected the risks associated with achieving our forecasts. The terminal or residual value at the end of the projection period was based on the H Model with the terminal growth rate assumed to be 3% for all the valuation dates. The resulting terminal value and interim debt-free cash flows were then discounted at a rate ranging from 17.3% to 20.5% for the respective valuation date which was based on the weighted average cost of capital of comparable companies, as adjusted for our specific risk profile.

Our total equity value was then allocated among the preferred shares and common shares. The valuation model allocated the equity value between the common shares and the preferred shares and calculated the fair value of common shares based on the option-pricing method. Under this method, common shares have value only if the funds available for distribution to shareholders exceed the value of the liquidation preference at the time of a liquidity event (for example, merger or sale). The common shares are considered to be a call option with claim on the equity above the exercise price equal to the liquidation preferences of the preferred shares.

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Discount for lack of marketability, or DLOM, a discount for lack of marketability was also applied to reflect the fact that there is no ready public market for our shares as we are a closely held private company. When determining the discount for lack of marketability, the Black-Scholes option model was used. Under the option pricing method, the fair value of the put option, which can hedge against a price decline before the privately held shares can be sold, was considered as a basis to determine the discount for lack of marketability. Based on the analysis, a discount for lack of marketability of 6%, 9%, 18%, 19%, 26%, 26%, 19%, 16%, 14%, 14%, 12% and 12% was used on March 21, 2011, April 14, 2011, August 1, 2011, January 31, 2012, March 1, 2012, August 1, 2012, March 1, 2013, August 1, 2013, November 18, 2013, December 31, 2013, March 5, 2014 and March 31, 2014, respectively, for the valuation of our common shares, when we conducted valuations on these dates in 2011, 2012, 2013 and the three months ended March 31, 2014. These assumptions are inherently uncertain. Different assumptions and judgments would affect our calculation of the fair value of the underlying common shares for the options granted, and the valuation results and the amount of share-based compensation expenses would also vary accordingly.

We believe that the increase in fair value of our common shares from US\$2.83 per common share as of March 1, 2012 to US\$3.01 per common share as of August 1, 2012 is primarily attributable to the fast growth of our subscription business during this period. Our subscribers for subscription services increased from approximately 3.2 million as of June 30, 2012 to approximately 3.6 million as of September 30, 2012.

We believe that the increase in fair value of our common shares from US\$3.01 per common share as of August 1, 2012 to US\$3.20 per common share as of March 1, 2013 is primarily attributable to the continued growth of our subscription business during this period. Our subscribers for subscription services increased from approximately 3.6 million as of September 30, 2012 to approximately 4.4 million as of March 31, 2013.

We believe that the increase in fair value of our common shares from US\$3.20 per common share as of March 1, 2013 to US\$3.23 per common share as of August 1, 2013 is primarily attributable to the continued growth of our subscription business and online game business during this period.

We believe that the decrease in fair value of our common shares from US\$3.23 per common share as of August 1, 2013 to US\$3.14 per common share as of December 31, 2013 is primarily attributable to the following factors:

The growth of revenues recently was more moderate compared to our previous forecast;

The growth of our cost structure outpaced that of revenues, which impacted our profitability in the near term; and

We granted restricted shares to our officers, which impacted the value per share.

We believe that the decrease in fair value of our common shares from US\$3.14 per common share as of December 31, 2013 to US\$3.06 per common share as of March 31, 2014 is primarily because the growth during the first quarter of 2014 was slower than the previous projection.

***Fair value of our series C convertible preferred shares***

In addition to our common shares, we have determined the fair value of the series C convertible preferred shares. The result of which is used to determine amortization of the associated beneficial conversion feature. Consistent with common shares discussed above, the determination of the fair value of our series C convertible preferred shares requires complex and subjective judgments to be made regarding our projected financial and operating results, our unique business risk, the liquidity of these shares and our operating history and prospects at the time of valuation.



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The major assumptions used in calculating the fair values of our series C convertible preferred shares include:

**Event scenario** Our best estimation of the occurrence and the timing of (1) a liquidation event or (2) an initial public offering, or IPO, event. The probability of the occurrence of an IPO is assumed to be 95% and the probability of the occurrence of a liquidation event is assumed to be 5%.

**Risk free rate** The risk free rate used in the liquidation and the IPO scenario is assumed to be 0.1%, the 0.67 year US Treasury Bonds & Notes Yield. The risk free rate used in the redemption scenario is assumed to be 0.47%, the 4 year US Treasury Bonds & Notes Yield.

**Volatility** The volatility estimate is based on the average volatility of the stock returns of selected comparable companies listed in the US stock market which are engaged in the similar line of business. The volatility assumed to be 39.6%. Three China-based online marketing companies and one U.S.-based online marketing company, all of which are listed in the U.S., were selected for reference as our guideline companies.

The option-pricing method was used to allocate enterprise value to preferred and ordinary shares, taking into account the guidance prescribed by the AICPA Audit and Accounting Practice Aid, "Valuation of Privately-Held Company Equity Securities Issued as Compensation". The method treats common stock and preferred stock as call options on the enterprise's value, with exercise prices based on the liquidation preference of the preferred shares.

***Modification of our series C convertible preferred shares***

Upon issuance of the series D preferred shares in January 2012, we adjusted the conversion price of the series C preferred shares from US\$5.24 per share to US\$4.14 per share; and obtained an exclusive option to purchase at any time within 12 months after January 2012 all of series C preferred shares at the purchase price of US\$4.607 per share. The conversion price of the series C preferred shares could be adjusted for any share dividends, sub-division and consolidation, and unpaid dividend. As a result of this modification, we will issue a total of 7,248,293 common shares on a fully-converted basis of the original 5,728,264 series C preferred shares. Other terms of the series C preferred shares including the original liquidation rights remained unchanged.

We concluded that the downward conversion price adjustment from US\$5.24 per share to US\$5.13 per share is in accordance with the anti-dilution clause in the original financing agreement for the series C preferred shares. The incremental downward price adjustment from US\$5.13 per share to US\$4.14 per share and the right to an exclusive purchase option are accounted for as modifications of the terms of series C preferred shares. The incremental value contributed by the series C preferred shareholder amounts to US\$2,905,000 and is deemed to be a wealth transfer between the preferred shareholder and common shareholders and charged to additional paid-in capital.

In January 2014, we modified the anti-dilution terms relating to 5,613,699 series C preferred shares held by one investor. The modification effectively amended the anti-dilution triggering price from US\$4.14 to US\$2.81 per share. The incremental downward trigger price adjustment from US\$4.14 to US\$2.81 is accounted for as modifications of the terms of series C preferred shares. The incremental value contributed by the series C preferred shareholder was deemed to

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be a transfer of value between the preferred shareholders because the change in the value of the common shares before and after the modification was deemed to be negligible. We concluded that this can suggest that most of the value was transferred from this series C preferred shareholder to another existing preferred shareholder. No accounting charge was recorded.

***Triggering of the anti-dilution clause of series C convertible preferred shares***

Upon issuance of series E preferred shares in March 2014, we adjusted the series C conversion price from USD\$4.14 to US\$3.64 per share relating to 114,565 Series C preferred shares held by another investor. We concluded that the downward conversion price adjustment is in accordance with the anti-dilution clause in the series C financing documents. As a result of this anti-dilution, we will issue a total of 164,771 common shares on a fully-converted basis of the original 114,565 series C preferred shares when the conversion right is exercised by the holder. At the time of this anti-dilution, the series C preferred shares anti-diluted in 2014 contained a beneficial conversion feature of US\$57,000 and the amount was charged to retained earnings in 2014 as a deemed dividend.

***Fair value of our series D convertible redeemable preferred shares***

In addition to our common shares, we have determined the fair value of the series D convertible redeemable preferred shares. The result of which is used to determine the amount of redemption value as well as the valuation of the warrant to acquire additional series D convertible redeemable preferred shares. Consistent with common shares discussed above, the determination of the fair value of our series D convertible redeemable preferred shares requires complex and subjective judgments to be made regarding our projected financial and operating results, our unique business risk, the liquidity of these shares and our operating history and prospects at the time of valuation.

The major assumptions used in calculating the fair values of our series D convertible redeemable preferred shares include:

Event scenario Our best estimation of the occurrence and the timing of (1) a liquidation event, (2) an initial public offering event or (3) a redemption event. The probability of the occurrence of a liquidation event is assumed to be 30%, the probability of the occurrence of an IPO is assumed to be 60%. And the probability of the occurrence of a redemption event is assumed to be 10%.

Risk free rate The risk free rate is assumed to be 0.1%, the three months U.S. Treasury Bonds and Notes Yield.

Volatility The volatility estimate is based on the average volatility of the stock returns of selected comparable companies listed in the US stock market which are engaged in the similar line of business. The volatility is assumed to be 59.9%. Three China-based online marketing companies and one U.S.-based online marketing company, all of which are listed in the U.S., were selected for reference as our guideline companies.

Option-pricing method was used to allocate enterprise value to preferred and ordinary shares, taking into account the guidance prescribed by the AICPA Audit and Accounting Practice Aid, "Valuation of Privately-Held Company Equity Securities Issued as Compensation." The method

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treats common stock and preferred stock as call options on the enterprise's value, with exercise prices based on the liquidation preference of the preferred stock.

***Fair value of our series D warrants and series E warrants to Skyline***

The holder of the series D warrants has the right to exercise the warrants at the earlier of (i) 24 months from date of this offering or (ii) immediately prior to the closing of the following transactions: (a) mergers or consolidation of Xunlei Limited, b) initial public offering, c) transaction in which in excess of 50% of our equity is transferred to any person, d) sale, transfer, lease, assignment conveyance, exchange, mortgage, or other disposition of all or substantially all of our assets. The warrants are not entitled to dividend rights nor to vote until the warrants are exercised and shares become issuable. Series D warrants are classified as a liability and initially measured at their fair value at US\$3,007,000. As of December 31, 2012 and 2013, the fair value of Series D warrants was US\$3,717,000 and US\$2,186,000.

The warrants to purchase 1,952,663 and 266,272 series D preferred shares at US\$3.38 per share expired on February 6, 2014 and March 1, 2014, respectively. On the date of the expiration, the warrants was measured at a fair value of US\$2,414,000. It was agreed that upon issuance of the series E preferred shares on March 5, 2014, we would issue to Skyline warrants to purchase 3,406,824 series E preferred shares with an exercise price of US\$2.82. These warrants are exercisable at the option of the holder, at any time, no later than the earlier of (1) the pricing date of this offering or (2) March 1, 2015. As the warrants are exercised into mezzanine equity, the warrants are classified as a liability and were initially measured at a fair value of US\$2,819 thousand. As of March 31, 2014, the fair value of series E warrants was US\$ 2,778,000.

The exchange of the series D warrants and the issuance of the series E warrants are considered to be a related transaction and are accounted for as a single transaction because the holder was willing to allow the series D warrants expire in contemplation that they will be issued series E warrants. A loss of US\$405,000 which is the difference in value of the series D warrants on the expiration date and the value of the series E warrants on the issuance date, was charged to the income statement in the first quarter of 2014.

The fair value of the series D warrants and the series E warrants was estimated by us with the assistance of an independent valuation firm base on our estimates and assumptions. The valuation report provided us with guidelines in determining the fair value, but the ultimate determination was made by us. We applied the Black-Scholes Option Pricing Model to calculate the fair value of the series D warrants and series E warrants on the valuation date.

The major assumptions used in calculating the fair value of the series D warrants includes:

	<b>February 6, 2012</b>	<b>December 31, 2012</b>	<b>December 31, 2013</b>	<b>February 6, 2014</b>	<b>March 1, 2014</b>
Spot price <sup>(1)</sup>	3.66	4.48	4.36	4.47	4.47
Risk-free interest rate <sup>(2)</sup>	0.23%	0.15%	0.05%	0%*	0%*
Volatility rate <sup>(3)</sup>	47.3%	41.2%	30.33%	0%*	0%*
Dividend yield <sup>(4)</sup>					

\* Given that the maturity date of series D warrant was February 6, 2014 and March 1, 2014, the volatility rate and risk-free interest rate did not affect the valuation of the warrant on February 6, 2014.

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The major assumptions used in calculating the fair value of the series E warrants includes:

	<b>March 5, 2014</b>	<b>March 31, 2014</b>
Spot price <sup>(1)</sup>	3.31 - 4.65	3.30 - 4.65
Risk-free interest rate <sup>(2)</sup>	0.04% - 0.12%	0.05% - 0.10%
Volatility rate <sup>(3)</sup>	38.39% - 38.81%	40.07% - 41.0%
Dividend yield <sup>(4)</sup>		

- (1) Spot price based on the fair value of 100 percent equity interest of the Company which is allocated to preferred shares and common shares of the Company as at the valuation date under different scenarios.
- (2) Risk-free interest rate based on the US Treasury Bond & Notes BFV curve from Bloomberg as at the valuation date.
- (3) Volatility based on the average historical volatility of the comparable companies from Bloomberg as at the valuation date.
- (4) The Company has no history or expectation of paying dividends on its common shares.

***Triggering of the anti-dilution clause of series D convertible redeemable preferred shares***

Upon issuance of series E preferred shares in March 2014, we adjusted the series D conversion price from US\$3.5 to US\$2.86 per share for 6,771,454 series D preferred shares held by Skyline. The downward conversion price adjustment was made pursuant to the anti-dilution clause in transaction documents in our series D financing. As a result of this anti-dilution, we will issue a total of 8,387,806 common shares on a fully-converted basis of the original 6,771,454 series D preferred shares when the conversion right is exercised by Skyline. For the remaining 3,808,943 Series D preferred shares held by Skyline, Skyline agreed to waive the anti-dilution clause as Skyline planned to sell these shares to us. The waiver of this anti-dilution clause is accounted for as a modification of the terms of the series D preferred shares. However, it was determined that the incremental value contributed by Skyline was deemed to be a transfer of value between the preferred shareholders because 1) the change in value of the common shares before and after the modification was deemed to be negligible and 2) the modification of the series D preferred shares were also made concurrent with the sale of the series E preferred shares. We concluded that this suggests that most of the value was transferred from Skyline to the other existing preferred shareholders. Therefore, no accounting charge was recorded.

***Modification of redemption rights of series D convertible redeemable preferred shares***

Upon issuance of the series E preferred shares in March 2014, we amended the redemption rights of 6,771,454 Series D preferred shares. Skyline has the right to request us to purchase its shares after February 28, 2017 but no later than February 28, 2018. Prior to the modification, the holder had the right to request us to purchase its shares after February 6, 2016 but no later than February 6, 2017. The amendment of the redemption date is accounted for as modification of the terms of Series D preferred shares. The incremental value received by the Skyline amounted to US\$279,000 and was deemed to be a transfer of value between the preferred shareholder and common shareholders and the amount was charged to retained earnings.

In determining the accounting for the modification of the series D preferred shares, we estimated the valuation of the series D preferred shares with the assistance of an independent valuation firm based on our estimates and assumptions. Option-pricing method was used to allocate enterprise value to preferred and ordinary shares, taking into account the guidance

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prescribed by the AICPA Audit and Accounting Practice Aid, "Valuation of Privately-Held Company Equity Securities Issued as Compensation". The method treats common stock and preferred stock as call options on the enterprise's value, with exercise prices determined based on the liquidation preference of the preferred stock. The option-pricing method involves making estimates of the anticipated timing of a potential liquidity event, such as a sale of the Company or an initial public offering, and estimates of the volatility of our equity securities. The anticipated timing is based on the plans of management. Estimating the volatility of the share price of a privately held company is complex because there is no readily available market for the shares. We estimated the volatility of its shares to range from 38.39% to 43.40% based on the historical volatility of comparable publicly traded shares of companies engaged in similar lines of business.

***Modification of liquidation rights***

Upon issuance of the series E preferred shares in March 2014, we amended the liquidation rights of Skyline's common shares, series A preferred shares, series A-1 preferred shares, and series B preferred shares, or Skyline Shares. As a result of this amendment, Skyline Shares have priority to receive proceeds from us upon liquidation over the common shares, series A preferred shares, series A-1 preferred shares, series B preferred shares and series C preferred shares held by other investors. The amendment of the liquidation rights is accounted for as modification of the terms of Skyline Shares. However, the incremental value received by Skyline is deemed to be negligible. No accounting charge was recorded by us. Similar to the modification of the series D preferred shares as stated above, the fair value of the series D preferred shares was estimated by us with the assistance of an independent valuation firm based on the our estimates and assumptions. The option-pricing method as described above, was also used to account for this modification. We estimated the volatility of its shares to range from 38.39% to 43.40% based on the historical volatility of comparable publicly traded shares of companies engaged in similar lines of business.

We have determined that there was no beneficial conversion feature attributable to the series D preferred shares because the initial and adjusted effective conversion prices of these preferred shares were higher than the fair value of our common shares determined by us with the assistance from an independent valuation firm.

