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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 20-F**

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934  
OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2023

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-38665

**CooTek (Cayman) Inc.**

(Exact Name of Registrant as Specified in Its Charter)

N/A

(Translation of Registrant's Name into English)

**Cayman Islands**

(Jurisdiction of Incorporation or Organization)

**11F, T2, No.16, Lane 399, Xinlong Road, Minhang District  
Shanghai, 201101**

**People's Republic of China**

(Address of Principal Executive Offices)

**Karl Kan Zhang, Chairman of the Board of Directors, Chief Technology Officer and Acting Chief Financial Officer**

**11F, T2, No.16, Lane 399, Xinlong Road, Minhang District**

**Shanghai, 201101 People's Republic of China**

**Phone: +86 021 6485 6352**

**Email: ir@cootek.com**

(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

**None**

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

**American depository shares, each representing 650 Class A ordinary shares**

**Class A ordinary shares, par value US\$0.00001 per share**

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

**None**

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

As of December 31, 2023, there were 4,837,255,456 ordinary shares issued and outstanding, par value US\$0.00001 per share, being the sum of 4,591,030,991 Class A ordinary shares and 246,224,465 Class B ordinary shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

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If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Yes  No

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

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

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

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

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

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant’s executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

U.S. GAAP                       International Financial Reporting Standards as issued by the International Accounting Standards Board                       Other

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

Item 17  Item 18

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

Yes  No

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

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

Yes  No

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## INTRODUCTION

Unless otherwise indicated or the context otherwise requires, references in this annual report on Form 20-F to:

- “CooTek,” are to CooTek (Cayman) Inc., and “we,” “us,” “our company” or “our” are to CooTek (Cayman) Inc. and its subsidiaries, and in the context of describing the operations and consolidated financial information, the VIEs (as defined below) and the VIEs’ subsidiaries;
- “China” or the “PRC” are to the People’s Republic of China;
- “Class A ordinary shares” are to our Class A ordinary shares of par value US\$0.00001 per share;
- “Class B ordinary shares” are to our Class B ordinary shares of par value US\$0.00001 per share;
- “shares” or “ordinary shares” are to our Class A and Class B ordinary shares, par value US\$0.00001 per share;
- “ADSs” are to our American depositary shares, each of which represents 650 Class A ordinary shares; except as otherwise indicated, all ADS and per ADS data in this annual report give retroactive effect to the change in the number of ordinary shares represented by each ADS from 50 to 650 that became effective on May 9, 2022;
- “ADRs” are to the American depositary receipts that evidence our ADSs;
- “DAUs” are to the number of active users of our products during a given day. For each individual product, we treat each mobile device on which at least one of the following actions is taken during a given day as one active user for that day: (i) activating or launching such product, (ii) logging in with the user account for such product, or (iii) any other actions that result in a successful network access to our services through such product. The DAUs of multiple products during a given day is the sum of active users of each such product for that day;
- “MAUs” are to the number of active users of our products during a given month. For each individual product, we treat each mobile device on which at least one of the following actions is taken during a given month as one active user for that month: (i) activating or launching such product, (ii) logging in with the user account for such product, or (iii) any other actions that result in a successful network access to our services through such product. The MAUs of multiple products during a given month is the sum of active users of each such product for that month;
- “our portfolio products” are to pan-entertainment mobile applications, which include our mobile games and online literature products, and utility mobile applications, which include our internally developed utility applications to enhance mobile users’ functional experiences on smart phones;
- “the VIEs” or “variable interest entities” are to Shanghai Chubao (CooTek) Information Technology Co., Ltd. and Molihong (Shenzhen) Internet Technology Co., Ltd., all of which are companies incorporated in mainland China in which we do not have equity interests but whose financial results have been consolidated into our consolidated financial statements based solely on contractual arrangements in accordance with U.S. GAAP;
- “RMB” and “Renminbi” are to the legal currency of mainland China; and
- “US\$,” “U.S. dollars,” “\$,” and “dollars” are to the legal currency of the United States.

All discrepancies in any table between the amounts identified as total amounts and the sum of the amounts listed therein are due to rounding.

Unless otherwise noted, all translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this annual report were made at a rate of RMB7.0999 to US\$1.00, the exchange rate on December 29, 2023 set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System. We make no representation that any Renminbi or U.S. dollars amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade.

## FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains forward-looking statements that reflect our current expectations and views of future events. Known and unknown risks, uncertainties and other factors, including those listed under “Item 3. Key Information—D. Risk Factors,” 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 some of these forward-looking statements by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “is/are likely to,” “potential,” “continue” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include statements relating to:

- our mission and strategies;
- our future business development, financial conditions and results of operations;
- the expected growth of the mobile internet industry and mobile advertising industry;
- our expectations regarding demand for and market acceptance of our products and services;
- competition in our industry;
- government policies and regulations relating to our industry or any aspect of our operations and the implementation of a corporate structure involving the VIEs in China; and
- other factors described under “Item 3. Key Information—D. Risk Factors.”

You should read this annual report and the documents that we refer to in this annual report and have filed as exhibits to this annual report completely and with the understanding that our actual future results may be materially different from what we expect. Other sections of this annual report discuss factors which could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors emerge from time to time and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We qualify all of our forward-looking statements by these cautionary statements.

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

**PART I**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

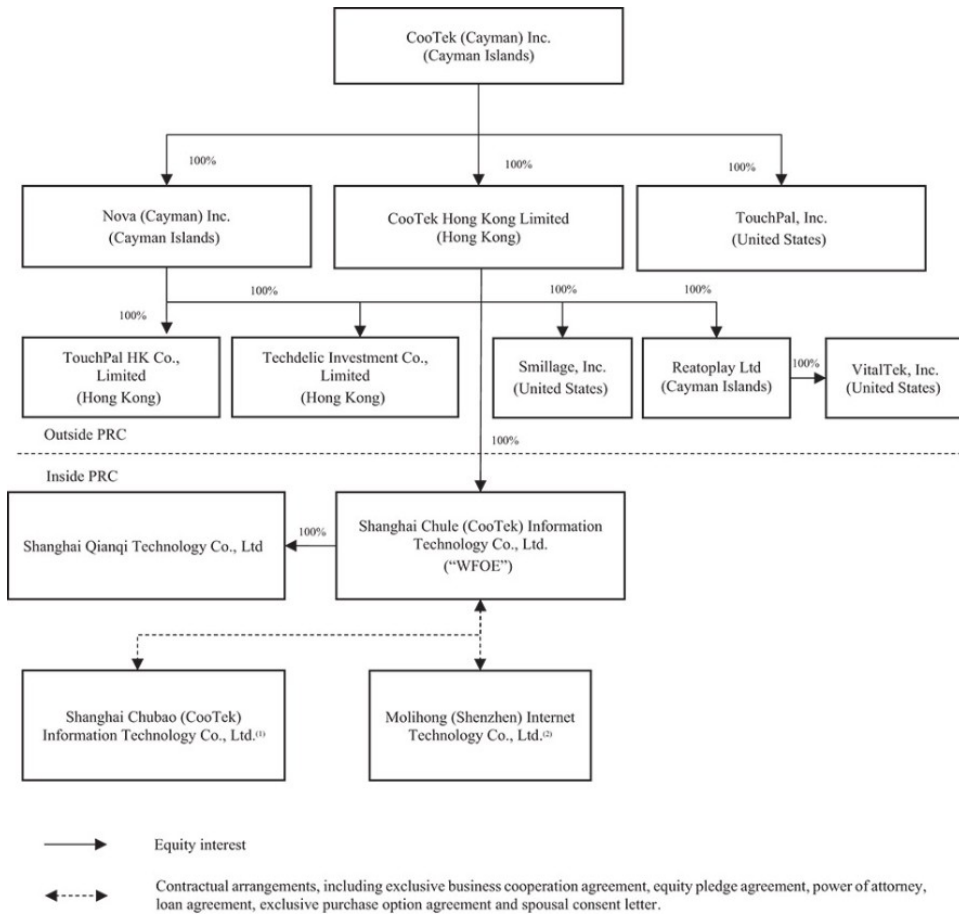
Not applicable.

**ITEM 3. KEY INFORMATION**

**Our Holding Company Structure and Contractual Arrangements with the VIEs**

CooTek (Cayman) Inc. is not a Chinese operating company but a Cayman Islands holding company with no equity ownership in the VIEs. We conduct our operations in China through (i) our PRC subsidiaries, and (ii) the VIEs with which we have maintained contractual arrangements and the VIEs' subsidiaries. PRC laws and regulations restrict and impose conditions on foreign investment in the provision of internet information services. Accordingly, we operate these businesses in mainland China through the VIEs and the VIEs' subsidiaries, and rely on contractual arrangements among our PRC subsidiary, the VIEs and their nominee shareholders to control the business operations of the VIEs. Revenues contributed by the VIEs accounted for 37%, 39% and 18% of our total revenues for the years ended December 31, 2021, 2022 and 2023, respectively. As used in this annual report, "CooTek," are to CooTek (Cayman) Inc., and "we," "us," "our company" or "our" are to CooTek (Cayman) Inc. and its subsidiaries, and in the context of describing our operations and consolidated financial information, the VIEs and the VIEs' subsidiaries, including Shanghai Chubao (Cootek) Information Technology Co., Ltd., or Shanghai Chubao, and Molihong (Shenzhen) Internet Technology Co., Ltd., or Molihong, in mainland China and their subsidiaries. Holders of our ADSs hold equity interest in CooTek (Cayman) Inc., our Cayman Islands holding company, and do not have direct or indirect equity interests in the VIEs and their subsidiaries.

The following diagram illustrates our corporate structure, including our significant subsidiaries and other entities that are material to our business, as of the date of this annual report:



Notes:

- (1) Karl Kan Zhang, Susan Qiaoling Li, Michael Jialiang Wang, Jim Jian Wang and Haiyan Zhu are the beneficial owners of CooTek (Cayman) Inc., and each holds 25.0%, 21.94%, 21.94%, 13.12% and 18.0% of the equity interests in Shanghai Chubao, respectively. Karl Kan Zhang and Susan Qiaoling Li are our co-founders, directors and executive officers. Michael Jialiang Wang is our consultant and one of our directors. Jim Jian Wang is a former director of our company. Haiyan Zhu is one of our early investors.
- (2) Karl Kan Zhang and an employee of our company hold 99% and 1% of the equity interests in Molihong, respectively.

A series of contractual agreements have been entered into by and among our PRC subsidiary, the VIEs and their respective shareholders, which include exclusive business cooperation agreement, exclusive purchase option agreement, loan agreement, equity agreement, power of attorney and spouse consent letters. Terms contained in each set of contractual arrangements with the VIEs and their respective shareholders are substantially similar. For more details of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure.”

However, the contractual arrangements may not be as effective as direct ownership in providing us with control over the VIEs and we may incur substantial costs to enforce the terms of the arrangements. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—We rely on contractual arrangements with the VIEs and their respective shareholders for our operations in mainland China, which may not be as effective in providing operational control as direct ownership” and “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—Any failure by the VIEs or their shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on our business.”

There are also substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules regarding the status of the rights of our Cayman Islands holding company with respect to its contractual arrangements with the VIEs and their nominee shareholders. It is uncertain whether any new PRC laws or regulations relating to variable interest entity structures will be adopted or if adopted, what they would provide. If we or any of the VIEs is found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—If the PRC government determines that the contractual arrangements constituting part of the VIE structure do not comply with PRC regulations on foreign investment in internet and other related businesses, or if these regulations or their interpretation change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations” and “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us.”

Our corporate structure is subject to risks associated with our contractual arrangements with the VIEs. Our contractual arrangements with the VIEs have not been tested in court to date. Investors may never directly hold equity interests in the VIEs. If the PRC government determines that our contractual arrangements with the VIEs do not comply with PRC regulatory restrictions on foreign investment in those industries, or if these regulations or the interpretation of existing regulations change or are interpreted differently in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations. The PRC regulatory authorities could disallow the VIE structure, which would likely result in a material adverse change in our operations, and our ADSs may decline significantly in value or become worthless. Our holding company, our PRC subsidiaries and the VIEs, and investors of our company face uncertainty about potential future actions by the PRC government that could affect the enforceability of the contractual arrangements with the VIEs and, consequently, significantly affect the financial performance of the VIEs and our company as a whole. For a detailed description of the risks associated with our corporate structure, please refer to risks disclosed under “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure.”

PRC government’s significant authority in regulating our operations and its oversight and control over offerings conducted overseas by, and foreign investment in, China-based issuers could significantly limit or completely hinder our ability to offer or continue to offer securities to investors. Implementation of industry-wide regulations in this nature may cause the value of such securities to significantly decline or be of little or no value. For more details, see “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—The PRC government’s significant oversight and discretion over our business operation could result in a material adverse change in our operations and the value of our ADSs.”