***Fair value of our series E convertible redeemable preferred shares***

In addition to our common shares, we have determined the fair value of the series E convertible redeemable preferred shares to be per share US\$3.56 and US\$3.62 on March 5, 2014 and April 24, 2014, respectively. The result is used to determine the amount of redemption value as well as the valuation of the warrant to acquire additional series E convertible redeemable preferred shares. Consistent with common shares discussed above, the determination of the fair value of our series E convertible redeemable preferred shares requires complex and subjective judgments to be made regarding our projected financial and operating results, our unique business risk, the liquidity of these shares and our operating history and prospects at the time of valuation.

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The major assumptions used in calculating the fair values of our series E convertible redeemable preferred shares include:

<b>Valuation as of March 5, 2014</b>	<b>IPO Scenario</b>	<b>Liquidation Scenario</b>	<b>Redemption Scenario</b>
Expected Maturity Date	Jun 30, 2014	Jun 30, 2014	Feb 28, 2018
Expected Volatility <sup>(1)</sup>	38.39%	38.39%	43.40%
Risk-free interest rate <sup>(2)</sup>	0.06%	0.06%	1.18%
Expected dividend yield			
Probability <sup>(3)</sup>	80.00%	10.00%	10.00%

<b>Valuation as of April 24, 2014</b>	<b>IPO Scenario</b>	<b>Liquidation Scenario</b>	<b>Redemption Scenario</b>
Expected Maturity Date	Jun 30, 2014	Jun 30, 2014	Feb 28, 2018
Expected Volatility <sup>(1)</sup>	43.10%	43.10%	44.03%
Risk-free interest rate <sup>(2)</sup>	0.02%	0.02%	1.29%
Expected dividend yield			
Probability <sup>(3)</sup>	80.00%	10.00%	10.00%

Notes:

- (1) **Volatility** The volatility estimate is based on the average volatility of the stock returns of selected comparable companies listed in the US stock market which are engaged in the similar line of business.
- (2) **Risk free rate** The risk free rate is the three months U.S. Treasury Bonds and Notes Yield.
- (3) **Event scenario** Our best estimation of the occurrence and the timing of (1) an initial public offering event, (2) a liquidation event or (3) a redemption event.

Option-pricing method was used to allocate enterprise value to preferred and ordinary shares, taking into account the guidance prescribed by the AICPA Audit and Accounting Practice Aid, "Valuation of Privately-Held Company Equity Securities Issued as Compensation." The method treats common stock and preferred stock as call options on the enterprise's value, with exercise prices based on the liquidation preference of the preferred stock. We applied the Black-Scholes option pricing model to calculate the fair value of the series D warrant on the valuation date.

The fair value per share of the series E preferred shares was determined to be US\$ 3.56 on March 5, 2014. The issuance price of the series E convertible redeemable preferred shares was mutually negotiated at US\$2.82. The price was agreed in consideration of 1) Xiaomi brand, which is considered to be a well-recognized smartphone vendor in the China market, and 2) potential synergy that could be created from the two parties, strategic cooperation in the multi device environment.

***Exchange of Xiaomi options for transfer restrictions***

As part of the issuance of the series E preferred shares, Xiaomi Ventures and our founders and two other employees, or the Grantees, agreed that (i) Grantees will have the right to purchase certain number of restricted shares of Xiaomi Corporation with a total subscription consideration of not more than US\$20 million at a subscription price per share that reflects the valuation of Xiaomi Corporation being US\$10 billion, or Xiaomi Option; and (ii) the Grantees agreed to impose a transfer restriction on 39,934,162 common shares, 3,394,564 unvested restricted shares, and 360,000 vested and unvested share options owned by the Grantees, or



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the Transfer Restriction. The Transfer Restriction prohibits the Grantees from transferring their shares to another person/party until April 24, 2019 for one of founders or April 24, 2018 for the rest of the Grantees. The Xiaomi Option and the Transfer Restriction are not tied to the Grantees' future employment with us.

The value of the Transfer Restriction was determined to be significantly greater than the value of Xiaomi Option. In determining the value of the Transfer Restriction, we were assisted by an independent valuation firm, based on data provided by us. The valuation of the Transfer Restriction is estimated to be US\$43.3 million (refer to the valuation methodology below). For the valuation of the Xiaomi Option, we were only able to obtain limited financial information from Xiaomi, a private company, to perform a valuation analysis. This information includes high level 2013 revenue data and information of a third party investment transaction that valued the Xiaomi Corporation at US\$10 billion in August 2013. Given the lack of financial information, we are unable to determine a more precise estimate of the fair value of the Xiaomi Option on the exchange date. If the fair value of the Xiaomi Option were worth USD43.3 million, the estimated value of the Transfer Restriction, Xiaomi Corporation itself would need to be estimated at a valuation in excess of US\$30 billion on March 5, 2014. We do not expect the valuation of the Xiaomi Corporation to increase by 200% from US\$10 billion in August 2013 to US\$30 billion in March 2014. Hence, no incremental benefit was given to the Grantees and no compensation expense was recognized.

To determine the fair value of the Transfer Restriction, we valued the common shares with the Transfer Restriction and compared this value to the value of the common shares without the restriction. The difference was determined to be the value of the Transfer Restriction. A put option pricing model was used to determine the discount to be applied to the common shares to arrive at the value of common shares with the Transfer Restriction. Pursuant to that model, we used the cost of a put option, which can be used to hedge the price change before a share subject to transfer restriction can be sold, as the basis to determine the discount for transfer restrictions. A put option was used because it incorporates certain company-specific factors, including timing of the expected initial public offering or duration of the Transfer Restriction and the volatility of the share price companies engaged in the same industry.

***Fair value of series E warrants to Xiaomi Ventures***

The series E warrants granted to Xiaomi Ventures, or Xiaomi Warrants, is exercisable at the option of Xiaomi Ventures, at any time, on or after January 1, 2015 and no later than March 1, 2015. The warrants are not exercisable if we have completed this offering in the United States by December 31, 2014. The exercise price should be adjusted from time to time subject to proportionate adjustment for issuance of additional common shares, share split and combination, dividend and distributions, reclassification, reorganization, merger, and consolidations.

The warrants are not entitled to dividend rights nor to vote until the warrants are exercised and shares become issuable. The Xiaomi warrants are initially measured at its fair value and the initial carrying value for Series E preferred shares is allocated on a residual basis as the warrant is liability classified. The Xiaomi warrants were initially measured at their fair value of US\$6,477,000. As of March 31, 2014, the fair value of series E warrants was US\$6,459,000.

The fair value of the Xiaomi warrants were estimated by us with the assistance of an independent valuation firm based on data provided by us. The valuation report provided by us



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with guidelines in determining the fair value, but the determination was made by us. We applied the Black-Scholes Option Pricing Model to calculate the fair value of the Series E Warrants on the valuation date.

The major assumptions used in calculating the fair value of the Xiaomi warrants includes:

	<b>March 5, 2014</b>	<b>March 31, 2014</b>
Spot price <sup>(1)</sup>	4.50 - 4.65	4.49 - 4.65
Risk-free interest rate <sup>(2)</sup>	0.12%	0.10%
Volatility rate <sup>(3)</sup>	38.81%	40.07%
Dividend yield <sup>(4)</sup>		

(1) Spot price based on the fair value of 100 percent equity interest of Xunlei Limited which is allocated to our preferred shares and common shares as at the valuation date under different scenarios. The probability of the occurrence of an initial public offering is assumed to be 80%, the probability of the occurrence of a liquidation event is assumed to be 10% and the probability of the occurrence of a redemption event is assumed to be 10%

(2) Risk-free interest rate based on the US Treasury Bond & Notes BFV curve from Bloomberg as at the valuation date.

(3) Volatility based on the average historical volatility of the comparable companies from Bloomberg as at the valuation date.

(4) We has no history or expectation of paying dividends on its common shares.

*Fair value of subscription rights to Xiaomi Ventures*

Within three months after March 5, 2014, Xiaomi Ventures shall have the right to purchase, or designate any other person/party to subscribe from us an additional number of 35,487,746 series E preferred shares, at a price equal to the purchase price per share (US\$2.82) of the Series E issuance. The exercise price will be adjusted from time to time subject to proportionate adjustment for issuance of additional common shares, share split and combination, dividend and distributions, reclassification, reorganization, merger, and consolidations. The subscription rights are not entitled to dividend rights nor to vote until the subscription rights have been exercised and shares are issued.

The fair value of the subscription rights was estimated by us with the assistance of an independent valuation firm based on data provided by us. The valuation report provided by us with guidelines in determining the fair value, but the determination was made by us. We applied the Black-Scholes Option Pricing Model to calculate the fair value of the subscription rights on the valuation date.

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The major assumptions used in calculating the fair value of the subscription rights includes:

	<b>March 5, 2014</b>	<b>March 31, 2014</b>
Spot price <sup>(1)</sup>	3.31 - 4.65	3.30 - 4.65
Risk-free interest rate <sup>(2)</sup>	0.04%	0.05%
Volatility rate <sup>(3)</sup>	38.12%	42.39%
Dividend yield <sup>(4)</sup>		

(1) Spot price based on the fair value of 100 percent equity interest of Xunlei Limited which is allocated to our preferred shares and common shares as at the valuation date under different scenarios. The probability of the occurrence of an initial public offering is assumed to be 80%, the probability of the occurrence of a liquidation event is assumed to be 10% and the probability of the occurrence of a redemption event is assumed to be 10%

(2) Risk-free interest rate based on the US Treasury Bond & Notes BFV curve from Bloomberg as at the valuation date.

(3) Volatility based on the average historical volatility of the comparable companies from Bloomberg as at the valuation date.

(4) We has no history or expectation of paying dividends on its common shares.

***Repurchase of common and preferred shares***

On April 15, 2014, we repurchased from Skyline 469,225 common shares, 27,180 series A preferred shares, 591,451 series A-1 preferred shares, 725,237 series B preferred shares and 3,808,943 series D convertible redeemable preferred shares at a consideration of approximately US\$24.3 million. For the common shares repurchased, we charged the excess of the purchased price over the par value to additional paid in capital. For the preferred shares, we charged the excess of the purchase price over the carrying value to retain earnings or to additional paid in capital if retain earnings is zero.

On April 24, 2014, we repurchased from a number of our existing shareholders the following common and preferred shares for a total consideration of US\$49.8 million. We repurchased the following common and preferred shares at a per share price of US\$2.82, equal to the issuance price of the series E preferred shares:

10,334,679 common shares from Vantage Point Global Limited for US\$29.1 million;

3,860,733 common shares from Aiden & Jasmine Limited for US\$10.9 million;

450,000 Series A preferred shares from Bright Access International Limited for US\$1.3 million;

2,921,868 series B preferred shares from Fidelity Asia Ventures Fund L.P. for US\$8.2 million;

108,960 series B preferred shares from Fidelity Asia Principals Fund L.P. for US\$0.3 million.

For the common shares repurchased, we charged the excess of the purchased price over the par value to additional paid in capital. For the preferred shares, we charged the excess of the purchase price over the carrying value to retain earnings or to additional paid in capital if retain earnings is zero. We determined the per share fair value of the common shares, series A preferred shares, and series B preferred shares to be

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US\$3.13, US\$3.13, and US\$3.19, respectively, on the date of repurchase. The repurchase price of US\$2.82 was mutually negotiated at the time of the repurchase transactions. There were no other arrangements with the selling shareholders other than the exchange of Xiaomi Option for the Transfer

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Restrictions. The selling shareholders were willing to sell its common and preferred shares at the US\$2.82 per share price as it would provide them with as a form of liquidity.

***Amortization of capitalized copyrights related to content***

Licensed copyrights of movies, TV series and variety shows, or Content Copyrights, are capitalized when (1) the cost of the content is known (2) the content has been accepted by us in accordance with the conditions of the license agreement and (3) the content is available for its first showing on our website. Content Copyrights are carried at cost less accumulated amortization and impairment loss, if any.

We have two types of Content Copyrights, 1) non-exclusive Content Copyrights and 2) exclusive Content Copyrights. With non-exclusive Content Copyrights, we have the right to broadcast the content on our own websites. While, with exclusive Content Copyrights, besides the broadcasting right, we also have the right to sub-license these exclusive Content Copyrights to third parties.

For non-exclusive Content Copyrights which only generates primarily indirect cash flows, the amortization method is based on the analysis of historical viewership consumption patterns. We determine consumption patterns the number of viewers who watch the content throughout the estimated useful life of the content. The information is then aggregated to come up with a viewership trend that can support an appropriate method to amortize non-exclusive Content Copyrights. We generally categorize our content in the Xunlei Kankan website into three broad categories, namely movies; TV series; and variety shows and others, which include reality shows, talent shows, talk shows and entertainment news. Prior to April 1, 2011, we concluded that there was insufficient data to support a historical viewership demonstrative pattern in viewership of our licensed copyrights related to content. Therefore, we have determined that a straight-line basis of amortization over the shorter of the estimated useful lives of the related Content Copyright provides the right level of expenses attribution. Effective April 1, 2011, based on an accumulation of data gathered on historical viewing patterns of our non-exclusive Content Copyrights, we revised the method to amortize non-exclusive Content Copyrights over their respective licensing periods using at an accelerated rate. Estimates of the consumption patterns for these non-exclusive Content Copyrights are reviewed periodically and revised, if necessary.

Exclusive Content Copyrights generate both direct and indirect cash flows. For the portion of exclusive Content Copyright that generates indirect cash flows, prior to April 1, 2011, these contents were amortized on a straight-line method based on the discussion above. Effective from April 1, 2011, we use the amortization method based on the analysis of historical viewership consumption patterns, which is the same with that of non-exclusive Content Copyright as discussed above.

This change in accounting estimate for non-exclusive Content Copyrights and exclusive Content Copyrights that generates indirect cash flows decreased net income and basic net income per share by US\$1.4 million and US\$0.02, respectively, for the year ended December 31, 2011.

For the portion of exclusive Content Copyrights that generates direct cash flows, we amortize the purchase costs using an individual-film-forecast-computation method, which amortizes such costs based on the ratio of sub-licensing revenue and barter transaction gain (details described in Note 2(o) to our audited consolidated financial statements for the years ended December 31,

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2011, 2012 and 2013) generated for the current period to the total ultimate direct revenues estimated to be generated by the exclusive Content Copyrights for their whole license period or estimated useful lives. We revisit the forecast at each quarter or year end and make adjustment, when appropriate.

***Impairment of long-lived assets***

We evaluate the program usefulness of licensed copyrights pursuant to the guidance in ASC 920-350 Intangibles Goodwill and Other: Recognition, which provides that such rights be reported at the lower of unamortized cost or estimated net realizable value.

For non-exclusive Content Copyrights which only generate indirect cash flows, we evaluate the net realizable value of our licensed copyrights by three content categories (i.e. movies, TV series, variety shows and others), which are assessed to be the lowest level of precision for the purpose of performing such assessment. If our expectations of programming usefulness, which represents the expected revenues and related net cash flows derived from the content, are revised downward, we then assess whether it is necessary to write down the unamortized cost to the estimated net realizable value. We evaluate programming usefulness by category on an annual basis by comparing the unamortized cost to our estimated net realizable value. On a quarterly basis, we also monitors whether there are indicators of changes in our expected usage of program materials.

We estimate net realizable value using expected net cash flows based on expected future levels of advertising revenues. Such estimates consider historical amounts and anticipated levels of demand. Expected future revenues are reduced by estimated direct costs to provide access to the website and generate the related revenues, including bandwidth costs and server costs. For purposes of estimating revenues for each category of the content, we consider both expected future advertising revenues sold based on number of impressions delivered as well as advertising sold based on the period of time that it is displayed.

For advertising sold which the price is based on number of impressions delivered, expected revenues are estimated based on the number of historical impressions and management's expectation of the level of impressions and expected pricing in the future periods. For advertising sold which the price is based on the period of time that it is displayed, expected revenues are estimated based on management's expectation of the level of video views and expected pricing in future periods. Expected revenues for advertising sold which the price is based on a period of time are attributed to the entire content library based on the relative volume of video views anticipated, as well as management's expectations in future periods.

We estimate expected future advertising revenues given we have a steadily increasing base of advertisers historically. We enter into annual framework agreements with major advertisers at the beginning of each year which provide us with an indication of their expected spending in the coming year. Based on actual business volume achieved in the past and the indicative spending for the coming year, we are able to estimate with reasonable reliability our future advertising revenues expected to be generated from these customers. We also consider the efforts and results of our sales team's on-going communication and discussion made with potential new advertisers, current market and industry conditions and the level of user traffic achieved on the website in estimating future advertising revenues. We estimate our anticipated content video views based on historical video views statistics achieved and the expected impact of any promotional campaigns and marketing efforts that we plan to undertake in increasing

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the popularity of content on our web site. Video view is measured based on the number of times a particular program is viewed by users.