Risks and uncertainties arising from the legal system in China, including risks and uncertainties regarding the enforcement of laws and quickly evolving rules and regulations in China, could result in a material adverse change in our operations and the value of our ADSs. For more details, see “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us.”



## Permissions Required from the PRC Authorities for Our Operations

We conduct our business primarily through our subsidiaries, the VIEs and the VIEs' subsidiaries in China. Our operations in mainland China are governed by PRC laws and regulations. As of the date of this annual report, our PRC subsidiaries, the VIEs and the VIEs' subsidiaries have not obtained all the requisite licenses and permits from the PRC government authorities that are material for the business operations of our holding company, the VIEs and the VIEs' subsidiaries in mainland China, including, among others, the internet publication service license, publication codes, and internet audio-visual program transmission license. Given the uncertainties of interpretation and implementation of laws and regulations and the enforcement practice by government authorities, we may be required to obtain additional licenses, permits, filings or approvals for the functions and services of our platform in the future. If we, our subsidiaries, the VIEs or the VIEs' subsidiaries do not receive or maintain any necessary permissions or approvals, inadvertently conclude that such permissions or approvals are not required, or if applicable laws, regulations, or interpretations change and we are required to obtain such permissions or approvals in the future, we cannot assure you that we will be able to obtain the necessary permissions or approvals in a timely manner, or at all, and such approvals may be rescinded even if obtained. Any such circumstance could subject us to penalties, including fines, suspension of business and revocation of required licenses, significantly limit or completely hinder our ability to continue to offer securities to investors and cause the value of such securities to significantly decline or be worthless. For more detailed information, see "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—Our business is subject to complex and evolving laws, regulations and governmental policies in China and other countries and regions where we have business. Many of these laws, regulations and governmental policies are subject to change and uncertain interpretation, and could result in claims, changes to our business practices, increased cost of operations, or declines in our growth or engagement, financial performance, or otherwise harm our business."

Furthermore, in connection with our historical issuance of securities to foreign investors, as of the date of this annual report, we, our PRC subsidiaries and the VIEs, (i) are not required to obtain permissions from the China Securities Regulatory Commission, or the CSRC, (ii) are not required to go through cyber security review by the Cyberspace Administration of China, and (iii) have not received or were denied such requisite permissions by any PRC authority. As advised by our PRC legal counsel, JunHe LLP, under the currently effective PRC laws and regulations, we are not required to obtain any permission from or complete any filing with the CSRC or go through a cybersecurity review by the Cyberspace Administration of China for our historical issuance of securities to foreign investors.

However, the PRC government has promulgated certain regulations and rules to exert more oversight and control over offerings that are conducted overseas and/or foreign investment in China-based issuers. On February 17, 2023, the CSRC released the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies and five supporting guidelines, effective March 31, 2023. On May 26, 2023, the CSRC promulgated another supporting guideline, which came into effect on the same date. According to these measures, mainland China companies that directly or indirectly offer or list their securities in an overseas market are required to file with the CSRC. An overseas listed company must also submit the filing with respect to its follow-on offerings, issuance of convertible corporate bonds and exchangeable bonds, and other equivalent offering activities, within a specific time frame requested under these measures. Therefore, we will be required to file with the CSRC for our overseas listing or offering of equity and equity linked securities in the future within the applicable scope of these measures. For more detailed information, see "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—The approval of, report and filings with the CSRC or other PRC government authorities may be required in connection with our future offshore offerings and listings under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval or complete such filing and report process."

### **The Holding Foreign Companies Accountable Act**

Pursuant to the Holding Foreign Companies Accountable Act, or the HFCAA, if the Securities and Exchange Commission, or the SEC, determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspections by the Public Company Accounting Oversight Board, or the PCAOB, for two consecutive years, the SEC will prohibit our shares or the ADSs from being traded on a national securities exchange or in the over-the-counter trading market in the United States. On December 16, 2021, the PCAOB issued a report to notify the SEC of its determination that the PCAOB was unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong, including our auditor. In May 2022, the SEC conclusively listed us as a Commission-Identified Issuer under the HFCAA following the filing of our annual report on Form 20-F for the fiscal year ended December 31, 2021. On December 15, 2022, the PCAOB issued a report that vacated its December 16, 2021 determination and removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms. As of the date of this annual report, the PCAOB has not issued any new determination that it is unable to inspect or investigate completely registered public accounting firms headquartered in any jurisdiction. For this reason, we do not expect to be identified as a Commission-Identified Issuer under the HFCAA after we file this annual report on Form 20-F.

Each year, the PCAOB will determine whether it can inspect and investigate completely registered public accounting firms in mainland China and Hong Kong, among other jurisdictions. If the PCAOB determines in the future that it no longer has full access to inspect and investigate completely registered public accounting firms in mainland China and Hong Kong and we continue to use an accounting firm headquartered in one of these jurisdictions to issue an audit report on our financial statements filed with the SEC, we would be identified as a Commission-Identified Issuer following the filing of the annual report on Form 20-F for the relevant fiscal year. There can be no assurance that we would not be identified as a Commission-Identified Issuer for any future fiscal year, and if we were so identified for two consecutive years, we would become subject to the prohibition on trading under the HFCAA. See “Item 3. Key Information—Risk Factors—Risks Related to Doing Business in China—The PCAOB had historically been unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections of our auditor in the past has deprived our investors with the benefits of such inspections” and “Item 3. Key Information—Risk Factors—Risks Related to Doing Business in China—Our ADSs may be prohibited from trading in the United States under the HFCAA in the future if the PCAOB is unable to inspect or investigate completely auditors located in China. The prohibition of trading in the ADSs, or the threat of the trading being prohibited, may materially and adversely affect the value of your investment.”

### **Cash and Asset Flows through Our Organization**

CooTek (Cayman) Inc. transfers cash to its wholly owned Hong Kong subsidiaries by making capital contributions or providing loans, and the Hong Kong subsidiaries transfer cash to the subsidiaries in mainland China by making capital contributions or providing loans to them. Because CooTek (Cayman) Inc. and Shanghai Chule control the VIEs through contractual arrangements, they are not able to make direct capital contribution to the VIEs and their subsidiaries. However, they may transfer cash to the VIEs by loans or by making payments to the VIEs for inter-group transactions.