We estimate our anticipated volumes of time based display advertising based on historical page views generated within our website, and the impact of the expected growth of the overall traffic of the website. We believe that our methodology for estimating expected revenues for purposes of determining net realizable value allows us to predict cash flows with reasonable reliability.

For exclusive Content Copyrights that generate both direct and indirect cash flows, we evaluate the net realizable value of our licensed copyright on a content by content basis. Impairment is assessed on an annual basis by comparing the unamortized cost to our estimated net realizable value. We estimate the net realizable value using expected net cash flows based on expected future levels of advertising and content sub-licensing revenues. We estimated content sub-licensing revenue based on management's expectation of the popularity of the content and we use pricing reference from other similar sub-licensing arrangements. For expected future levels of advertising revenue, we use the same estimation methodology used for the impairment assessment of non-exclusive Content Copyrights.

For both exclusive and non-exclusive Content Copyrights, there were no impairments for the years ended December 31, 2011, 2012, 2013 and three months ended March 31, 2014 because a significant portion of the content was related to movies and TV series, of which approximately 70% to 90% of the purchase costs of the Content Copyrights had been amortized during the first year of the licensed period. As such, the unamortized carrying amounts were lower than the respective net realizable values when the impairment assessment was performed.

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

In 2013, indicator of possible impairment was triggered by the significant decline in the revenues generated by one online game. In the fourth quarter of 2013, this online game only generated US\$27,000 as compared to US\$303,000 generated in the third quarter of 2013, which was significantly lower than our expectation. The impairment test was performed using a discounted cash flow analysis that requires certain assumptions and estimates regarding economic and future profitability.

***Consolidation***

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

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

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

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

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

Management has evaluated the contractual arrangements among Giganology Shenzhen, Shenzhen Xunlei and its shareholders and concluded that Giganology Shenzhen receives all of the economic benefits and absorbs all of the expected losses from Shenzhen Xunlei and has the power to direct the aforementioned activities that are significant to Shenzhen Xunlei's economic performance, and is the primary beneficiary of Shenzhen Xunlei. Therefore, Shenzhen Xunlei and its subsidiaries' results of operation, assets and liabilities have been included in our consolidated financial statements. We monitor the regulatory risk associated with these contractual arrangements. The details of how we manage the regulatory risk are described in "Certain risk and concentration" in note 24 to our audited consolidated financial statements for the years ended December 31, 2011, 2012 and 2013.

*Accounts receivable, net*

Accounts receivable are presented net of allowance for doubtful accounts. We evaluate the creditworthiness of each customer at the time when services are rendered and continuously monitor the recoverability of the accounts receivable. We use specific identification method in providing for bad debts when facts and circumstances indicate that collection is doubtful and a loss is probable and estimable. If the financial conditions of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The allowance for doubtful accounts is based on the best facts available and are re-evaluated and adjusted on a regular basis as additional information is received.

Some of the factors that we consider in determining whether we record a bad debt allowance on an individual customer are:

the customer's past payment history and whether it fails to comply with its payment schedule;

whether the customer is in financial difficulty due to economic or legal factors;

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a significant dispute with the customer has occurred;

other objective evidence which indicates non-collectability of the accounts receivable.

If we determine that an allowance is needed for a customer, we will discontinue business with them unless they start to resume payment. The accounts receivable is written-off when we cease pursuing collection. Any changes in our estimates may cause our operating results to fluctuate. The accounts receivable that was fully reserved as of December 31, 2012, 2013 and March 31, 2014 was US\$5.1 million, US\$10.9 million and US\$11.0 million, respectively.

The allowances provided for accounts receivable as of December 31, 2012, 2013 and March 31, 2014 were US\$7.9 million, US\$12.1 million and US\$12.1 million, respectively.

As of March 31, 2014, we had accounts receivable net of allowances aged beyond one year from the date of invoice in the amount of US\$5,326,000. Based on our assessment of the customer's ability to pay, a bad debt allowance was not considered necessary for those amounts. As of the date of this prospectus, a majority of those balances have been collected and we continue to actively pursue collection of the remaining balance.

Although our general credit term for our customers is 90 days, we do not consider our receivables aged less than one year from the invoice date to be past due given the general practices we have with our customers in the advertising industry. Typically we are willing to accept delayed repayment up to one year from invoice date if we have assurance that payment will be made as soon as practicable. Accordingly, we did not make significant provisions for balances aged less than one year as of December 31, 2012, 2013 and March 31, 2014.

***Taxation and uncertain tax positions***

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which the difference is expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statement of operations in the period that includes the enactment date. A valuation allowance is provided to reduce the carrying amount of deferred tax assets if it is considered more likely than not that some portion, or all, of the deferred tax assets will not be realized.

On January 1, 2008, we adopted the guidance regarding uncertain tax positions. Management evaluates our open tax positions that exist in each jurisdiction for each reporting period. If an uncertain tax position is taken or expected to be taken in a tax return, the tax benefit from that uncertain position is recognized in our consolidated financial statements if it is more likely than not that the position is sustainable upon examination by the relevant taxing authority.

We did not have any significant uncertain tax position and there was no effect on our financial position or results of operations as a result of implementing the new guidance. We recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense, if any. No interest and penalties were recorded in the years ended December 31, 2011, 2012 and 2013, and the three months ended March 31, 2014.



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***Commitments and contingencies***

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

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

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

**Recent accounting pronouncements**

In July 2012, the Financial Accounting Standards Board, or FASB, issued revised guidance on Testing Indefinite-Lived Intangible Assets for Impairment. The revised guidance applies to all entities, both public and nonpublic, that have indefinite-lived intangible assets, other than goodwill, reported in their financial statements. Under the revised guidance, an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform a quantitative impairment test by comparing the fair value with the carrying amount in accordance with Subtopic 350-30. An entity also has the option to bypass a qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. An entity will be able to resume performing the qualitative assessment in any subsequent period. In conducting a qualitative assessment, an entity should consider the extent to which relevant events and circumstances, both individually and in the aggregate, could have affected the significant inputs used to determine the fair value of the indefinite-lived intangible asset since the last assessment. An entity also should consider whether there have been changes to the carrying amount of the indefinite-lived intangible asset when evaluating whether it is more likely than not that the indefinite-lived intangible asset is impaired. An entity should consider positive and mitigating events and circumstances that could affect its determination of whether it is more likely than not that the indefinite-lived intangible asset is impaired. The amendments are effective for annual and

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interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual and interim impairment tests performed as of a date before July 27, 2012, if a public entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. The adoption of this guidance did not have an impact on our financial statements.

In February 2013, the FASB issued revised guidance on "Comprehensive Income: Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The revised guidance does not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the revised guidance requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The revised guidance is effective prospectively for reporting periods beginning after December 15, 2012 for public entities. The adoption of this guidance did not have an impact on our financial statements.

In March 2013, the FASB issued accounting guidance related to a parent's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity (ASC 830 Foreign Currency Matters). This guidance requires that the cumulative translation adjustment associated with a qualifying derecognized subsidiary or group of assets be immediately recognized within the income statement by the parent company. The adoption of this guidance did not have an impact on our financial statements.

In July 2013, the FASB issued ASU 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists", which is an update to provide guidance on the financial statements presentation of an unrecognized tax benefit when a net operating loss carryforward exists. The guidance requires an entity to present an unrecognized tax benefit in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, except for when a net operating loss carryforward is not available as of the reporting date to settle taxes that would result from the disallowance of the tax position or when the entity does not intend to use the deferred tax asset for purposes of reducing the net operating loss carryforward. The adoption of this guidance did not have an impact on our financial statements.

Table of Contents**Industry****Internet growth in China**

The proliferation of internet usage in China in recent years has made China the largest internet market in the world. According to China Internet Network Information Center, or CNNIC, the number of internet users in China had reached 618 million as of December 31, 2013. Important drivers contributing to the rapid growth of China's internet market include the continuing development of network infrastructure, increasing affordability of internet access, and China's relatively limited traditional media outlet that makes internet the preferred channel for information and entertainment. China had a broadband penetration rate of 88.8% among internet users as of December 31, 2012, according to iResearch.

With the increasing internet penetration in China, the industry has witnessed the rise of several leading internet platforms with large user base. According to iResearch, there are only 12 internet platforms in China with over 300 million monthly unique visitors, based on the data for the month ended March 31, 2014, including Xunlei.

**Proliferation of digital media in China**

As internet penetration continues to increase in China and throughout the world, digital media has proliferated, resulting in enormous amount of digital media content flow through the internet.

***Online video***

Online video usage in China grew significantly in recent years after an initial lag caused by bandwidth limitations and software and hardware compatibility problems. According to Analysys International, the number of online video services users in China is expected to grow from 390 million in 2011 to 875 million in 2016, representing a CAGR of 17.6%.

An important driver for online video market growth in China is the highly fragmented nature of content production, which leads to a lack of efficient content distribution channels. According to CNNIC, more than 50% of internet users access traditional TV episodes on the internet in 2012.

According to iResearch, the size of China's online video market, as measured by revenues, is expected to grow from RMB6.3 billion in 2011 to RMB29.8 billion in 2016, representing a CAGR of 36.6%. The following table sets forth the historical and projected size of China's online video market and the respective year-over-year growth rate for the years indicated:

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>
China's online video market (RMB in billions)	6.3	9.0	12.8	17.8	23.5	29.8
Year-over-year growth rate		43.9%	41.9%	38.7%	32.4%	26.8%

Source: iResearch

***Online games***

Online games are one of the most popular online activities in China. The number of online game players in China has grown rapidly in recent years. According to CNNIC, China online game user has reached 345 million, and the penetration rate of online games among internet users in China reached 58.5% as of June 30, 2013.

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The most popular form of online games in China is massive multiplayer online role playing games, or MMOGs, which typically require users to download large client end software before they can play, since typical sizes for MMOGs range from 700 megabytes to 800 megabytes. CNNIC further indicates that more than 50% of the internet games switch to new games in less than one year time. As the number of online gaming users, the number of new games launched, and the size of game files continue to increase, the bandwidth requirements and internet traffic incurred by online games have grown significantly.

The online gaming industry in China has three major segments, namely, client-based games, webgames and mobile games segments. According to iResearch, the size of China's online gaming market, as measured by revenues, is expected to grow from RMB53.4 billion in 2011 to RMB183.7 billion in 2016, representing a CAGR of 27.8%. The following table sets forth the historical and projected size of China's online gaming market and the respective year-over-year growth rate for the years indicated:

	2011	2012	2013	2014E	2015E	2016E
China's online gaming market (RMB in billions)	53.4	67.1	89.2	115.0	146.8	183.7
Year-over-year growth rate		24.6%	32.9%	28.9%	27.7%	25.1%

Source: iResearch

**Growth of OTT TV market in China**

In addition to PC and mobile, TV is also emerging as a new outlet for internet consumption. According to Analysys International, the installed base of OTT (over-the-top) TVs in China, including smart TVs and TVs with smart set-top boxes connections, was 17.0 million as of December 31, 2012, and is expected to increase to 239.0 million as of December 31, 2016, representing a CAGR of 93.6%. The following table sets forth the historical and projected installed base of OTT TVs in China and the respective year-over-year growth rate as of December 31 for the years indicated:

As of December 31,	2012	2013	2014E	2015E	2016E
China's installed base of OTT TVs (million units)	17.0	47.0	95.0	160.7	239.0
Year-over-year growth rate		176.5%	102.1%	69.2%	48.7%

Source: Analysys International

The growth of OTT TVs is driven by the increasing penetration of Android smart system in the set-top box and smart TV. The Android enabled set-top box and smart TV offer users rich applications and content as well as highly interactive operation that differentiate from traditional cable TV. Furthermore, it also for the first time makes the convergence of various smart devices possible, where a user can gain unified internet experience on TV, mobile phone and PC.

According to a survey conducted by CNNIC in November 2012, 11.4% of the internet users in China had accessed to internet via OTT TV, among which 72.7% watched video as opposed to 37.3% for news and less than 20% for all the other content.

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**Key challenges for digital media distribution**

Although the internet has become the mainstream channel for accessing digital media content including online videos, online games and others, challenges for data transmission still exist:

*Growing size of digital media content.* Given the proliferation of data-intensive digital media content, such as high-definition videos and highly interactive and graphic-rich games, the size of digital media files continues to grow to provide better user experience. The growing size of digital media content continues to generate significant demand and opportunities for accelerated data transmission.

*Increasing consumption of digital media content.* Digital media consumption, including online videos, online games and others, is growing rapidly in China. Increasing consumption of digital media content, especially such data-intensive content, may cause latency and other network performance issues.

*Network congestion.* The internet consists of many interconnected networks, or subnets. Without adequate interconnection between these networks, data transmissions between subnets can be considerably slower and less reliable than transmissions within subnets. In China, most of the internet traffic goes through the networks of three carriers, China Telecom, China Unicom and China Mobile, which form the internet backbone of the country. However, major subnets are operated by different carriers in each province with limited interconnectivity between each other of the three carriers, which causes network congestion despite improving last mile access enabled by increasing bandwidth. As a result, internet users in China constantly seek advanced technologies to enhance the accessibility of internet content.

**Key opportunities and trends**

There emerge immense opportunities for more advanced digital media content access and management technologies:

*Advanced architecture to enable faster, more reliable and more efficient data transmission.* Due to the speed and reliability issues present in the traditional client server model, a more advanced technology solution that better optimizes the data transmission performance, with effective cost structure, will drive the future growth of the digital media content consumption

*Integrated cloud technology platform.* Given the increase in the average size of digital media content files and the fundamental issues with China's internet network infrastructure that are unlikely to be resolved in the short term, consumer-centric cloud computing services such as server-side data transmission, streaming and storage, will become increasingly important. As users currently need to visit different websites and access different applications to perform searching, streaming, transmission and storage. An integrated cloud-based service platform could significantly enhance user experience for accessing and managing digital media content

*Device-agnostic content delivery.* With the proliferation of diverse internet-enabled devices including PC, smartphone, tablet and OTT TV, seamless cross device content delivery has become critical to user experience. Content providers that enables maximized compatibility with different devices will attract more users by providing mobility and variability in accessing and consuming digital media content

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## **Business**

### **Overview**

We are the 12<sup>th</sup> largest internet company in China, as measured by user base. According to iResearch, we had over 300 million monthly unique visitors in March 2014. Digital media content, such as video, music and games, is one of the most popular usages for internet users in China. We operate a powerful internet platform in China based on cloud computing to enable users to quickly access, manage, and consume digital media content. We are increasingly extending to mobile devices in part through potentially pre-installed acceleration products in mobile phones and to living rooms through TV coverage (set-top boxes and IPTV) to further expand our user base and offer our users a wider range of access points. We aspire to deliver superior user experience in ease of access, management and consumption of digital media content anywhere, anytime, and on any device.

We are the No. 1 acceleration product provider in China as measured by market share in March 2014, according to iResearch. To address deficiencies of digital media transmission over the internet in China, such as low speed and high delivery failure rates, we provide users with quick and easy access to online digital media content through two core products and services:

Xunlei Accelerator, which enables users to accelerate digital transmission over the internet, is our most popular and free product, with approximately 142 million monthly active users in March 2014, according to the iResearch Report. Xunlei Accelerator enjoys a market share of 81.4% based on the number of launches among all transmission and acceleration products in China in March 2014, according to iResearch; and

Our cloud acceleration subscription services, delivered through products such as Green Channel, Offline Accelerator and Yunbo, offer users premium services for speed and reliability, with approximately 5.2 million subscribers as of March 31, 2014, up from approximately 1.1 million as of January 31, 2011.

Benefitting from the large user base for our core product, Xunlei Accelerator, we have further developed various value-added services to meet a fuller spectrum of our users' digital media content access and consumption needs including:

Xunlei Kankan, the 6<sup>th</sup> largest online video streaming platform in China, with monthly unique visitors of approximately 136.0 million in March 2014, according to iResearch. Users can watch what they want for free from our comprehensive content library;

Pay per view services, launched in the second half of 2012 and serving approximately 155,000 subscribers as of March 31, 2014, providing them with access to our premium content library of over 800 movies, primarily new releases. As of March 31, 2014, about 58% of our pay per view subscribers are also subscribers for our premium acceleration services, presenting opportunities for further cross-selling; and

Online game services, including web games and MMOGs, offered on our gaming platform.

We are increasingly extending our services to living room based internet devices and mobile devices, as part of our cloud-based home and mobile strategies. Starting in 2013, we began to pre-install our acceleration products in set-top boxes distributed by third-party hardware

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providers. As of March 31, 2014, we had accumulated an installed base of approximately 1,552,000 set-top boxes across China. We believe our living room strategy combined with our success on PC internet will provide a seamless user experience to access digital media content from any device. We also target to make our mobile applications as the central user interface for accessing and managing digital media content in a synchronized manner. Since 2012, we entered into pre-installment service agreements with several mobile phone manufacturers, including a Xiaomi group company, pursuant to which we agree to provide our Xunlei mobile acceleration applications, and the mobile phone manufacturers agree to install such applications on their phones, free of charge. Xiaomi is a well-recognized smart phone brand in China and once such pre-installment arrangements are implemented, Xiaomi phone users will have access to our acceleration services, which could enhance our ability to generate more user traffic. These strategies and our compelling value proposition will provide us with the foundation to further grow our user base and allow our customers to access and enjoy digital media content regardless of device or location.