We currently do not have cash management policies in place that dictate how funds are transferred between CooTek (Cayman) Inc., our subsidiaries, and the VIEs and the VIEs’ subsidiaries. Rather, the funds can be transferred in accordance with the applicable PRC laws and regulations.

Under the currently effective PRC laws and regulations, an offshore holding company may provide funding to its PRC subsidiaries mainly through capital contributions or loans, and to the VIEs and the VIEs’ subsidiaries only through loans. Capital contributions are subject to the requirement of making necessary filings in the foreign investment information reporting system and registration with the local counterpart of the State Administration for Market Regulation. Loans must be registered with the local counterpart of the State Administration of Foreign Exchange, or the SAFE.

CooTek (Cayman) Inc. provided an aggregate amount of US\$37.8 million, US\$9.8 million and US\$4.8 million as loan or capital investments to our intermediate holding companies and subsidiaries, and received an aggregate repayment of US\$19.1 million, US\$16.3 million and US\$6.6 million in the years ended December 31, 2021, 2022 and 2023, respectively. Under the contractual arrangements with the VIEs, the VIEs are entitled to receive loans from Shanghai Chule for the provisions of certain support services to Shanghai Chule. For the years ended December 31, 2021 and 2022, the VIEs received net proceeds from loans of US\$41.9 million and US\$11.4 million from the WFOE, respectively. For the year ended December 31, 2023, the VIEs made net repayment of loans of US\$2.5 million to the WFOE. The VIEs earned various revenues from the WFOE and other company subsidiaries, including advertising revenue, reimbursement of expenses, etc.

For the years ended December 31, 2021, 2022 and 2023, no dividends or distributions were made to CooTek (Cayman) Inc. by our subsidiaries. Under PRC laws and regulations, our PRC subsidiaries and the VIEs are subject to certain restrictions with respect to paying dividends or otherwise transferring any of their net assets to us. Remittance of dividends by a wholly foreign-owned enterprise out of mainland China is also subject to examination by the banks designated by SAFE. The amounts restricted include the paid-up capital and the statutory reserve funds of our PRC subsidiaries and the net assets of the VIEs in which we have no legal ownership, totaling to US\$91 million as of December 31, 2023. For risks relating to the fund flows of our operations in China, see “Item 3. Key Information—Risk Factors—Risks Related to Our Corporate Structure—We may rely on dividends paid by our PRC subsidiary to fund cash and financing requirements. Any limitation on the ability of our PRC subsidiary to pay dividends to us could have a material adverse effect on our ability to conduct our business and to pay dividends to holders of the ADSs and our ordinary shares.”

In the years ended December 31, 2021, 2022 and 2023, no assets other than cash were transferred through our organization.

CooTek (Cayman) Inc. has not declared or paid any cash dividends, nor does it have any present plan to pay any cash dividends on our ordinary shares in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business. For more information, see “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Dividend Policy.” For PRC and United States federal income tax considerations of an investment in our ADSs, see “Item 10. Additional Information—E. Taxation.”

#### **Financial Information Related to the VIEs**

The following tables present the condensed consolidating schedule of financial position for CooTek (Cayman) Inc., its subsidiaries, and the VIEs as of the dates presented. References in the following tables to “WFOE” are to Shanghai Chule (CooTek) Information Technology Co., Ltd., our wholly owned PRC subsidiary and the primary beneficiary of the VIEs.

*Selected Condensed Consolidating Statements of Operations Data*

	For the Year Ended December 31, 2023					Consolidated Total
	CooTek (Cayman) Inc.	Other Company Subsidiaries	WFOE	Consolidated Variable Interest Entities	Eliminations	
				(in US\$)		
Third-party revenues	—	20,607,850	5,615,844	5,752,574	—	31,976,268
Inter-company revenues <sup>(1)</sup>	—	296,126	129,445	—	(425,571)	—
Other Inter-company services revenues	—	—	3,744,879	963,528	(4,708,407)	—
<b>Total revenues</b>	<b>—</b>	<b>20,903,976</b>	<b>9,490,168</b>	<b>6,716,102</b>	<b>(5,133,978)</b>	<b>31,976,268</b>
Third-party cost of revenues and operating expenses	(1,372,491)	(16,809,631)	(10,670,548)	(5,659,430)	—	(34,512,100)
Inter-company cost of revenues and operating expenses	—	—	—	(425,571)	425,571	—
Other inter-company service fee <sup>(2)</sup>	—	(3,744,879)	(963,528)	—	4,708,407	—
<b>Total cost of revenues and operating expenses</b>	<b>(1,372,491)</b>	<b>(20,554,510)</b>	<b>(11,634,076)</b>	<b>(6,085,001)</b>	<b>5,133,978</b>	<b>(34,512,100)</b>
(Loss) income from non-operations	(7,491)	(391,019)	393,356	(34,118)	—	(39,272)
<b>(Loss) income before income taxes</b>	<b>(1,379,982)</b>	<b>(41,553)</b>	<b>(1,750,552)</b>	<b>596,983</b>	<b>—</b>	<b>(2,575,104)</b>
Equity method loss	—	—	—	—	—	—
Equity in income from subsidiaries	(1,215,959)	(1,153,906)	—	—	2,369,865	—
Share of income from the VIEs	—	—	596,983	—	(596,983)	—
Income tax expense	—	(20,501)	(336)	—	—	(20,837)
<b>Net income (loss)</b>	<b>(2,595,941)</b>	<b>(1,215,960)</b>	<b>(1,153,905)</b>	<b>596,983</b>	<b>1,772,882</b>	<b>(2,595,941)</b>

*Notes:*

- (1) It represents the inter-company revenue that the WFOE earned from the VIEs based on the Exclusive Business Cooperation Agreement.
- (2) It represents the service fee that the WFOE charged the VIEs based on the Exclusive Business Cooperation Agreement.