The technological backbone of our products and services is our cloud acceleration technology, comprised of a proprietary file locating system and massive file index database. Our technology enables us to support greater user expansion with incremental increases in server and bandwidth costs. This technology, based on distributed computing architecture, along with our indexing technology, enables users to access content in an efficient manner.

We have successfully monetized our large user base. We generate revenues primarily through the following services:

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

Online advertising services. We offer advertising services by providing marketing opportunities on our online video streaming websites and platform to our advertisers; and

Other internet value-added services. We offer multiple other value-added services to our users, including online games and pay per view services.

We have grown significantly in recent years. Our revenues increased from US\$87.5 million in 2011 to US\$148.2 million in 2012 and US\$180.2 million in 2013. We had net loss attributable to Xunlei Limited of US\$0.01 million in 2011 and net income attributable to Xunlei Limited of US\$0.5 million in 2012 and US\$10.7 million in 2013, respectively. Our revenues were US\$41.3 million and US\$41.2 million for the three months ended March 31, 2013 and 2014, respectively. We had net income attributable to Xunlei Limited of US\$3.9 million for the three months ended March 31, 2013 and US\$0.4 million for the same period in 2014.

## **Our strengths**

We believe we offer the best integrated platform for efficient access, management and consumption of digital media content in China. We believe the following key strengths contribute to our success and differentiate us from our competitors:

### ***Leading consumer internet platform in China***

We are the 12<sup>th</sup> largest internet company in China, as measured by user base. According to iResearch, our platform, enabled by cloud-computing and data analytics, had over 300 million

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monthly unique visitors in March 2014. We effectively provide cloud acceleration products and services to users on a range of internet-enabled devices, including PC, television and mobile devices, to enable faster, more reliable and more efficient transmission and management of digital media content.

We believe that digital media content is important to most Chinese internet users, and through our proprietary technology, internet-connected devices and our broad ecosystem, our users can transmit in a speedy manner and access digital media content at work, at home or while in transit, virtually anywhere, any time.

***Large and loyal user base with a growing number of subscribers***

We had an aggregate of over 300 million monthly unique visitors on our platform in March 2014, according to iResearch. Our large and growing user base serves as the basis for the future continued growth of our subscriber base. We launched our cloud acceleration subscription services in March 2009, which have experienced substantial growth. The total number of our subscribers reached approximately 5.2 million as of March 31, 2014 from 2.8 million as of December 31, 2011. The subscribers are divided into seven VIP levels, and the VIP level of a subscriber increases over time based on daily awards of "value points" as such subscriber continues with the subscription. The number of our subscribers ranked VIP level three and above as a percentage of our total subscribers increased from 25.9% as of January 31, 2011 to 68.8% as of March 31, 2014, reflecting subscriber loyalty for our services.

***Highly scalable and cost-efficient distributed computing network***

Our proprietary technology and highly scalable massive distributed computing network are our core competitive advantage, enabling us to provide popular transmission and streaming acceleration services and superior user experience. Our resource discovery network leverages our distributed computing power and significantly reduces our reliance on servers operated by us. This in turn provides us with a clear cost advantage over our competitors. We have achieved powerful network effects that we believe are difficult to replicate and create high entry barriers for potential competitors. We have created, and continue to maintain, a massive, proprietary and real-time updated index of more than 6.3 billion digital media content files and their locations across the internet as of March 31, 2014. Based on a distributed computing network architecture, we operate a vast distributed file locating system supported by over one million third-party servers and over 8,000 servers we owned as of March 31, 2014. As our user base grows, we are able to expand our distributed computing resources and broaden our indexes of digital media content files to further improve acceleration and streaming performance across our network and enhance our user experience, which in turn attracts more users. This positive cycle has enabled us to maintain our leading market position and increase our market share.

***Proven monetization track record***

We derive revenues from multiple sources, including cloud acceleration subscription services, online advertising and other internet value-added services. Multiple revenue streams provide us with both revenue diversification and multiple growth areas.

Our large and loyal user base and growing subscriber base present a solid foundation for our different revenue streams. The total number of our subscribers has continued to grow, reaching approximately 5.2 million as of March 31, 2014, presenting significant growth potential for our



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subscriber base. Revenues generated by our cloud acceleration subscription services experienced significant growth since the launch of these services in March 2009, increasing from US\$25.6 million in 2011 to US\$86.7 million in 2013 and from US\$18.8 million in the three months ended March 31, 2013 to US\$24.8 million in the same period in 2014. Our subscription-based business model helps generate recurring revenues. In addition, we are able to introduce new services to make our services more attractive and continue to raise the number of paying users and subscribers without incurring significant additional costs. We provide online advertising services primarily through Xunlei Kankan. We serve a broad range of brand advertisers consisting of international and domestic companies in a variety of industries, and had 399 advertisers in 2013 and 103 advertisers in the three months ended March 31, 2014. Our advertising revenues for 2011, 2012, 2013 and for the three months ended March 31, 2014 were approximately US\$38.3 million, US\$61.8 million, US\$48.0 million and US\$7.5 million, respectively. In terms of other internet value-added services, we had US\$30.7 million in online games revenues and US\$2.0 million pay per view revenues in 2013 and US\$6.2 million and US\$0.6 million, respectively, for the three months ended March 31, 2014.

***Culture of innovation and experienced management team***

Our company is a technology company at its core, and we believe our focus on best-in-class technology and innovation is an integral part of our culture and success. Our management team has a strong background in engineering and technology. In particular, our chief executive officer and co-founder, Mr. Sean Shenglong Zou, is recognized as a pioneer in network architecture and cloud computing technologies in China. We believe our focus on technology development and our technology-driven culture of innovation are key to drive our growth and continued market leadership position.

**Our strategies**

Our mission is to become the leading technology company for internet users in China to access, manage and consume digital media content through internet-enabled devices. We intend to achieve this mission by pursuing the following strategies:

***Continue to grow our user base and improve user engagement and retention through user experience enhancement***

We intend to further grow our user base by enhancing our user experience through making our services device agnostic and synchronizing digital media content. We intend to continue to empower our users to access our services through multiple internet-enabled devices, such as tablets, smartphones, set-top boxes and internet televisions, while striving for a consistent, high-quality user experience across applications that run on different operating systems. For example, we have launched a version of Xunlei Kankan HD dedicated to iPad users that offers high-quality, fast video streaming services.

We also intend to increase user engagement and stickiness through enhancing user experience. For example, we began to focus more on user behaviors and study users' life cycles on our platform so that we can offer the relevant services at the right time and encourage users to continue using our services. This has helped us improve customer care and user loyalty. We continue to identify, research and develop, through big data analytics of user behavior and user account information, potential new services that would appeal to our users to further serve their individual needs and enhance their experience.

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***Further monetize our large user base***

We intend to further monetize our user base and incentivize users to become subscribers by expanding our offerings of fee-based services such as cloud-based storage and implementation of cross device media access. Thus, we provide one-stop services for our users, not only in terms of accessing digital media content but also the storage and synchronization of content across devices. Through these initiatives, we expect to improve the percentage of our users to paying users and subscribers.

***Endeavor to provide seamless cross device user access***

We intend to continue to extend our services from internet-enabled PCs to televisions and mobile devices, to serve our users seamlessly in every aspect of their lives from offices to living rooms. As the use of mobile internet continues to spread, we intend to capture mobile users' needs and develop applications that run on various mobile operating systems. We target to develop mobile devices as a primary user interface for our services in the future.

In addition, we intend to focus on mobile devices and home entertainment by leveraging our existing technology and collaborating with hardware manufacturers such as set-top boxes manufacturers, among others. For example, we established cooperation relationship with Xiaomi in August 2013, pursuant to which our Xunlei Accelerator was pre-installed onto some of Xiaomi's set-top boxes at no charge, similar to the other set-top boxes manufacturers we work with. As of March 31, 2014, we had accumulated an installed base of approximately 1,552,000 set-top boxes across China. Our strategic cooperation with Xiaomi has been further strengthened with Xiaomi Ventures' investment in us in March 2014.

***Strengthen relationships with strategic partners to further build our ecosystem***

We intend to deepen relationships with our current digital media content providers as well as develop relationships with new digital media content providers, including video content copyright owners or distributors, software and game developers, application developers and other internet content publishers, through strategic collaboration.

In addition, we intend to develop extensive relationships with client-end product/service providers, such as set-top boxes and similar home entertainment devices, that need our accelerator technological support. We intend to build strategic relationship and embed Xunlei Accelerator in these hardware devices as a fundamental utility for the whole internet ecosystem.

***Continue to focus on research and development and maintain our technological leadership***

Technological leadership is critical to our long-term success and we intend to continue to devote substantial resources to our research and development efforts to further improve the performance of our services, expand our product portfolio and enhance our user experience. Our research and development will focus on further improving our proprietary indexing technology, distributed file locating system, and overall cloud acceleration technology, while continuing to develop innovative technologies such as file-locating technology, distributed cloud storage, seamless video format conversion across multiple internet-enabled devices.

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*Selectively pursue business expansion via partnerships and acquisitions*

We intend to pursue business expansion via partnerships and acquisitions that are strategically complementary and that can add long-term value to our shareholders. We believe selective strategic partnerships and acquisitions may benefit us by enriching our service offerings, enlarging our user base, enhancing our user experience or allowing us to acquire complementary technologies.

**Our platform**

On our platform, users can accelerate digital media transmission, stream and watch high-definition videos and play a broad range of the latest online games, among other things.

*Cloud accelerator*

*Accelerator*

We launched our core product, Xunlei Accelerator, in 2004 to address deficiencies of digital media content transmission over internet in China, such as low speed and high delivery failure rates. We believe that our integrated services and strong technological base have helped cultivate optimized user experience and enhanced user loyalty.

Xunlei Accelerator allows users to accelerate digital transmission over the internet for free. Xunlei Accelerator also bridges users with diverse needs to other services we offer, such as our Xunlei Kankan website, which provides high-definition online video, Xunlei Media Player, which supports both online and offline video watching, and our various online games including web games and MMOGs, by recommending and providing links to these services on its user interface.

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

*Subscription services*

We charge monthly or annual fee for our premium cloud acceleration subscription services and other exclusive services at different VIP levels. The VIP level of a subscriber increases over time based on daily awards of "value points," as long as such subscriber continues the subscription. Meanwhile, the corresponding benefits and services within the subscription package, which typically include incrementally larger bandwidth and faster acceleration speed, are upgraded according to the VIP level. The longer a subscriber uses our services, the higher the VIP level he or she gets.

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Our subscription mechanism encourages heightened user loyalty and helps generate a recurring and predictable revenue stream for us. As of March 31, 2014, we had approximately 5.2 million subscribers. Since we launched the subscription services, high-VIP-level subscribers accounted for an increasing portion of our growing subscriber base. For example, approximately 68.8% of our subscribers are ranked VIP level three and above as of March 31, 2014 as compared with approximately 25.9% as of January 31, 2011. In the meantime, subscribers with higher VIP levels generally conduct more daily transmissions than subscribers with lower VIP levels. In March 2014, the VIP six level subscribers transmitted 2.9 times more frequently than VIP one level subscribers. The subscription fees generally remain unchanged for subscribers at higher VIP levels.

Our cloud acceleration subscription services are delivered through the following major premium acceleration products:

<b>Type of Service</b>	<b>Description of Services</b>
<i>Green Channel</i>	This product allows our subscribers to transmit digital media files from the internet with the facilitation of our servers, which significantly improves speed and reliability of such transmission. This is particularly helpful when subscribers need to transmit files that are only available from slow or unreliable data transmission sources, or to transmit a group of files while having only limited internet connectivity time.
<i>Offline Accelerator</i>	This product allows our subscribers to engage us to transmit digital media files from the internet on their behalf. The transmitted files are temporarily cached on our servers, which the subscribers have easy access to and can consume and manage when they want within a limited period of time.
<i>Yunbo</i>	This product allows our subscribers to watch digital media content without transmitting the files to their own devices. The subscribers can enjoy the content without incurring burden to recourses on their devices.

We adopted different strategies and various promotion programs for each VIP level. For example, we discover that some of our users were not aware of the existence of our subscription services, so we provide users with greater exposure to our subscription services in different parts of our platform and promote products with significant potential interests to specific users. We use our powerful digital data analysis capabilities to explore different areas of user needs previously unmet by existing functions and research and develop relevant functions based on such analysis. We offer users promotional measures such as providing 120 seconds of free trials of premium acceleration services, showing the differences in the data transmission speeds to demonstrate how our premium services tremendously enhance data delivery speed and overall subscriber experience.

***Xunlei Kankan online video streaming website***

We provide online video streaming services through our Xunlei Kankan website at [www.kankan.com](http://www.kankan.com) to enable our users to watch high-definition video in streaming form for free. Xunlei Kankan is the 6th largest video streaming portal in China, as measured by the 136.0 million monthly unique visitors in March 2014, according to iResearch.

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The comprehensive content library of Xunlei Kankan consists primarily of licensed long-form videos, including television series, movies, variety shows and animations. The transmission of online video is supported by our distributed computing capacity, which reduces our infrastructure construction costs, such as bandwidth and server costs that are typically incurred by online video companies.

As of March 31, 2014, we held licenses to online videos consisting of approximately 2,000 movie titles, 760 television series covering approximately 27,000 episodes, and over 1,500 other types of shows. We differentiate Xunlei Kankan and the viewing experience it delivers by focusing on providing high-definition content. A significant portion of our videos are in high-definition format. We label each video on Xunlei Kankan based on their respective levels of resolution to ensure optimal viewing experience. We had established long-term relationships with more than 220 professional media data providers as of March 31, 2014, either directly or through third-party copyright distributors, including online video sites, news providers, online game companies and media companies.

Other than free videos, we also offer pay per view premium videos which charge users different amount of fees for every video they watch and access. Pay per view videos include movies newly released in the theaters and popular television shows. We provide pay per view services on subscription basis to encourage users to visit Xunlei Kankan's website more frequently. As of March 31, 2014, we had approximately 155,000 pay per view monthly subscribers on Xunlei Kankan and approximately 58% of these pay per view subscribers were also subscribers for Xunlei's acceleration services.

***Xunlei Media Player***

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

***Online game services***

To better serve our users, we offer online games through our online game website and purchase licenses from, or enter into revenue sharing arrangements with, game developers. Such game play platform helps raise the average spending of our subscribers. Online game players can play the games free of charge, but are offered the opportunity to purchase in-game virtual items for a fee to enhance their game-playing experience.

We also provide other ancillary services catering to users' needs and adjust our ancillary service offerings from time to time to supplement the major services we provide.

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**Technology**

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

***Indexing technology***

Key elements of our file indexing technology include:

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

***Data mining.*** We also employ data mining algorithms, studying user habits in order to maximize the speed of our data delivery by ranking the keyword indexes that users search for and placing digital media content more likely to be searched by users in the more easily accessible locations in our network for optimal delivery speed. As of March 31, 2014, our file index contained over 6.3 billion digital media content files available on third-party servers and PCs connected to our distributed file locating system.

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

***Distributed file locating system***

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

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Key technologies include:

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

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

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

***Cloud-based implementation***

We provide cloud acceleration subscription services powered by our indexing technology and distributed file locating system. Our platform is compatible with different operating systems and hardware devices. As part of the infrastructure for the subscription services, except for proprietary load balancing and resource optimization algorithms, we maintain a virtual private network consisting of 42 co-location centers and over one million third party servers and over 8,000 servers located throughout China.

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

**Advertising services**

Online advertising was and continues to be a significant source of revenues for us. We provide advertising services primarily through various forms of advertisements placed on Xunlei Kankan. While we had previously placed advertising on Xunlei Accelerator, we have ceased such advertising to improve the experience for our Xunlei Accelerator users. We had

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399 advertisers in 2013 and 103 advertisers in the three months ended March 31, 2014. Our brand advertisers include a broad range of international and domestic companies that operate in a variety of industries. A significant majority of our advertisers purchase our online advertising services through third-party advertising agencies.

We focus on providing advertisers with creative and cost-effective advertising solutions. We strive to creatively utilize our integrated service interface in designing a particular advertising campaign for our online advertisers. For example, for a single advertising campaign, we not only can deliver different forms of in-video and display advertisements on Xunlei Kankan, but also can design tailored theme skins to be installed by our Xunlei Accelerator and Xunlei Media Player users. We offer advertisements with noticeable visual impact on Xunlei Kankan, such as high-definition background advertisements that border the video screen during the streaming and viewing of the video.

**Marketing**

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

**Research and development**

We believe that our commitment to research and development is an important contributing factor in our success. As of March 31, 2014, we had a team of 887 engineers. We provide our engineers with various continuing training programs and opportunities. To maintain and enhance our leadership position, we will continue to compete for engineering talent and invest in research and development in order to provide better services to our users, subscribers and advertisers.

Our research and development team is divided, according to focus areas, into core research and development, application engineering, subscription services engineering and wireless and embedded system engineering. The table below provides an outline of what each focus area entails:

Core research and development	Primarily focuses on the development of our basic technologies to ensure that we use the most advanced transmission techniques to maintain our competitive advantage.
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Application Engineering	Primarily focuses on continuous development of our resource discovery/distributed file locating technologies to maintain the competitive advantages of our key products, such as Xunlei Accelerator and Xunlei Kankan, as well as the online games platform that we operate.
Subscription Services Engineering	Primarily focuses on diversifying and refining the paid services we provide to our subscribers.
Wireless and Embedded System Engineering	Primarily focuses on expanding our services into other internet-enabled devices, such as tablets, smartphones, set-top boxes and internet televisions.

**Intellectual property**

*Protection of our intellectual property*

Our patents, copyrights, trademarks, trade secrets and other intellectual property rights are critical to our business. We rely on a combination of patent, copyright, trademark, trade secret and other intellectual property-related laws in the PRC and contractual restrictions to establish and protect our intellectual property rights. In addition, we require all of our employees to enter into agreements requiring them to keep confidential all information they obtain during the course of their employment relating to our technology, methods, business practices, customers and trade secrets. As of March 31, 2014, we had 44 patents granted in the PRC and 3 granted in the United States, while another 5 patent applications are being examined by the State Intellectual Property Office of the PRC and 1 additional United States patent application is being reviewed by the United States Patent and Trademark Office. We also seek to vigorously protect our Xunlei brand and the brands of our other services. As of March 31, 2014, we have applied to register 157 trademarks, of which we have received 133 registered trademarks in different applicable trademark categories including 1 trademark registered with the United States Patent and Trademark Office and 1 trademark registered with World Intellectual Property Organization.

*Digital media data monitoring and copyright protection*

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

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from both the non-compliance of such digital media content with the laws and claims from third parties.

As of the date of this prospectus, we have implemented several initiatives to further commit to copyright protection. In May 2014, we entered into a content protection agreement with the MPAA whose members include six major U.S. entertainment content providers. We have agreed to implement a comprehensive system of measures designed to prevent unauthorized downloading of and access to such content providers' works. Among these content protection measures, we have agreed to (1) implement a filtering system that will be applied to these content providers' video content, (2) filter these content providers' video content prior to making any such content available to our users through our websites or client applications, (3) adopt state-of-the-art fingerprinting-based filtering technologies, (4) cooperate with these content providers going forward to ensure the effectiveness of our content protection measures, and (5) incorporate additional content protection measures to the extent that they are necessary to effectively protect against copyright infringement.

*User data safety*

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

**Competition**

Due to our multiple service offerings, we face competition in several aspects of the internet services market in China. We believe that the key competitive factors in the overall internet services market in China include brand recognition, user traffic, technology platform and monetization abilities.

Our Xunlei Accelerator would primarily compete with Tencent (QQ Cyclone) and Baidu. Our Xunlei Kankan website primarily competes with other major online video websites in China such as Youku.com, Tudou.com and iQiyi.com. In addition, we also face competition for the advertisement budgets of our advertisers from other internet companies and other forms of media.

**Employees**

We had 1,094, 1,362 and 1,523 employees as of December 31, 2011, 2012 and 2013, respectively. As of March 31, 2014, we had 1,513 employees, including 62 in management, 887 in research and development, 210 in content procurement, 259 in sales and marketing and 95 in general administration. As required by PRC regulations, we participate in employee benefit plans organized by government authorities, including pensions, work-related injury benefits, medical benefits, maternity benefits, unemployment benefit and housing fund plans. We have granted stock options and restricted shares to management and key employees in order to reward their services and provide them with equity incentives. We maintain good employee relations and have not experienced any material labor disputes since our inception.

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**Facilities**

Our principal executive offices are located at 4/F, Hans Innovation Mansion, North Ring Road, No. 9018 High-Tech Park, Nanshan District, Shenzhen, People's Republic of China, which comprises approximately 5,300 square meters of office space. In addition to other offices in Shenzhen, we also have offices in Beijing, Shanghai and Hong Kong and representative offices in Xiamen and Guangzhou, respectively, totaling approximately 16,000 square meters. Our leased premises are leased from unrelated third parties who have valid title to the relevant properties. The lease for our principal executive offices will expire in December 2016, and the other leases typically have terms of one to three years. Our servers are primarily hosted at internet data centers owned by major domestic internet data center providers. The hosting services agreements typically have one-year terms and are renewed automatically upon expiration. We believe that we will be able to obtain adequate facilities, principally through leasing, to accommodate our future expansion plans.

**Legal proceedings**

We have been involved in legal proceedings related to our business from time to time and expect to continue to be involved in such proceedings in the future. Internet services and media companies such as ours are frequently involved in litigation based on intellectual property-related claims. See "Risk factors Risks related to our business We face and expect to continue to face copyright infringement claims and other related claims, including claims based on content available through our services, which could be time-consuming and costly to defend and may result in damage awards, injunctive relief and/or court orders, divert our management's attention and financial resources and adversely impact our business." As of March 31, 2014, we had 17 copyright infringement lawsuits pending against us with an aggregate amount of claimed damages against us of approximately RMB16.3 million (US\$2.6 million). Between March 31, 2014 and the date of this prospectus, 6 out of 17 copyright infringement lawsuits pending were settled. The settlement of these copyright infringement lawsuits reduced the aggregate amount of claimed damages against us from approximately RMB16.3 million (US\$2.6 million) to RMB0.8 million (US\$0.1 million).

We are involved in three copyright infringement lawsuits in the PRC relating to the online video services we provide on Xunlei Kankan. We are also defending 8 copyright infringement lawsuits in the PRC involving Gougou, a digital media content search engine previously owned by us. The plaintiffs in these lawsuits allege that the search result pages of Gougou place links to unauthorized index hosted by third parties. Although we are a named defendant in these cases, we sold the Gougou website and related intellectual property rights in 2010 to an unaffiliated third party, who agreed to assume all present and future Gougou-related intellectual property liabilities, including liabilities incurred in connection with these lawsuits. Pursuant to that agreement, we agreed to continue to provide technical support until the purchaser can independently operate the website. We have ceased to provide technical support to Gougou website since February 2011. In addition, we are party to three copyright infringement lawsuits involving other aspects of our business.

Although legal proceedings are inherently uncertain and their results cannot be predicted, we believe that the resolutions of the outstanding legal proceedings, even if adverse to us, will not individually or in the aggregate result in material liability to us, nor will they have a material adverse effect on our business, financial condition or results of operations. Regardless of the outcome, however, any litigation can result in substantial costs, and we face and expect to continue to face copyright infringement claims and other related claims, which could be time-consuming and costly to defend and may result in substantial damage awards, injunctive relief and/or court orders, divert our management's attention and financial resources and adversely impact our business.

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## Regulation

*The following is a summary of the principal laws and regulations that are or may be applicable to companies such as ours in the PRC. The scope and enforcement of many of the laws and regulations described below are uncertain. We cannot predict the effect of further developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof.*

### Regulation on catalogue relating to foreign investment

Investment activities in the PRC by foreign investors are subject to the Catalogue for the Guidance of Foreign Investment Industry, or the Catalogue, which was promulgated and is amended from time to time by the Ministry of Commerce and the National Development and Reform Commission, or the NDRC. The Catalogue divides industries 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.

Pursuant to the latest Catalogue amended in 2011, the provision of value-added telecommunications services falls in the restricted category and the percentage of foreign ownership cannot exceed 50%. The provision of internet cultural operating service (including online game operation services), internet news service, and production and online transmission of audio-visual programs service fall in the prohibited category and the foreign investors are prohibited to engage in such services. We conduct our operations in China principally through contractual arrangements among Giganology Shenzhen, our wholly-owned PRC subsidiary, and Shenzhen Xunlei, our VIE, and its shareholders. Shenzhen Xunlei holds the licenses and permits necessary to conduct our resource discovery network, online video, online advertising, online games and related businesses in China and holds various operating subsidiaries that conduct a majority of our operations in China. Both of Giganology Shenzhen and Xunlei Computer, another wholly-owned PRC subsidiary of ours, engage in the development of computer software, technical consulting and other related technical services and businesses, none of which falls into any of encouraged, restricted or prohibited categories under the Catalogue. Hence, these activities are deemed as permitted and open to foreign investment.

### Regulation on telecommunications and internet information services

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

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

*Telecommunications regulations (2000), or the Telecom Regulations. The Telecom Regulations categorize all telecommunications businesses in the PRC as either basic or value-added. Value-added telecommunications services are defined as telecommunications and information services provided through public network infrastructures. The "Catalog of Telecommunications Business," an attachment to the Telecom Regulations and updated by*

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MIIT's Notice on Adjusting the Catalog of Telecommunications Business effective from April 1, 2003, categorizes various types of telecommunications and telecommunications-related activities into basic or value-added telecommunications services, according to which, internet information services, or ICP services, are classified as value-added telecommunications businesses. Under the Telecom Regulations, commercial operators of value-added telecommunications services must first obtain an ICP License from MIIT or its provincial level counterparts.

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

*Administrative measures for telecommunications business operating license (2009, revised), or the Telecom License Measures.* The Telecom License Measures set forth more specific provisions regarding the types of licenses required to operate value-added telecommunications services, the qualifications and procedures for obtaining such licenses and the administration and supervision of such licenses. For example, an ICP service operator conducting business within a single province must apply for the ICP License from MIIT's applicable provincial level counterpart, while an ICP service operator providing ICP services across provinces must apply for a Trans-regional ICP License directly from MIIT. An ICP service operator that has been granted a Trans-regional ICP License must file a record with the local branch of MIIT at the provincial level prior to conducting any value added telecommunications business in such provinces. The appendix to the ICP License must detail the permitted activities to be conducted by the ICP service operator. An approved ICP service operator must conduct its business in accordance with the specifications recorded on its ICP License. The ICP License is subject to annual review and the annual review result will be recorded as an appendix to the ICP License, published to the public and notified to the applicable administrative authority for industry and commerce.

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

*Regulations for administration of foreign-invested telecommunications enterprises (2008, revised), or the FITE Regulations.* The FITE Regulations set forth detailed requirements with respect to, among others, capitalization, investor qualifications and application procedures in connection with the establishment of a foreign-invested telecommunications enterprise. Under the FITE Regulations, a foreign entity is prohibited from owning more than 50% of the total equity interest in any value-added telecommunications service business in the PRC and the major foreign investor in any value-added telecommunications service business in the PRC shall have good and profitable records and operating experiences in such industry.

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

To comply with these PRC laws and regulations, we operate our websites through Shenzhen Xunlei, our PRC variable interest entity. Shenzhen Xunlei currently holds an ICP License expiring on April 30, 2015 and owns the essential trademarks and domain names in relation to our value-added telecommunications business.

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

opposes the fundamental principles determined in the PRC's Constitution;

compromises state security, divulges state secrets, subverts state power or damages national unity;

harms the dignity or interests of the State;

incites ethnic hatred or racial discrimination or damages inter-ethnic unity;

sabotages the PRC's religious policy or propagates heretical teachings or feudal superstitions;

disseminates rumors, disturbs social order or disrupts social stability;

propagates obscenity, pornography, gambling, violence, murder or fear or incites the commission of crimes;

insults or slanders a third party or infringes upon the lawful rights and interests of a third party; or

includes other content prohibited by laws or administrative regulations.

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

**Regulation on online transmission of audio-visual programs**

On July 6, 2004, GAPPRFT promulgated the *Measures for the Administration of Publication of Audio-visual Programs through Internet or Other Information Network*, or the 2004 Internet

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A/V Measures, which apply to the activities relating to the opening, broadcasting, integration, transmission or download of audio-visual programs via internet or other information network. An applicant who engages in the business of transmitting audio-visual programs must apply for a license issued by GAPPRFT in accordance with the categories of business, receiving terminals, transmission networks and other items. Foreign invested enterprises are not allowed to engage in the above business. On April 13, 2005, the State Council promulgated the *Certain Decisions on the Entry of the Non-State-owned Capital into the Cultural Industry*. On July 6, 2005, MOC, GAPPRFT, the NDRC and the Ministry of Commerce, jointly adopted the *Several Opinions on Canvassing Foreign Investment into the Cultural Sector*. According to these regulations, non-State-owned capital and foreign investors are not allowed to conduct the business of transmitting audio-visual programs via information network.

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

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

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

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Further, on March 31, 2009, GAPPRT issued the *Notice on Strengthening the Administration of the Content of Internet Audio-visual Programs*, or the *Notice on Content of AV Programs* which reiterates the requirement of obtaining the relevant permit of audio-visual programs to be published to the public through information network, where applicable, and prohibits certain types of internet audio-visual programs containing violence, pornography, gambling, terrorism, superstition or other hazardous factors. In addition, on August 14, 2009, GAPPRT issued the *Notice on Relevant Issues Regarding Strengthening of the Administration of Internet Audio/visual Program Services Received by Television Terminals*, which specifies that prior to providing audio-visual program services for television terminals, an ICP service operator shall obtain the License for Online Transmission of Audio-visual Programs containing the scope of "Integration and Operation Services of Audio-visual Programs Received by Television Terminals." On April 1, 2010, GAPPRT issued the *Internet Audio/Visual Program Services Categories (Provisional)*, or the *Provisional Categories*, which classified internet audio-visual programs into four categories. However, at this stage, the *Provisional Categories* do not include internet television or mobile television, and it is unclear as to how the categorization system under the newly adopted *Provisional Categories* will be enforced or how will it evolve. To comply with these laws and regulations, Shenzhen Xunlei holds a License for Online Transmission of Audio-visual Programs which was updated in February 2012 with an effective period from February 29, 2012 to February 28, 2015. We plan to apply for the update of such license to cover the website of www.xunlei.com, the terminals of mobile devices and TVs and to cover all the business activities that we are currently engaging, such as the transmission of political news. See "Risk factors Risks related to our business We are strictly regulated in China. Any lack of requisite licenses or permits applicable to our business and any changes in government policies or regulations may have a material and adverse impact on our business, financial condition and results of operations."

**Regulation on foreign movies and television programs**

Broadcast of foreign movies and television programs is strictly regulated by GAPPRT. On August 11, 1997, the State Council promulgated the *Administrative Regulations on Television and Radio*, 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 GAPPRT or its authorized agencies. On December 25, 2001, the State Council promulgated the *Administrative Provisions on Films*, under which any foreign films to be published or shown in public shall also be subject to the prior inspection and approval by GAPPRT or its authorized agencies.

In addition, on September 23, 2004, GAPPRT promulgated the *Administrative Regulations on the Introduction and Broadcasting of Foreign Television Programs*, pursuant to which only organizations designated by GAPPRT are qualified to apply to GAPPRT or its authorized agencies for introduction or broadcasting of foreign television dramas or foreign television programs. Approval of such application is subject to the general plan of GAPPRT and content of such foreign television dramas or programs must not by any means threaten the national security or violate any laws or regulations. In 2007, GAPPRT issued the *Notice on Further Strengthening the Administration of the Introduction and Broadcasting of Foreign Television Programs*, emphasizing that the aforesaid regulations must be strictly followed.



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The 2004 Internet A/V Measures also explicitly prohibit the internet service providers from broadcasting any foreign television or radio program over the information network and any violation may result in warnings, monetary penalties or criminal liabilities in severe cases. On November 19, 2009, GAPPRT issued a notice to extend the prohibition of broadcasting foreign television programs to mobile TV. However, pursuant to several notices issued by GAPPRT, such as the *Notice on Dramas and Films and the Notice on Content of A/V Programs* referenced above under " *Regulation on online transmission of audio-visual programs,*" foreign audio-visual programs may be published to the public through the internet, provided that such foreign audio-visual programs comply with the regulations on administration of radios, films and television, and that the relevant permits required by PRC laws and regulations, such as the Permit for Issuance of TV Dramas, Permit for Public Screening of Films, Permit for Issuance of Cartoons or academic literature movies and Permit for Public Screening of Academic Literature Movies and TV Plays, have been obtained for such foreign audio-visual programs. The promulgation of the *Notice on Dramas and Films and the Notice on Content of A/V Programs* implies that the absolute restriction over broadcasting foreign television or radio programs on the Internet as set forth in the 2004 Internet A/V Measures has been lifted.