For the Year Ended December 31, 2022						
	CooTek (Cayman) Inc.	Other Company Subsidiaries	WFOE	Consolidated Variable Interest Entities	Eliminations	Consolidated Total
	(in US\$)					
Third-party revenues	—	38,951,993	13,677,684	31,296,937	—	83,926,614
Inter-company revenues <sup>(1)</sup>	—	—	13,342,366	—	(13,342,366)	—
Other Inter-company services revenues	—	—	8,641,599	1,387,881	(10,029,480)	—
<b>Total revenues</b>	<b>—</b>	<b>38,951,993</b>	<b>35,661,649</b>	<b>32,684,818</b>	<b>(23,371,846)</b>	<b>83,926,614</b>
Third-party cost of revenues and operating expenses	(5,056,661)	(29,996,875)	(33,321,545)	(14,063,805)	—	(82,438,886)
Inter-company cost of revenues and operating expenses	—	—	—	(13,342,366)	13,342,366	—
Other inter-company service fee <sup>(2)</sup>	—	(9,674,545)	(354,935)	—	10,029,480	—
<b>Total cost of revenues and operating expenses</b>	<b>(5,056,661)</b>	<b>(39,671,420)</b>	<b>(33,676,480)</b>	<b>(27,406,171)</b>	<b>23,371,846</b>	<b>(82,438,886)</b>
(Loss) income from non-operations	(783,328)	(87,175)	33,864	(64,800)	—	(901,439)
<b>(Loss) income before income taxes</b>	<b>(5,839,989)</b>	<b>(806,602)</b>	<b>2,019,033</b>	<b>5,213,847</b>	<b>—</b>	<b>586,289</b>
Equity method loss	—	—	—	(62,217)	—	(62,217)
Equity in income from subsidiaries	6,355,003	7,166,502	—	—	(13,521,505)	—
Share of income from the VIEs	—	—	5,151,630	—	(5,151,630)	—
Income tax expense	—	(4,897)	(4,161)	—	—	(9,058)
<b>Net income (loss)</b>	<b>515,014</b>	<b>6,355,003</b>	<b>7,166,502</b>	<b>5,151,630</b>	<b>(18,673,135)</b>	<b>515,014</b>

Notes:

- (1) It represents the inter-company revenue that the WFOE earned from the VIEs based on the Exclusive Business Cooperation Agreement.
- (2) It represents the service fee that the WFOE charged the VIEs based on the Exclusive Business Cooperation Agreement.

For the Year Ended December 31, 2021						
	CooTek (Cayman) Inc.	Other Company Subsidiaries	WFOE	Consolidated Variable Interest Entities	Eliminations	Consolidated Total
			(in US\$)			
Third-party revenues	—	74,265,799	96,496,701	101,383,321	—	272,145,821
Inter-company revenues <sup>(1)</sup>	—	—	24,956,275	—	(24,956,275)	—
Other Inter-company services revenues	—	—	43,169,813	26,852,720	(70,022,533)	—
<b>Total revenues</b>	<b>—</b>	<b>74,265,799</b>	<b>164,622,789</b>	<b>128,236,041</b>	<b>(94,978,808)</b>	<b>272,145,821</b>
Third-party cost of revenues and operating expenses	(7,550,295)	(46,240,657)	(94,379,940)	(132,686,156)	—	(280,857,048)
Inter-company cost of revenues and operating expenses	—	(60,220,981)	(9,801,552)	—	70,022,533	—
Other inter-company service fee <sup>(2)</sup>	—	—	—	(24,956,275)	24,956,275	—
<b>Total cost of revenues and operating expenses</b>	<b>(7,550,295)</b>	<b>(106,461,638)</b>	<b>(104,181,492)</b>	<b>(157,642,431)</b>	<b>94,978,808</b>	<b>(280,857,048)</b>
(Loss) income from non-operations	(4,418,679)	(1,104,865)	801,293	(326,830)	—	(5,049,081)
<b>(Loss) income before income taxes</b>	<b>(11,968,974)</b>	<b>(33,300,704)</b>	<b>61,242,590</b>	<b>(29,733,220)</b>	<b>—</b>	<b>(13,760,308)</b>
Equity method loss	—	—	—	(65,084)	—	(65,084)
Equity in (loss) income from subsidiaries	(1,908,388)	31,444,286	—	—	(29,535,898)	—
Share of loss from the VIEs	—	—	(29,798,304)	—	29,798,304	—
Income tax expense	—	(51,970)	—	—	—	(51,970)
<b>Net (loss) income</b>	<b>(13,877,362)</b>	<b>(1,908,388)</b>	<b>31,444,286</b>	<b>(29,798,304)</b>	<b>262,406</b>	<b>(13,877,362)</b>

Notes:

- (1) It represents the inter-company revenue that the WFOE earned from the VIEs based on the Exclusive Business Cooperation Agreement.
- (2) It represents the service fee that the WFOE charged the VIEs based on the Exclusive Business Cooperation Agreement.

**Selected Condensed Consolidating Balance Sheets Data**

	As of December 31, 2023					Consolidated Total
	CooTek (Cayman) Inc.	Other Company Subsidiaries	WFOE	Variable Interest Entities	Eliminations	
	(in US\$)					
Cash and cash equivalents	5,189	1,534,526	613,124	283,530	—	2,436,369
Restricted cash	—	40,202	—	—	—	40,202
Short-term investments	—	50,074	—	—	—	50,074
Accounts receivable, net	—	1,908,589	204,170	221,848	—	2,334,607
Prepaid expenses and other current assets	3,362	1,005,666	644,820	1,730,359	—	3,384,207
Property and equipment, net	—	—	82,310	8,191	—	90,501
Intangible assets, net	—	—	15,625	—	—	15,625
Long-term investments	—	—	258,038	—	—	258,038
Amount due from intercompany	—	—	94,200,587	884,783	(95,085,370)	—
Advances due from intercompany	798,364	—	—	—	(798,364)	—
Operating lease right-of-use assets	—	163,878	176,095	132,080	—	472,053
Other non-current assets	—	60,931	40,342	98,551	—	199,824
<b>Total assets</b>	<b>806,915</b>	<b>4,763,866</b>	<b>96,235,111</b>	<b>3,359,342</b>	<b>(95,883,734)</b>	<b>9,281,500</b>
Accounts payable	—	2,273,598	569,129	1,582,409	—	4,425,136
Short-term bank borrowings	—	—	705,945	—	—	705,945
Accrued salary and benefits	283,000	47,269	659,624	152,145	—	1,142,038
Accrued expenses and other liabilities	913,570	20,194	571,666	767,641	—	2,273,071
Convertible Debt	—	—	—	—	—	—
Deferred revenue	—	572,684	22,677	48,636	—	643,997
Operating lease liabilities, current	—	109,687	117,863	88,403	—	315,953
Amount due to intercompany	—	884,783	—	94,200,587	(95,085,370)	—
Advances due to intercompany	—	187,017,226	16,940,705	21,382,010	(225,339,941)	—
Deficit in subsidiaries/the VIEs <sup>(1)</sup>	—	—	93,526,650	—	(93,526,650)	—
Operating lease liabilities, non-current	—	57,287	61,557	46,171	—	165,015
<b>Total liabilities</b>	<b>1,196,570</b>	<b>190,982,728</b>	<b>113,175,816</b>	<b>118,268,002</b>	<b>(413,951,961)</b>	<b>9,671,155</b>
<b>Total shareholders' equity (deficit)</b>	<b>(389,655)</b>	<b>(186,218,862)</b>	<b>(16,940,705)</b>	<b>(114,908,660)</b>	<b>318,068,227</b>	<b>(389,655)</b>
<b>Total liabilities and shareholders' equity (deficit)</b>	<b>806,915</b>	<b>4,763,866</b>	<b>96,235,111</b>	<b>3,359,342</b>	<b>(95,883,734)</b>	<b>9,281,500</b>