We source foreign movies and television programs from various content providers. In dealing with content providers, we seek general assurance in the contracts we enter into with them that the content granted to us shall neither breach any applicable laws, regulations or public morals, nor impair any third party rights. We also source some foreign audio-visual programs directly from foreign content providers. However, we have not obtained any approval from GAPPRT for introducing and broadcasting such foreign audio-visual programs and cannot assure you that we may be able to obtain such approval if required to do so. See "Risk factors Risks related to our business We are strictly regulated in China. Any lack of requisite licenses or permits applicable to our business and any changes in government policies or regulations may have a material and adverse impact on our business, financial condition and results of operations."

**Regulation on production of radio and television programs**

On July 19, 2004, GAPPRT promulgated the *Regulations on the Administration of Production of Radio and Television Programs*, or the Radio and TV Programs Regulations, which came into effect as of August 20, 2004. 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 GAPPRT or its provincial branches. Entities with the Permit for Production and Operation of Radio and TV Programs must conduct their business operation strictly in compliance with the approved scope of production and operation and other than radio and TV stations, such entities must not produce radio and TV programs regarding current political news or similar subjects and columns. Shenzhen Xunlei holds a Permit for Production and Operation of Radio and TV Program which was last updated in September 2012 and will expire on September 24, 2015, with an approved scope of the production of radio plays, TV dramas, animations, featured shows and entertainment programs.

**Regulation on online cultural activities**

On February 17, 2011, MOC promulgated the new *Provisional Measures on Administration of Internet Culture*, or the Internet Culture Measures, which became effective as of April 1, 2011,

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and the *Notice on Issues Relating to Implementing the Newly Amended Provisional Measures on Administration of Internet Culture* on Mar 18, 2011. MOC also abolished the *Provisional Measures on Administration of Internet Culture* promulgated on May 10, 2003 and amended on July 1, 2004 as well as the *Notice on Issues Relating to Implementing the Provisional Measures on Administration of Internet Culture* issued on July 4, 2003. The Internet Culture Measures apply to entities that engage in activities related to "online cultural products." "Online cultural products" are classified as cultural products produced, disseminated and circulated via internet which mainly include: (i) online cultural products particularly produced for the internet, such as online music entertainment, network games, network performance programs, online performing arts, online artworks and online animation features and cartoons; and (ii) online cultural products converted from music entertainment, games, performance programs, performing arts, artworks and animation features and cartoons, and disseminated via the internet. Pursuant to these measures, entities are required to obtain relevant Online Culture Operating Permits from the applicable provincial level culture administrative authority if they intend to commercially engage in any of the following types of activities:

production, duplication, importation, distribution or broadcasting of online cultural products;

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

exhibitions or contests related to online cultural products.

To comply with these then- and currently effective laws and regulations, Shenzhen Xunlei holds an Online Culture Operating Permit which was updated in September 2013 with an effective period from March 15, 2013 to March 15, 2016 for the operating of online games (including issuance of virtual currency), music entertainment products and animation and comic and Xunlei Games obtained an Online Culture Operating Permit in July 2013 with an effective period from July 30, 2013 to July 30, 2016 for the operating of online games (including issuance of virtual currency).

### **Regulation on online games**

MOC is the government agency primarily responsible for regulating online games in the PRC. On June 3, 2010, MOC promulgated the *Provisional Measures on the Administration of Online Games*, pursuant to which the content of the online games are subject to the review of MOC. These measures set forth a series of prohibitions regarding the content of the online games, including but without limitation the prohibition on content that oppose the fundamental principles stated in the PRC Constitution, compromise state security, divulge state secrets, subvert state power or damage national unity, and content that is otherwise prohibited by laws or administrative regulations. Moreover, in accordance with these measures, ICP service operators engaging in any activities involving the operation of online games, issuance or trading of virtual currency must obtain the Online Culture Operating Permit and handle the censorship procedures for imported online games and the filing procedures for domestically developed online games with MOC and its provincial counterparts. The procedures for the censorship of imported online games must be conducted with MOC prior to the commencement date of the online operation and the filing procedures for domestic online

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games must be conducted with MOC within 30 days after the commencement date of the online operation or the occurrence date of any material alteration of such online games. Regarding virtual currency trading, ICP service operators can only issue virtual currency in exchange of the service provided by itself rather than trading for service or products provided by third parties. ICP service operators cannot appropriate the advance payment by the players and are not allowed to provide trading service of virtual currency to minors. All the transactions in the accounts shall be kept in records for a minimum of 180 days. To comply with these laws and regulations, Shenzhen Xunlei and Xunlei Games have obtained the Online Culture Operating Permit respectively for operating online games.

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

Our online games services are currently provided by Shenzhen Xunlei and Xunlei Games. Shenzhen Xunlei holds an Internet Publication License and Xunlei Games is in the process of applying for an Internet Publication License from GAPPRFT for its publication of online games. We also require the developers of certain online games to obtain the requisite approvals of relevant online games from GAPPRFT, and make the filings with MOC, for relevant online games. See "Risk factors Risks related to our business We may not be able to successfully address the challenges and risks we face in the online games market, such as a failure to successfully implement our plan to acquire exclusive rights to operate and sub-license games or to obtain all the licenses required to operate online games, which may subject us to penalties from relevant authorities, including the discontinuance of our online game business."

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

In April 2007, GAPPRFT and several other government agencies issued a circular requiring the implementation of an anti-fatigue system and a real-name registration system by all PRC online game operators to curb addictive online game playing by minors. Under the anti-fatigue system, three hours or less of continuous playing by minors, defined as game players under 18 years of age, is considered to be "healthy," three to five hours to be "fatiguing," and five hours or more to be "unhealthy." Game operators are required to reduce the value of in-game

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benefits to a minor player by half if the minor has reached the "fatiguing" level, and to zero once reaching the "unhealthy" level.

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

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

We have developed and implemented an anti-fatigue and compulsory real-name registration system in our online games, and will cooperate with the National Citizen Identity Information Center to launch the identity verification system upon the issuance of relevant implementing rules. For game players who do not provide verified identity information, we assume that they are minors under 18 years of age. In order to comply with the anti-fatigue rules, we set up our system so that after three hours of playing our online games, minors only receive half of the virtual items or other in-game benefits they would otherwise earn, and after playing for more than five hours, minors would receive no in-game benefits.

### **Regulation on online game virtual currency**

On February 15, 2007, MOC, the People's Bank of China and other relevant government authorities jointly issued the *Notice on Further Strengthening Administrative Work on the Internet Cafes and Online Games*, or the Internet Cafes Notice, pursuant to which the People's Bank of China is directed to strengthen the administration of virtual currency in online games to avoid any adverse impact on the economy and financial system. This notice provides that the total amount of virtual currency issued by online game operators and the amount purchased by individual game players should be strictly limited, with a strict and clear division between virtual transactions and real transactions carried out by way of electronic commerce. It also provides that virtual currency shall only be used to purchase virtual items. On June 4, 2009, MOC and Ministry of Commerce jointly issued the *Notice on Strengthening the Administrative*

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*Work on Virtual Currency of Online Games*, pursuant to which no enterprise may concurrently provide both virtual currency issuance service and virtual currency transaction service.

In addition, the Provisional Measures on the Administration of Online Games require companies that (i) issue online game virtual currency (including prepaid cards and/or pre-payment or prepaid card points) or (ii) offer online game virtual currency transaction services to apply for the Online Culture Operating Permit from provincial branches of MOC. The regulations prohibit companies that issue online game virtual currency from providing services that would enable the trading of such virtual currency. Any company that fails to submit the requisite application will be subject to sanctions, including but not limited to termination of operation, confiscation of incomes and fines. The regulations also prohibit online game operators from allocating virtual items or virtual currency to players based on random selection through lucky draw, wager or lottery that involves cash or virtual currency directly paid by the players. In addition, companies that issue online game virtual currency must comply with certain specific requirements, for example, online game virtual currency can only be used for products and services related to the issuance company's own online games.

To comply with these regulations, Shenzhen Xunlei has obtained the Online Culture Operating Permit for issuing online game virtual currency, and we plan to make the requested filing of its issuance of virtual currency with the local branch of MOC in Guangdong.

**Regulation on internet news dissemination**

SCIO and MIIT promulgated the *Provisional Regulations for the Administration of Internet Websites Engaging in News Publication Services*, and the *Provisions for the Administration of Internet News Information Services* on November 7, 2000 and September 25, 2005, respectively. Pursuant to such regulations, websites established by non-news organizations may publish news released by certain official news agencies but may not publish news generated by themselves or news sourced elsewhere. In order to disseminate news, such websites must satisfy the relevant requirements set forth in the foregoing two regulations and have acquired the approval from SCIO after securing permission from the news office of the local government at the provincial level. Moreover, the websites intending to publish the news released by the aforementioned news agencies must enter into agreements with the respective news agencies, and file copies of such agreements with the news office of the local government at the provincial level. In addition, any organization is prohibited from establishing Sino-foreign joint ventures, Sino-foreign cooperatives and wholly foreign owned enterprises to operate internet news dissemination service. The content we currently provide on our websites includes some current political news from third party news providers. Currently we do not hold an internet news license from SCIO and we plan to apply for such internet news license. However, we cannot assure you that we will be able to obtain such license in a timely manner or at all. See "Risk factors Risks related to our business We are strictly regulated in China. Any lack of requisite licenses or permits applicable to our business and any changes in government policies or regulations may have a material and adverse impact on our business, financial condition and results of operations."

**Regulation on internet publication**

GAPPRFT is the government agency responsible for regulating publication activities in the PRC. On June 27, 2002, MIIT and GAPPRFT jointly promulgated the *Tentative Administration*

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*Measures on Internet Publication*, or the Internet Publication Measures, which took effect on August 1, 2002. The Internet Publication Measures require internet publishers to secure approval, or the Internet Publication License, from GAPPRFT to conduct internet publication activities. The term "internet publication" is defined as an act of online dissemination where internet information service providers select, edit and process works created by themselves or others (including content from books, newspapers, periodicals, audio and video products, electronic publications, and other sources that have already been formally published or works that have been made public in other media) which they then post on the internet or transmit to users via the internet for browsing, use or downloading by the public. The Internet Publication Measures also provide the detailed qualifications and application procedures for obtaining the Internet Publication License. Neither GAPPRFT nor MIIT has specified whether the approval required by the Internet Publication Measures is applicable to the dissemination of online audio and video programs. However, the Notice of Three Provisions and Internet Games issued jointly by GAPPRFT and other relevant administrations confirmed that the entities operating internet games must obtain the Internet Publication License. On February 21, 2008, the GAPPRFT promulgated the *Rules for the Administration of Electronic Publication*, or the Electronic Publication Rules, which took effect on April 15, 2008. Under the Electronic Publication Rules and other regulations issued by the GAPPRFT, online games are classified as a kind of electronic publication, and publishing of online games is required to be conducted by licensed electronic publishing entities that have been issued standard publication codes. Pursuant to the Electronic Publication Rules, if a PRC company is contractually authorized to publish foreign electronic publications, it must obtain the approval of, and register the copyright license contract with, the GAPPRFT.

Shenzhen Xunlei holds an Internet Publication License for the publication of internet games with an expiry date of September 17, 2017 and is in the process of applying for expansion of the business scope therein to include the publication of music works and other internet publishing activities, and Xunlei Games is in the process of applying for the internet publication license for its publication of online games. See "Risk factors We may not be able to successfully address the challenges and risks we face in the online games market, such as a failure to successfully implement our plan to acquire exclusive rights to operate and sub-license games or to obtain all the licenses required to operate online games, which may subject us to penalties from relevant authorities, including the discontinuance of our online game business."

### **Regulation on internet privacy**

The PRC Constitution states that PRC law protects the freedom and privacy of communications of citizens and prohibits infringement of such rights. In recent years, PRC government authorities have enacted legislation on internet use to protect personal information from any unauthorized disclosure. The Internet Measures prohibit ICP service operators from insulting or slandering a third party or infringing upon the lawful rights and interests of a third party. Pursuant to the BBS Measures, ICP service operators that provide electronic messaging services must keep users' personal information confidential and must not disclose such personal information to any third party without the users' consent, unless such disclosure is required by law. The regulations further authorize the relevant telecommunications authorities to order ICP service operators to rectify unauthorized disclosure. ICP service operators are subject to legal liability if the unauthorized disclosure results in damages or losses to users. The PRC government, however, has the power and authority to order ICP service operators to turn over

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personal information if an internet user posts any prohibited content or engages in illegal activities on the internet. Under the *Several Provisions on Regulating the Market Order of Internet Information Services* issued by MIIT on December 29, 2011, without the consent of a user, an ICP operator may not collect any user personal information or provide any such information to third parties. An ICP service operator shall expressly inform the users of the method, content and purpose of the collection and processing of such user personal information and may only collect such information necessary for the provision of its services. An ICP service operator is also required to properly keep the user personal information, and in case of any leak or likely leak of the user personal information, the ICP service operator shall take immediate remedial measures and in severe consequences, to make an immediate report to the telecommunications regulatory authority. In addition, pursuant to the *Decision on Strengthening the Protection of Online Information* issued by the Standing Committee of the National People's Congress of the PRC on December 28, 2012, or the Decision, and the *Order for the Protection of Telecommunication and Internet User Personal Information* issued by MIIT on July 16, 2013, or the Order, any collection and use of user personal information shall be subject to the consent of the user, abide by the principles of legality, rationality and necessity and be within the specified purposes, methods and scopes. An ICP service operator shall also keep such information strictly confidential, and is further prohibited from divulging, tampering or destroying of any such information, or selling or providing such information to other parties. Any violation of the Decision or the Order may subject the ICP service operator to warnings, fines, confiscation of illegal gains, revocation of licenses, cancellation of filings, closedown of websites or even criminal liabilities.

To comply with these laws and regulations, we have required our users to consent to our collecting and using their personal information, established information security systems to protect user's privacy.

**Regulation on internet medicine information service**

The State Food and Drug Administration, or the SFDA, promulgated the *Administration Measures on Internet Medicine Information Service* on July 8, 2004 and certain implementing rules and notices thereafter. These measures set out regulations governing the classification, application, approval, content, qualifications and requirements for internet medicine information services. An ICP service operator that provides information regarding medicine or medical equipment must obtain an Internet Medicine Information Service Qualification Certificate from the applicable provincial level counterpart of SFDA. Shenzhen Xunlei obtained a Medicine Information Service Qualification Certificate from Guangdong Food and Drug Administration for the provision of internet medical information services with an expiry date of November 26, 2018.

**Regulation on advertising business**

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

According to the PRC laws and regulations, companies that engage in advertising activities must obtain from SAIC or its local branches a business license which specifically includes operating an advertising business within its business scope. The business license of an advertising company is valid for the duration of its existence, unless the license is suspended or

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revoked due to a violation of any relevant law or regulation. PRC advertising laws and regulations set forth certain content requirements for advertisements in the PRC including, among other things, prohibitions on false or misleading content, superlative wording, socially destabilizing content or content involving obscenities, superstition, violence, discrimination or infringement of the public interest. Advertisers, advertising agencies, and advertising distributors are required by PRC advertising laws and regulations to ensure that the content of the advertisements they prepare or distribute is true and in full compliance with applicable law. In providing advertising services, advertising operators and advertising distributors must review the supporting documents provided by advertisers for advertisements and verify that the content of the advertisements complies with applicable PRC laws and regulations. Prior to distributing advertisements that are subject to government censorship and approval, advertising distributors are obligated to verify that such censorship has been performed and approval has been obtained. Violation of these regulations may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. In circumstances involving serious violations, SAIC or its local branches may revoke violators' licenses or permits for their advertising business operations.

To comply with these laws and regulations, we have obtained a business license, which allows us to operate advertising businesses, and adopted several measures. Our advertising contracts require that substantially all advertising agencies or advertisers that contract with us must examine the advertising content provided to us to ensure that such content are truthful, accurate and in full compliance with PRC laws and regulations. In addition, we have established a task force to review all advertising materials to ensure the content does not violate the relevant laws and regulations before displaying such advertisements, and we also request relevant advertisers to provide proof of governmental approval if an advertisement is subject to special government review. See "Risk factors Risks related to our business Advertisements we display may subject us to penalties and other administrative actions."

**Regulation on information security and censorship**

The applicable PRC laws and regulations specifically prohibit the use of internet infrastructure where it may breach public security, provide content harmful to the stability of society or disclose state secrets. According to these regulations, it is mandatory for internet companies in the PRC to complete security filing procedures and regularly update information security and censorship systems for their websites with the local public security bureau. In addition, the newly amended *Law on Preservation of State Secrets* which became effective on October 1, 2010 provides that whenever an internet service provider detects any leakage of state secrets in the distribution of online information, it should stop the distribution of such information and report to the authorities of state security and public security. As per request of the authorities of state security, public security or state secrecy, the internet service provider should delete any content on its website that may lead to disclosure of state secrets. Failure to do so on a timely and adequate basis may subject the internet service provider to liability and certain penalties given by the State Security Bureau, the Ministry of Public Security and/or MIIT or their respective local counterparts. As Shenzhen Xunlei is an ICP operator, it is subject to the laws and regulations relating to information security and censorship. To comply with these laws and regulations, it has completed the mandatory security filing procedures with the local public



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security authorities, and regularly updates its information security and content-filtering systems with newly issued content restrictions as required by the relevant laws and regulations.

**Regulation on torts**

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

**Regulation on intellectual property rights**

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

*Copyright law*

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

To address the problem of copyright infringement related to content posted or transmitted on the internet, the PRC National Copyright Administration and MIIT jointly promulgated the *Measures for Administrative Protection of Copyright Related to Internet* on April 29, 2005. These measures, which became effective on May 30, 2005, apply to acts of automatically providing services such as uploading, storing, linking or searching works, audio or video products, or other contents through the internet based on the instructions of internet users who publish contents on the internet, without editing, amending or selecting any transmitted content. When imposing administrative penalties upon the act which infringes upon any users' right of communication through information networks, the *Measures for Imposing Copyright Administrative Penalties*, promulgated in 2009, shall be applied.

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

any ICP service provider, who provides automatic internet access service upon instructions of its users or provides automatic transmission service of works, performance and audio-visual

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

any ICP service provider who, for the sake of improving network transmission efficiency, automatically provides to its own users, based on the technical arrangement, the relevant works, performances and audio-visual products obtained from any other ICP service providers will not be required to assume the indemnification liabilities if (i) it has not altered any of the works, performance or 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 no reason to know the infringement of the works, performance and audio-visual products provided by the users; (iv) it has not directly derived any economic benefit from the provision of the works, performance and audio-visual products by its users; and (v) after receiving a notice from the right holder, it has deleted such works, performance and audio-visual products as alleged for infringement pursuant to such regulation.

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

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

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To comply with these laws and regulations, we have implemented internal procedures to monitor and review the content we have licensed from content providers before they are released on Xunlei Kankan and remove any infringing content promptly after we receive notice of infringement from the legitimate rights holder.

***Patent law***

The National People's Congress adopted the Patent Law in 1984, and amended it in 1992, 2000 and 2008, respectively. A patentable invention, utility model or design must meet three conditions: novelty, inventiveness and practical applicability. Patents cannot be granted for scientific discoveries, rules and methods for intellectual activities, methods used to diagnose or treat diseases, animal and plant breeds or substances obtained by means of nuclear transformation or designs that are mainly used for marking the pattern, color or combination of these two of prints. The State Intellectual Property Office under the State Council is responsible for receiving, examining and approving patent applications. A patent is valid for a twenty-year term in the case of an invention and a ten-year term in the case of a utility model or design, starting from the application date. A third-party user must obtain consent or a proper license from the patent owner to use the patent except for certain specific circumstances provided by law. Otherwise, the use will constitute an infringement of the patent rights. Among the patent applications we have filed, 44 were granted in the PRC, while another five applications are being examined by the State Intellectual Property Office of the PRC.

***Trademark law***

Registered trademarks are protected under the Trademark Law adopted in 1982 and amended in 1993, 2001 and 2013 and its implementation rules. The PRC Trademark Office of SAIC is responsible for the registration and administration of trademarks throughout the PRC. The Trademark Law has adopted a "first-to-file" principle with respect to trademark registration. Where a trademark for which a registration has been made is identical or similar to another trademark that has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark shall not prejudice the existing right of others obtained by priority, nor shall any person register in advance a trademark that has already been used by another person and has already gained "sufficient degree of reputation" through that person's use. After receiving an application, the PRC Trademark Office will make a public announcement if the relevant trademark passes the preliminary examination. Within three months after such public announcement, any person may file an opposition against a trademark that has passed a preliminary examination. The PRC Trademark Office's decisions on rejection, opposition or cancellation of an application may be appealed to the PRC Trademark Review and Adjudication Board, whose decision may be further appealed through judicial proceedings. If no opposition is filed within three months after the public announcement period or if the opposition has been overruled, the PRC Trademark Office will approve the registration and issue a registration certificate, upon which the trademark is registered and will be effective for a renewable ten-year period, unless otherwise revoked. As of March 31, 2014, we had applied for registration of 157 trademarks, of which we had received 133 registered trademarks in different applicable trademark categories, including 1 trademark registered with the

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United States Patent and Trademark Office and 1 trademark registered with World Intellectual Property Organization.

***Regulation on domain name***

The domain names are protected under the *Administrative Measures on the Internet Domain Names* promulgated by MIIT on November 5, 2004 and effective on December 20, 2004. MIIT is the major regulatory body responsible for the administration of the PRC internet domain names, under supervision of which China Internet Network Information Center, or CNNIC, is responsible for the daily administration of CN domain names and Chinese domain names. On September 25, 2002, CNNIC promulgated the *Implementation Rules of Registration of Domain Name*, or the CNNIC Rules, which was renewed on June 5, 2009 and May 29, 2012, respectively. 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 Measures on Resolution of the Domain Name Disputes*, file a suit to the People's Court or initiate an arbitration procedure. We have registered www.xunlei.com, www.kankan.com and other domain names.

**Regulation on tax**

***PRC enterprise income tax***

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

Moreover, under the EIT Law, enterprises organized under the laws of jurisdictions outside China with their "de facto management bodies" located within China may be considered PRC resident enterprises and therefore subject to PRC enterprise income tax at the rate of 25% on their worldwide income. The Implementation Rules define the term "de facto management body" as the management body that exercises full and substantial control and overall

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management over the business, productions, personnel, accounts and properties of an enterprise. In addition, the *Circular Related to Relevant Issues on the Identification of a Chinese holding Company Incorporated Overseas as a Residential Enterprise under the Criterion of De Facto Management Bodies* issued by the State Administration of Taxation on April 22, 2009 provides that a foreign enterprise controlled by a PRC enterprise or a PRC enterprise group will be classified as a "resident enterprise" with its "de facto management bodies" located within China if the following requirements are satisfied: (i) the senior management and core management departments in charge of its daily operations function mainly in the PRC; (ii) its financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (iii) its major assets, accounting books, company seals, and minutes and files of its board and shareholders' meetings are located or kept in the PRC; and (iv) at least half of the enterprise's directors or senior management with voting rights reside in the PRC. Although the circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups and not those controlled by PRC individuals or foreigners, the determining criteria set forth in the circular may reflect the 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 offshore enterprises, regardless of whether they are controlled by PRC enterprises, individuals or foreigners.

Although we are not controlled by a PRC enterprise or PRC enterprise group and we do not believe that we meet all of the above-mentioned conditions, substantial uncertainty exists as to whether we will be deemed a PRC resident enterprise for enterprise income tax purpose. In the event that we are considered a PRC resident enterprise, we would be subject to the PRC enterprise income tax at the rate of 25% on our worldwide income, but the dividends that we receive from our PRC subsidiaries would be exempt from the PRC withholding tax since such income is exempted under the PRC Enterprise Income Tax Law for a PRC resident enterprise recipient. See "Risk factors Risks related to doing business in China Our global income may be subject to PRC taxes under the PRC EIT Law, which may have a material adverse effect on our results of operations."

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

***PRC business tax***

Pursuant to applicable PRC tax regulations, any entity or individual conducting business in the service industry is generally required to pay a business tax at the rate of 5% on the revenues generated from providing such services. However, if the services provided are related to

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technology development and transfer, such business tax may be exempted subject to the approval of relevant tax authorities.

***PRC value added tax***

On January 1, 2012, the Chinese State Council officially launched a pilot value-added tax reform program, or the Pilot Program, applicable to businesses in selected industries. Businesses in the Pilot Program would pay value added tax, or VAT, instead of business tax. The Pilot Program initially applied only to transportation industry and "modern service industries" in Shanghai and would be expanded to eight trial regions (including Beijing and Guangdong province) and nationwide if conditions permit. The pilot industries in Shanghai included industries involving the leasing of tangible movable property, transportation services, research and development and technical services, information technology services, cultural and creative services, logistics and ancillary services, certification and consulting services. Revenues generated by advertising services, a type of "cultural and creative services", are subject to the VAT tax rate of 6%. According to official announcements made by competent authorities in Beijing and Guangdong province, Beijing launched the same Pilot Program on September 1, 2012, and Guangdong province launched it on November 1, 2012.

The business tax has been imposed primarily on our revenues from the provision of taxable services, assignments of intangible assets and transfers of real estate. Prior to the implementation of the pilot program, our business tax generally ranged from 3% to 5%, subject to the nature of the revenues being taxed. Before the implementation of the pilot program, we were mainly subject to a small amount of VAT mainly for revenues of the sale of software. VAT has been imposed on those revenues at a rate of 17%. With the implementation of the Pilot Program, in addition to the revenues currently subject to VAT, our advertising and content sub-licensing revenues are in the scope of the pilot program and are now subject to VAT at a rate of 6%.

On May 24, 2013, the Ministry of Finance and the State Administration of Taxation issued the *Circular on Tax Policies in the Nationwide Pilot Collection of Value Added Tax in Lieu of Business Tax in the Transportation Industry and Certain Modern Services Industries*, or the Pilot Collection Circular. The scope of certain modern services industries under the Pilot Collection Circular extends to the inclusion of radio and television services.

***PRC dividend withholding tax***

Under the PRC tax laws effective prior to January 1, 2008, dividends paid to foreign investors by foreign-invested enterprises were exempt from PRC withholding tax. Pursuant to the EIT Law and the Implementation Rules, dividends generated after January 1, 2008 and payable by a foreign-invested enterprise in China to its foreign enterprise investors are subject to a 10% withholding tax, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. Under the China-HK Taxation Arrangement, income tax on dividends payable to a company resident in Hong Kong that holds more than a 25% equity interest in a PRC resident enterprise may be reduced to a rate of 5%. According to the SAT Circular 601, the 5% tax rate does not automatically apply and approvals from competent local tax authorities are required before an enterprise can enjoy the relevant tax treatments relating to dividends under the relevant taxation treaties. In addition, according to a tax circular issued by SAT in February 2009, if the main purpose of an offshore arrangement is to obtain a preferential tax treatment, the PRC tax authorities have

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the discretion to adjust the preferential tax rate enjoyed by the relevant offshore entity. Although Xunlei Computer is currently wholly owned by Xunlei Network HK, we cannot assure you that we may be able to enjoy the preferential withholding tax rate of 5% under the China-HK Taxation Arrangement.

**Regulation on labor laws and social insurance**

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

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

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

**Regulation on foreign exchange control and administration**

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

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

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

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

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the new policy, the Renminbi is permitted to fluctuate within a band against a basket of certain foreign currencies.

On August 29, 2008, SAFE issued the *Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises*, or Circular No. 142. Pursuant to Circular No. 142, the Renminbi capital from the settlement of foreign currency capital of a foreign-invested enterprise must be used within the business scope as approved by the applicable government authority and unless it is otherwise provided by law, such Renminbi capital cannot be used for domestic equity investment. Documents certifying the purposes of the settlement of foreign currency capital into Renminbi, including a business contract, must also be submitted for the settlement of the foreign currency. In addition, SAFE strengthened its oversight of the flow and use of the Renminbi capital converted from foreign currency registered capital of a foreign-invested company. The use of such Renminbi capital may not be altered without the SAFE's approval, and such Renminbi capital may not be used to repay Renminbi loans if such loans have not been used. Violations of the Circular No. 142 could result in severe monetary fines or penalties.

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

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

### **Regulation on foreign exchange registration of offshore investment by PRC residents**

On October 21, 2005, SAFE issued the *Circular on Several Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investments via Overseas Special Purpose Companies*, or Circular No. 75, which went into effect on November 1, 2005. Circular No. 75 and related rules provide that if PRC residents establish or acquire direct or indirect interests of offshore special purpose companies, or offshore SPVs, for the purpose of financing these offshore SPVs with assets of, or equity interests in, an enterprise in the PRC, or inject assets or equity interests of PRC entities into offshore SPVs, they must register with local SAFE branches with respect to their investments in offshore SPVs. Circular No. 75 also requires



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PRC residents to file changes to their registration if their offshore SPVs undergo material events such as capital increase or decrease, share transfer or exchange, merger or division, long-term equity or debt investments, and provision of guaranty to a foreign party. SAFE subsequently issued relevant guidance to its local branches with respect to the operational process for the SAFE registration under Circular No. 75, which standardized more specific and stringent supervision on the registration relating to Circular No. 75 and imposed obligations on onshore subsidiaries of offshore SPVs to coordinate with and supervise PRC residents holding direct or indirect interest in offshore SPVs to complete the SAFE registration process. Under the relevant SAFE rules, failure to comply with the registration procedures set forth in Circular No. 75 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore companies of offshore SPVs, including the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from such offshore entity, and may also subject relevant PRC residents and onshore company to penalties under PRC foreign exchange administration regulations.

We have requested PRC residents holding direct or indirect interest in our company to our knowledge to make the necessary applications, filings and amendments as required under Circular No. 75 and other related rules. Our PRC resident shareholders, namely Sean Shenglong Zou, Hao Cheng and Fang Wang, have completed the registration and amendment registration with the local SAFE branch in relation to all our previous private financings and their subsequent ownership changes by April 2012 as required under the SAFE regulations and are in the process of applying for the relevant amendment registrations with the local SAFE branch in relation to their ownership changes in our Company after April 2012. However, we may not be informed of the identities of all the PRC residents holding direct or indirect interest in our company, and we cannot provide any assurances that these PRC residents will comply with our request to make or obtain any applicable registrations or comply with other requirements required by Circular No. 75 or other related rules. The failure or inability of our PRC resident shareholders to make any required registrations or comply with other requirements under Circular No. 75 and other related rules may subject such PRC residents or our PRC subsidiaries to fines and legal sanctions and may also limit our ability to raise additional financing and contribute additional capital into or provide loans to (including using the proceeds from this offering) our PRC subsidiaries, limit our PRC subsidiaries' ability to pay dividends or otherwise distribute profits to us, or otherwise adversely affect us.

### **Regulation on employee share options**

On December 25, 2006, the People's Bank of China promulgated the *Administrative Measures for Individual Foreign Exchange*. On February 15, 2012, SAFE issued the *Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies*, or the Stock Option Rules, which replaced the *Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Ownership Plans or Stock Option Plans of Overseas Publicly-Listed Companies* issued by SAFE on March 28, 2007. Pursuant to the Stock Option Rules, PRC residents who are granted shares or stock options by companies listed on overseas stock exchanges according to the stock incentive plans are required to register with SAFE or its local branches, and PRC residents participating in the stock incentive plans of overseas listed companies shall retain a qualified PRC agent, which could be a PRC subsidiary of such overseas publicly-listed company or another qualified institution selected by such PRC subsidiary, to

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conduct the SAFE registration and other procedures with respect to the stock incentive plans on behalf of these participants. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, purchase and sale of corresponding stocks or interests, and fund transfer. In addition, the PRC agents are required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agents or the overseas entrusted institution or other material changes. The PRC agents shall, on behalf of the PRC residents who have the right to exercise the employee share options, apply to SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents' exercise of the employee share options. The foreign exchange proceeds received by the PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in the PRC opened by the PRC agents before distribution to such PRC residents. In addition, the PRC agents shall file each quarter the form for record-filing of information of the Domestic Individuals Participating in the Stock Incentive Plans of Overseas Listed Companies with SAFE or its local branches.

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

**Regulation on dividend distributions**

The principal regulations governing the distribution of dividends paid by wholly foreign-owned enterprises include:

*Company Law (2005);*

*Wholly Foreign-Owned Enterprise Law (1986), as amended in 2000; and*

*Wholly Foreign-Owned Enterprise Law Implementation Regulations (1990), as amended in 2001.*

Under these regulations, wholly foreign-owned enterprises in the PRC may pay dividends only out of their accumulated profits, if any, as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise in the PRC is required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves until its cumulative total reserve funds reaches 50% of its

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registered capital. The board of directors of a wholly foreign-owned enterprise has the discretion to allocate a portion of its after tax profits to its employee welfare and bonus funds. These reserve funds, however, may not be distributed as cash dividends.

**Regulation on overseas listings**

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

However, our PRC legal counsel has further advised us uncertainties still exist as to how the M&A Rules will be interpreted and implemented and its opinions summarized above are subject to any new laws, rules and regulations or detailed implementations and interpretations in any form relating to the M&A Rules. If CSRC or another PRC regulatory agency subsequently determines that prior CSRC approval was required, we may face regulatory actions or other sanctions from CSRC or other PRC regulatory agencies. These regulatory agencies may impose fines and penalties on our operations, limit our operating privileges, delay or restrict the repatriation of the proceeds from this offering into the PRC or payment or distribution of dividends by our PRC subsidiaries, or take other actions that could materially adversely affect our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ADSs. CSRC or other PRC regulatory agencies also may take actions requiring us, or making it advisable for us, to halt this offering before settlement and delivery of the ADSs offered hereby. Consequently, if you engage in market trading or other activities in anticipation of and prior to settlement and delivery, you do so at the risk that settlement and delivery may not occur. In addition, if CSRC later requires that we obtain its approval for this offering, we may be unable to obtain a waiver of CSRC approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties or negative publicity regarding CSRC approval requirements could have a material adverse effect on the trading price of our ADSs.