Note:

- (1) Deficit in Subsidiaries/the VIEs represents the amounts of accumulated losses from subsidiaries/the VIEs that exceeding the investment's carrying amounts and any additional financial support made in the form of intercompany loans and advances which are recorded as "Advances due from intercompany" in the Condensed Consolidating Statements of Balance Sheets.

	As of December 31, 2022					
	CooTek (Cayman) Inc.	Other Company Subsidiaries	WFOE	Variable Interest Entities	Eliminations	Consolidated Total
				(in US\$)		
Cash and cash equivalents	629,925	2,929,014	4,078,226	2,087,760	—	9,724,925
Restricted cash	—	60,000	—	206	—	60,206
Short-term investments	—	50,059	—	—	—	50,059
Accounts receivable, net	—	2,816,303	1,101,279	1,031,662	—	4,949,244
Prepaid expenses and other current assets	3,362	1,410,232	1,150,349	1,879,727	—	4,443,670
Property and equipment, net	—	—	803,676	108,957	—	912,633
Intangible assets, net	—	—	89,532	—	—	89,532
Long-term investments	—	—	—	276,600	—	276,600
Amount due from intercompany	—	—	82,830,188	2,746,199	(85,576,387)	—
Advances due from intercompany	3,431,037	—	—	—	(3,431,037)	—
Operating lease right-of-use assets	—	286,866	283,336	212,517	—	782,719
Other non-current assets	—	36,571	37,848	21,280	—	95,699
<b>Total assets</b>	<b>4,064,324</b>	<b>7,589,045</b>	<b>90,374,434</b>	<b>8,364,908</b>	<b>(89,007,424)</b>	<b>21,385,287</b>
Accounts payable	—	3,115,284	1,755,306	3,300,720	—	8,171,310
Short-term bank borrowings	—	—	861,500	—	—	861,500
Accrued salary and benefits	421,975	306,201	2,404,510	874,763	—	4,007,449
Accrued expenses and other liabilities	756,857	117,401	1,239,697	2,353,038	—	4,466,993
Convertible Debt	1,754,656	—	—	—	—	1,754,656
Deferred revenue	—	47,603	23,061	104,711	—	175,375
Operating lease liabilities, current	—	130,155	113,077	84,814	—	328,046
Amount due to intercompany	—	1,217,042	1,529,162	82,830,188	(85,576,392)	—
Advances due to intercompany	—	177,460,496	33,285,891	39,626,931	(250,373,318)	—
Deficit in subsidiaries/the VIEs <sup>(1)</sup>	—	—	81,320,183	—	(81,320,183)	—
Operating lease liabilities, non-current	—	169,803	182,462	136,857	—	489,122
<b>Total liabilities</b>	<b>2,933,488</b>	<b>182,563,985</b>	<b>122,714,849</b>	<b>129,312,022</b>	<b>(417,269,893)</b>	<b>20,254,451</b>
<b>Total shareholders' equity (deficit)</b>	<b>1,130,836</b>	<b>(174,974,940)</b>	<b>(32,340,415)</b>	<b>(120,947,114)</b>	<b>328,262,469</b>	<b>1,130,836</b>
<b>Total liabilities and shareholders' equity (deficit)</b>	<b>4,064,324</b>	<b>7,589,045</b>	<b>90,374,434</b>	<b>8,364,908</b>	<b>(89,007,424)</b>	<b>21,385,287</b>

Note:

- (1) Deficit in Subsidiaries/the VIEs represents the amounts of accumulated losses from subsidiaries/the VIEs that exceeding the investment's carrying amounts and any additional financial support made in the form of intercompany loans and advances which are recorded as "Advances due from intercompany" in the Condensed Consolidating Statements of Balance Sheets.



**Selected Condensed Consolidating Cash Flows Data**

	For the Year Ended December 31, 2023					
	CooTek (Cayman) Inc.	Other Company Subsidiaries	WFOE	Consolidated Variable Interest Entities	Eliminations	Consolidated Total
	(in US\$)					
Proceeds of services charges from inter-companies <sup>(1)</sup>	—	346,376	3,817,984	147,665	(4,312,025)	—
Payments of services charges to inter-companies <sup>(1)</sup>	—	(3,494,124)	(147,665)	(670,236)	4,312,025	—
Net cash provided by (used in) transactions with third-parties	(605,882)	(759,437)	(2,727,283)	(2,468,077)	—	(6,560,679)
<b>Net cash provided by (used in) operating activities</b>	<b>(605,882)</b>	<b>(3,907,185)</b>	<b>943,036</b>	<b>(2,990,648)</b>	<b>—</b>	<b>(6,560,679)</b>
Loans to subsidiaries, primary beneficiary of the VIEs and the VIEs <sup>(2)</sup>	(4,819,580)	—	(2,514,928)	—	7,334,508	—
Repayments of loans to subsidiaries, primary beneficiary of the VIEs and the VIEs <sup>(2)</sup>	6,607,179	2,251,945	5,027,890	—	(13,887,014)	—
Other investing activities	—	14,314	672,083	273,659	—	960,056
<b>Net cash provided by (used in) investing activities</b>	<b>1,787,599</b>	<b>2,266,259</b>	<b>3,185,045</b>	<b>273,659</b>	<b>(6,552,506)</b>	<b>960,056</b>
Net proceeds of loans from subsidiaries, primary beneficiary of the VIEs and the VIEs <sup>(2)</sup>	—	(1,787,599)	(2,251,945)	(2,512,962)	6,552,506	—
Other financing activities	(1,806,453)	(573,483)	(142,057)	564,757	—	(1,957,236)
<b>Net cash (used in) provided by financing activities</b>	<b>(1,806,453)</b>	<b>(2,361,082)</b>	<b>(2,394,002)</b>	<b>(1,948,205)</b>	<b>6,552,506</b>	<b>(1,957,236)</b>

Notes:

- (1) It represents the elimination of payments and proceeds for the inter-company service charges at the consolidation level.
- (2) It represents the elimination of loans among CooTek (Cayman) Inc., other company subsidiaries, the primary beneficiary of the VIEs and its subsidiaries, and the VIEs.