Table of Contents**Management****Directors and executive officers**

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

<b>Directors and executive officers</b>	<b>Age</b>	<b>Position/title</b>
Sean Shenglong Zou	42	Co-Founder, Chairman and Chief Executive Officer
Hao Cheng	38	Co-Founder, Director and General Manager of Xunlei Kankan and Games Business Unit
Qin Liu	41	Director
Quan Zhou	56	Director
Yang Wang	39	Director
Feng Hong	37	Director
Chuan Wang	44	Director
Hongjiang Zhang	53	Director
Peng Huang	47	Director and Chief Operating Officer
Tao Thomas Wu	48	Chief Financial Officer

*Mr. Sean Shenglong Zou* is our co-founder and has been our chief executive officer and chairman since our inception in February 2005. Mr. Zou is an expert in distributed computing. Mr. Zou pioneered the theory of content-based multimedia indexing technology and resource discovery network that provides time-saving online experience for internet users and has led our company to revolutionize traditional internet acceleration by the technology and network. Mr. Zou received a master's degree in computer science from Duke University in the U.S. in 1998 and a bachelor's degree in computer science from University of Wisconsin-Madison in 1997.

*Mr. Hao Cheng* is our co-founder and has been our director since our inception in February 2005. Mr. Cheng is also currently the chief executive officer of Xunlei Games Development (Shenzhen) Co. Ltd. Prior to joining us, Mr. Cheng managed the products, services, marketing and sales of the corporate search team at Baidu, Inc. Mr. Cheng received a master's degree in computer science from Duke University in the U.S. in 1999 and a bachelor's degree in mathematics from Nankai University in China in 1997.

*Mr. Qin Liu* has been a director of our company since September 2005. Mr. Liu is a director of the controlling general partner of Morningside China TMT Fund I, L.P., Morningside China TMT Fund II, L.P., Morningside China TMT Fund III, L.P., Morningside China TMT Special Opportunity Fund, L.P. and Morningside China TMT Fund III Co-investment, L.P., which we refer to collectively as the Morningside Funds, and has been a director of Morningside Venture Capital Limited, the investment manager of the Morningside Funds. Mr. Liu has served as a director in YY Inc., a Nasdaq-listed company since June 2008, and also serves as director in several non-public portfolio companies of the fund. From 2000 through 2008, Mr. Liu worked at Morningside IT Management Services (Shanghai) Co., Ltd. and established its print media business and served as publisher of The Bund, an upscale lifestyle weekly publication. Mr. Liu received a master's degree in business administration, or MBA, from China Europe International Business School in 1999 and a bachelor's degree in electrical engineering from Beijing Science & Technology University in 1993.

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*Mr. Quan Zhou* has served as a director of our company since November 2006. Mr. Zhou is currently a managing member of the general partner of IDG Technology Venture Investments, L.P. and its successor funds. Mr. Zhou is also serving as a director of the general partner of each of IDG-Accel China Growth Fund I and IDG-Accel China Capital Fund, and their respective successor funds. He currently serves on the board of SouFun Holdings Limited, a NYSE-listed company, and a number of non-public portfolio companies. Mr. Zhou received a Ph.D degree in fiber optics from Rutgers University in 1989, a master's degree in chemical physics from the Chinese Academy of Sciences in 1985 and a bachelor's degree in chemistry from China Science and Technology University in 1982.

*Mr. Yang Wang* has been a director of our company since February 2012. Since 2010, Mr. Wang has been a partner of Primavera Capital Group, focusing on private equity investments. From 2006 to 2010, Mr. Wang was an executive director and managing director of Goldman Sachs principal investment area. From 2000 to 2006, Mr. Wang served as associate and then vice president at China International Capital Corp., where he served for private equity and investment banking divisions. Mr. Wang is currently also a director of Geely Automotive Holdings Ltd., a company listed on the Hong Kong Stock Exchange. Mr. Wang received a master's degree in science and a bachelor's degree in management engineering from Shanghai Jiaotong University in 2000 and 1997, respectively.

*Mr. Feng Hong* has been a director of our company since April 2014. Mr. Hong is a co-founder of Beijing Xiaomi Technology Company Limited, or Xiaomi Technology, and has been a vice president since its inception. From 2006 to 2010, Mr. Hong held various product and engineering management roles in Google. Prior to that, from 2001 to 2005, Mr. Hong worked at Siebel as a software engineer. Mr. Hong received his master's degree in computer science from Purdue University in 1999 and his bachelor's degree in computer science and engineering from Shanghai Jiao Tong University in China in 2001.

*Mr. Chuan Wang* has been a director of our company since March 2014. Mr. Wang is a co-founder of Xiaomi Technology, and the founder of Beijing Duokan Technology Co., Ltd., where he has served as its chief executive officer since its inception of business in 2010. Between 2005 and 2011, Mr. Wang was the general manager of Beijing Thunder Stone Century Technology Co., Ltd. Prior to that, Mr. Wang was the general manager of Beijing Thunder Stone Digital Technology Co., Ltd. since 1997. Mr. Wang received his bachelor of science degree from Beijing University of Technology in China in 1993.

*Dr. Hongjiang Zhang* has been our director since April 2014. Dr. Zhang currently serves as an executive director and the chief executive officer of Kingsoft Corporation Limited, which is listed on the Hong Kong Stock Exchange (Stock Code: 3888). Prior to joining Kingsoft Corporation Limited in October 2011, Dr. Zhang was the chief technology officer of Microsoft Asia-Pacific Research and Development Group and the managing director of the Microsoft Advanced Technology Center and a Distinguished Scientist. In his dual role, Dr. Zhang led Microsoft's research and development initiatives in China, including strategy and planning, research and development, as well as incubation of products, services and solutions. Dr. Zhang was also a member of the executive management committee of Microsoft (China) Limited. Dr. Zhang was the deputy managing director and a founding member of Microsoft Research Asia. Dr. Zhang has authored four books and over 400 scientific papers and holds approximately 200 US and international patents. Dr. Zhang received a Ph.D. in electrical

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engineering from the Technical University of Denmark in 1991, and a bachelor of science degree from Zhengzhou University, China, in 1982.

*Mr. Peng Huang* has been our chief operating officer since September 2013 and our director since April 2014. Mr. Huang joined us in 2009, and currently oversees our business operation and strategic cooperation. From 2006 to 2009, Mr. Peng worked as a general vice president for PPTV. From 1996 to 2001, Mr. Peng was the director of the Shanghai office of Shenzhen Huawei Technology Co., Ltd. and general manager of Shanghai Huawei Company. Mr. Huang received a master's degree in communications and electronic system from the University of Electronic Science and Technology of China in 1992 and a bachelor's degree in wireless engineering from Northwestern Polytechnical University of China in 1987.

*Mr. Tao Thomas Wu* has been our chief financial officer since November 2013. Prior to joining our company, Mr. Wu had served as the chief financial officer of Noah Holdings Limited, a U.S. listed company, since 2010. Prior to that, Mr. Wu spent nearly 20 years working in the financial services sector. Most recently, Mr. Wu was a senior portfolio manager with AllianceBernstein L.P. in the United States and a senior analyst with Moody's Investors Services in New York. Mr. Wu previously also worked in investment banks, primarily with JPMorgan Chase & Co. in New York and Singapore. Mr. Wu received his master's degree in public administration from Syracuse University in 1992 and his bachelor's degree in mathematics from Grinnell College in May 1987.

## **Employment agreements**

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

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

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

**Board of directors**

Our board of directors currently consists of nine directors. A director is not required to hold any shares in our company to qualify to serve as a director. Our board of directors may exercise all the powers of our company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, or any thereof and, subject to the rights and powers of any class or series of preferred shares, may issue debentures, debenture stock and other securities, whether outright or as a security for any debt, liability or obligation of our company or any third party.

**Committees of the board of directors**

Prior to the completion of this offering, we intend to establish an audit committee, a compensation committee and a corporate governance and nominating committee under the board of directors. We intend to adopt a charter for each of the three committees prior to the completion of this offering. Each committee's members and functions are described below.

**Audit committee.** Our audit committee will consist of \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_, and will be chaired by \_\_\_\_\_. Our board of directors has determined that each of \_\_\_\_\_ satisfies the "independence" requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended, and [Section 303A of the Corporate Governance Rules of the NYSE/Rule 5605(a)(2) of the Nasdaq Listing Rules]. The audit committee will oversee our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee will be responsible for, among other things:

selecting the independent registered public accounting firm and pre-approving all auditing and non-auditing services permitted to be performed by the independent registered public accounting firm;

reviewing with the independent registered public accounting firm any significant matters or difficulties encountered by the external auditors during the course of their audits and management's response;

reviewing and approving all proposed related party transactions, as defined in Item 404 of Regulation S-K under the Securities Act;

discussing the annual audited financial statements with management and the independent registered public accounting firm;

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reviewing significant matters as to the adequacy of our internal controls and any special procedures adopted by the external auditors in light of material control deficiencies;

annually reviewing and reassessing the adequacy of our audit committee charter;

meeting separately and periodically with management and the independent registered public accounting firm; and

reporting regularly to the board.

**Compensation committee.** Our compensation committee will consist of \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_, and will be chaired by \_\_\_\_\_. Our board of directors has determined that each of \_\_\_\_\_ satisfies the "independence" requirements of [the Corporate Governance Rules of the NYSE/Rule 5605(a)(2) of the Nasdaq Listing Rules]. The compensation committee will assist the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated upon. The compensation committee will be responsible for, among other things:

reviewing the total compensation package for our three most senior executives and making recommendations to the board with respect to it;

approving and overseeing the total compensation package for our executives other than the three most senior executives;

reviewing the compensation of our directors and making recommendations to the board with respect to it; and

periodically reviewing and approving any long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, and employee pension and welfare benefit plans.

**Corporate governance and nominating committee.** Our corporate governance and nominating committee will consist of \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_, and will be chaired by \_\_\_\_\_. Our board of directors has determined that each of \_\_\_\_\_ satisfies the "independence" requirements of [the Corporate Governance Rules of the NYSE/Rule 5605(a)(2) of the Nasdaq Listing Rules]. The corporate governance and nominating committee will assist the board in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The corporate governance and nominating committee will be responsible for, among other things:

recommending nominees to the board for election or re-election to the board, or for appointment to fill any vacancy on the board;

reviewing annually with the board the current composition of the board with regards to characteristics such as independence, age, skills, experience and availability of service to us;

selecting and recommending to the board the names of directors to serve as members of the audit committee and the compensation committee, as well as of the corporate governance and nominating committee itself;

advising the board periodically with regards to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and





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regulations, and making recommendations to the board on all matters of corporate governance and on any remedial action to be taken; and

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

**Duties of directors**

Under Cayman Islands law, our directors have a fiduciary duty to act honestly, in good faith and with a view to our best interests. Our directors also have a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and restated from time to time. Our company may have the right to seek damages if a duty owed by our directors is breached. You should refer to "Description of share capital Differences in corporate law" for additional information on our standard of corporate governance under Cayman Islands law.

**Terms of directors and officers**

Our officers are elected by and serve at the discretion of our 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 or the unanimous written resolution of all shareholders. A director will be removed from office automatically (1) if a simple majority of all directors (including a non-independent director) determine at a duly called and constituted board meeting that such director has been guilty of actual fraud or willful neglect in performing his duties as a director, or (2) if a director is notified of, and fails to attend, an aggregate of three duly called and constituted board meetings within any 365-day period.

**Compensation of directors and executive officers**

For the fiscal year ended December 31, 2013, we paid an aggregate of approximately US\$0.4 million in cash to our executive officers, and we did not pay any cash compensation to our non-executive directors. In addition, we paid approximately US\$15,000 to provide pension, housing funds and commercial insurance to our executive officers, and we did not set aside or accrued any amount to provide such benefits to our non-executive directors. For share incentive grants to our officers and directors under our share incentive plan, see " Share incentive plans." For restricted share grants outside the share incentive plan, see " Share Incentive Plans."

**Share incentive plans**

We have adopted (i) a 2010 share incentive plan in December 2010, or the 2010 Plan, (ii) a 2013 share incentive plan in November 2013, as supplemented, or the 2013 Plan and (iii) a 2014 share incentive plan in April 2014, as supplemented, or the 2014 Plan. The purpose of the plans is to attract and retain the best available personnel by linking the personal interests of the members of the board, employees, and consultants to the success of our business and by providing such individuals with an incentive for outstanding performance to generate superior returns for our shareholders.

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**2010 Plan**

Under the 2010 Plan and the seventh amended and restated shareholders' agreement dated as of April 24, 2014, the maximum number of shares in respect of which options, restricted shares, or restricted share units that may be granted is 26,822,828 shares. As of the date of this prospectus, options to purchase an aggregate number of 21,374,267 common shares are outstanding.

The following paragraphs summarize the terms of the 2010 Plan.

**Types of awards.** The following briefly describe the principal features of the various awards that may be granted under the 2010 Plan.

*Options.* Options provide for the right to purchase a specified number of our Class A common shares at a specified price and usually will become exercisable in the discretion of our plan administrator in one or more installments after the grant date. The option exercise price may be paid, subject to the discretion of the plan administrator, in cash or by check, in our Class A common shares which have been held by the option holder for such period of time as may be required to avoid adverse accounting treatment, in other property with value equal to the exercise price, through a broker-assisted cashless exercise, or by any combination of the foregoing.

*Restricted Shares.* A restricted share award is the grant of our Class A common shares which are subject to certain restrictions and may be subject to risk of forfeiture. Unless otherwise determined by our plan administrator, a restricted share is nontransferable and may be forfeited or repurchased by us upon termination of employment or service during a restricted period. Our plan administrator may also impose other restrictions on the restricted shares, such as limitations on the right to vote or the right to receive dividends.

*Restricted Share Units.* Restricted share units represent the right to receive our Class A common shares at a specified date in the future, subject to forfeiture of such right upon termination of employment or service during the applicable restriction period. If the restricted share units have not been forfeited, then we shall deliver to the holder unrestricted Class A common shares that will be freely transferable after the last day of the restriction period as specified in the award agreement.

**Plan administration.** Before our shares are listed on a stock exchange, the 2010 Plan shall be administered by our board of directors. After our shares are listed on a stock exchange, the 2010 Plan shall be administered by our board of directors or the compensation committee of the board of directors (or a similar body) formed in accordance with applicable exchange rules. The plan administrator will determine the provisions and terms and conditions of each grant.

**Award agreement.** Options, restricted shares, or restricted share units granted under the 2010 Plan are evidenced by an award agreement that sets forth the terms, conditions, and limitations for each grant.

**Option exercise price.** The exercise price subject to an option shall be determined by the plan administrators which may be a fixed or variable price related to the fair market value of the subject of the grant. The exercise price may be amended or adjusted in the absolute discretion of the plan administrators, the determination of which shall be final, binding and conclusive. To the extent not prohibited by applicable laws or the rules of any exchange on which our

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securities are listed, a downward adjustment of the exercise prices of options shall be effective without the approval of the shareholders or the approval of the affected participants.

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

**Term of the awards.** The term of each option grant shall be stated in the award agreement, provided that the term shall not exceed 10 years from the date of the grant. As for the restricted shares and restricted share units, the plan administrator shall determine and specify the period of restriction in the award agreement.

**Vesting schedule.** In general, the plan administrator determines the vesting schedule, which is set forth in the award agreement. The administrator, in its discretion, may accelerate the vesting schedule of an award.

**Transfer restrictions.** Except as otherwise provided by the plan administrators, no option award shall be assigned, transferred, or otherwise disposed of other than by will or the laws of descent and distribution.

**Termination.** Unless terminated earlier, the 2010 Plan will expire automatically in December 2020. With the approval of our board of directors, the plan administrators may, at any time and from time to time, terminate, amend or modify the 2010 Plan. Our board of directors has the authority to amend or terminate the plan subject to shareholder approval to the extent necessary to comply with applicable law.

The following table summarizes, as of the date of this prospectus, the outstanding options granted to our executive officers, directors, and other individuals as a group under our 2010 Plan.

<b>Name</b>	<b>Common shares underlying options awarded(US\$/share)</b>	<b>Exercise price</b>	<b>Date of grant</b>	<b>Date of expiration</b>
Peng Huang	*	2.40	June 3, 2009	June 2, 2016
Tao Thomas Wu	*	2.11	November 18, 2013	November 17, 2020
Other Individuals as a Group <sup>(1)</sup>	20,832,506			