For the Year Ended December 31, 2022						
	CooTek (Cayman) Inc.	Other Company Subsidiaries	WFOE	Consolidated Variable Interest Entities (in US\$)	Eliminations	Consolidated Total
Proceeds of services charges from inter-companies <sup>(1)</sup>	—	6,309,952	26,143,705	574,964	(33,028,621)	—
Payments of services charges to inter-companies <sup>(1)</sup>	—	(14,820,354)	—	(18,208,267)	33,028,621	—
Net cash provided by (used in) transactions with third-parties	(2,534,951)	8,781,459	(9,155,046)	4,209,736	—	1,301,198
<b>Net cash provided by (used in) operating activities</b>	<b>(2,534,951)</b>	<b>271,057</b>	<b>16,988,659</b>	<b>(13,423,567)</b>	<b>—</b>	<b>1,301,198</b>
Loans to subsidiaries, primary beneficiary of the VIEs and the VIEs <sup>(2)</sup>	(9,783,250)	—	(15,879,997)	—	25,663,247	—
Repayments of loans to subsidiaries, primary beneficiary of the VIEs and the VIEs <sup>(2)</sup>	16,251,000	7,428,999	4,496,079	—	(28,176,078)	—
Other investing activities	—	(65,697)	544,159	43,397	—	521,859
<b>Net cash provided by (used in) investing activities</b>	<b>6,467,750</b>	<b>7,363,302</b>	<b>(10,839,759)</b>	<b>43,397</b>	<b>(2,512,831)</b>	<b>521,859</b>
Net proceeds of loans from subsidiaries, primary beneficiary of the VIEs and the VIEs <sup>(2)</sup>	—	(6,467,750)	(7,428,999)	11,383,918	2,512,831	—
Other financing activities	(3,745,645)	232	(2,923,487)	(4,947,117)	—	(11,616,017)
<b>Net cash (used in) provided by financing activities</b>	<b>(3,745,645)</b>	<b>(6,467,518)</b>	<b>(10,352,486)</b>	<b>6,436,801</b>	<b>2,512,831</b>	<b>(11,616,017)</b>

Notes:

- (1) It represents the elimination of payments and proceeds for the inter-company service charges at the consolidation level.
- (2) It represents the elimination of loans among CooTek (Cayman) Inc., other company subsidiaries, the primary beneficiary of the VIEs and its subsidiaries, and the VIEs.

	For the Year Ended December 31, 2021					
	CooTek (Cayman) Inc.	Other Company Subsidiaries	WFOE	Consolidated Variable Interest Entities	Eliminations	Consolidated Total
	(in US\$)					
Proceeds of services charges from inter-companies <sup>(1)</sup>	—	—	70,403,873	18,938,356	(89,342,229)	—
Payments of services charges to inter-companies <sup>(1)</sup>	—	(41,530,543)	(6,590,331)	(41,221,355)	89,342,229	—
Net cash provided by (used in) transactions with third-parties	(4,017,545)	86,298,562	(86,031,841)	(47,292,865)	—	(51,043,689)
<b>Net cash (used in) provided by operating activities</b>	<b>(4,017,545)</b>	<b>44,768,019</b>	<b>(22,218,299)</b>	<b>(69,575,864)</b>	<b>—</b>	<b>(51,043,689)</b>
Loans to subsidiaries, primary beneficiary of the VIEs and the VIEs <sup>(2)</sup>	(37,795,461)	(63,329,576)	(80,725,938) <sup>(3)</sup>	—	181,850,975	—
Repayments of loans to subsidiaries, primary beneficiary of the VIEs and the VIEs <sup>(2)</sup>	19,145,170	—	38,814,579	—	(57,959,749)	—
Other investing activities	—	(2,800,711)	1,497,839	(475,661)	—	(1,778,533)
<b>Net cash used in investing activities</b>	<b>(18,650,291)</b>	<b>(66,130,287)</b>	<b>(40,413,520)</b>	<b>(475,661)</b>	<b>123,891,226</b>	<b>(1,778,533)</b>
Net proceeds of loans from subsidiaries, primary beneficiary of the VIEs and the VIEs <sup>(2)</sup>	—	18,650,291	63,329,576	41,911,359 <sup>(3)</sup>	(123,891,226)	—
Other financing activities	22,982,602	(18,847)	(6,836,652)	4,772,782	—	20,899,885
<b>Net cash provided by (used in) financing activities</b>	<b>22,982,602</b>	<b>18,631,444</b>	<b>56,492,924</b>	<b>46,684,141</b>	<b>(123,891,226)</b>	<b>20,899,885</b>

Notes:

- (1) It represents the elimination of payments and proceeds for the inter-company service charges at the consolidation level.
- (2) It represents the elimination of loans among CooTek (Cayman) Inc., other company subsidiaries, the primary beneficiary of the VIEs and its subsidiaries, and the VIEs.
- (3) The numbers represent the cash payments from the WFOE to the VIEs.

A. **[Reserved]**

B. **Capitalization and Indebtedness**

Not applicable.

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

Not applicable.

## **D. Risk Factors**

### **Summary of Risk Factors**

Our business is subject to a number of risks, including risks that may prevent us from achieving our business objectives or may adversely affect our business, financial condition, results of operations, cash flows, and prospects. All the operational risks associated with being based in and having operations in mainland China as discussed in relevant risk factors under “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business” also apply to operations in Hong Kong. With respect to the legal risks associated with being based in and having operations in mainland China as discussed in relevant risk factors under “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure” and “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China,” the laws, regulations and the discretion of mainland China governmental authorities discussed in this annual report are expected to apply to mainland China entities and businesses, rather than entities or businesses in Hong Kong which operate under a different set of laws from mainland China. These risks are discussed more fully under “Item 3. Key Information—D. Risk Factors.”

### ***Risks Related to Our Business***

- If we fail to maintain or expand our active user base, our business, financial condition and operating results may be materially and adversely affected.
- We generate a majority of our revenues from advertising. Our failure to attract or retain advertising customers, or a reduction in their spending with us, could seriously harm our business, operating results and growth prospects.
- We depend on certain third-party advertising exchanges and agencies for a large portion of our mobile advertising revenues.
- We rely on our business collaborations with third parties, including major digital distribution platforms, to maintain and expand our user base. Our failure to maintain good relationships with these business partners may materially and adversely affect our business and operating results.
- We have been and may continue to be subject to notices or complaints alleging, among other things, our infringement of copyrights and delivery of illegal or inappropriate content through our products, which could lead to suspension or removal of such products from digital distribution platforms, a decrease of our user base, and a significantly adverse impact on our financial results and our reputation.
- We are subject to a variety of laws and other obligations regarding cyber security and data protection in the PRC, and any failure to comply with applicable laws and obligations or exposure to government interference actions could have a material and adverse effect on our business, financial condition and operating results.
- Our business is subject to complex and evolving laws, regulations and governmental policies in China and other countries and regions where we have business. Many of these laws, regulations and governmental policies are subject to change and uncertain interpretation, and could result in claims, changes to our business practices, increased cost of operations, or declines in our growth or engagement, financial performance, or otherwise harm our business.
- We had incurred declining revenue and negative working capital in the past, and we cannot assure you that we will sustain or improve profitability.

***Risks Related to Our Corporate Structure***

- We are a Cayman Islands holding company with no equity ownership in the VIEs and we conduct operations in China through (i) our PRC subsidiaries, and (ii) the VIEs with which we have maintained contractual arrangements and the VIEs' subsidiaries. Holders of our ADSs hold equity interest in CooTek (Cayman) Inc., our Cayman Islands holding company, and do not have direct or indirect equity interests in the VIEs or the VIEs' subsidiaries. If the PRC government determines that the contractual arrangements constituting part of the VIE structure do not comply with PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations, and our ADSs may decline in value or become worthless if we are unable to assert our contractual control rights over the assets of the VIEs. Our holding company, the VIEs and investors of our company face uncertainty about potential future actions by the PRC government that could affect the enforceability of the contractual arrangements with the VIEs and, consequently, significantly affect the financial performance of the VIEs and our company as a whole. The PRC regulatory authorities could disallow the VIE structure, which would likely result in a material adverse change in our operations, and our Class A ordinary shares or our ADSs may decline significantly in value or become worthless.
- We rely on contractual arrangements with the VIEs and their respective shareholders for our operations in mainland China, which may not be as effective in providing operational control as direct ownership.
- Any failure by the VIEs or their shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on our business.
- The shareholders of the VIEs may have potential conflicts of interest with us, which may materially and adversely affect our business.

***Risks Related to Doing Business in China***

- Regulatory developments in mainland China may subject us to additional regulatory review and disclosure requirement, expose us to government interference, or otherwise restrict our ability to offer securities and raise capitals outside mainland China, all of which could materially and adversely affect our business and cause the value of our ADSs to significantly decline or become worthless. For more details, see "Risk Factors—Risks Relating to Doing Business in China—Regulatory developments in mainland China may subject us to additional regulatory review and disclosure requirement, expose us to government interference, or otherwise restrict our ability to offer securities and raise capitals outside China, all of which could materially and adversely affect our business and the value of our securities."
- Risks and uncertainties arising from the legal system in China, including risks and uncertainties regarding the enforcement of laws and quickly evolving rules and regulations in China, could result in a material adverse change in our operations and the value of our ADSs. For more details, see "Risk Factors—Risks Relating to Doing Business in China—Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us."
- The approval of, report and filings with the CSRC or other PRC government authorities may be required in connection with our future offshore offerings and listings under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval or complete such filing and report process. For more details, see "Risk Factors—Risks Relating to Doing Business in China—The approval of, report and filings with the CSRC or other PRC government authorities may be required in connection with our future offshore offerings and listings under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval or complete such filing and report process."

- The PCAOB had historically been unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections of our auditor in the past has deprived our investors with the benefits of such inspections. For more details, see “Risk Factors—Risks Relating to Doing Business in China—The PCAOB had historically been unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections of our auditor in the past has deprived our investors with the benefits of such inspections.”
- Our ADSs may be prohibited from trading in the United States under the HFCAA in the future if the PCAOB is unable to inspect or investigate completely auditors located in China. The prohibition of trading in the ADSs, or the threat of the trading being prohibited, may materially and adversely affect the value of your investment. For more details, see “Risk Factors—Risks Relating to Doing Business in China—Our ADSs may be prohibited from trading in the United States under the HFCAA in the future if the PCAOB is unable to inspect or investigate completely auditors located in China. The prohibition of trading in the ADSs, or the threat of the trading being prohibited, may materially and adversely affect the value of your investment.”

#### ***Risks Related to Our ADSs***

- The delisting of our ADSs from the NYSE may continue to have a material adverse effect on the trading and price of our ADSs, and we cannot assure you that our ADSs will be relisted, or that once relisted, they will remain listed.
- The trading price of our ADSs has been and may continue to be volatile, which could result in substantial losses to investors.

#### **Risks Related to Our Business**

***If we fail to maintain or expand our active user base, our business, financial condition and operating results may be materially and adversely affected.***

The size of our active user base with our products are critical to our success. Our portfolio products had an average of 1.9 million DAUs in December 2023, which decreased from 6.3 million DAUs in December 2022. We suspended and terminated the operations of several non-performing and under-performing utility mobile apps and mobile games globally, which led to such decrease in DAUs. Our financial performance has been and will continue to be significantly affected by our ability to grow and engage our active user base. In addition, we may fail to maintain or increase our user base or our users’ engagement if, among other things:

- we fail to innovate or develop new products and services that provide content relevant to and satisfactory experience to, or are favorably received by, our users;
- we fail to respond to or adopt evolving technologies for product development on a timely and cost-effective basis;
- we fail to successfully market and monetize our existing and new mobile applications throughout their life cycles;
- we fail to develop products that are compatible with existing or new mobile devices, mobile operating systems or their respective upgrades;
- we fail to maintain or improve our technology infrastructure and security measures designed to protect our users’ personal privacy and cyber security;
- we lose users to competing products and services or due to concerns related to personal privacy and cyber security or other reasons;
- we fail to successfully implement our strategies related to the continued expansion of our global user base; or

- we are required by existing or new laws, regulations or government policies to implement changes to our products or services that are adverse to our business.

If we are unable to maintain or increase our user base, our advertising services may become less attractive to our advertising customers, which may have a material and adverse impact on our business, financial condition and operating results.

***We generate a majority of our revenues from advertising. Our failure to attract or retain advertising customers, or a reduction in their spending with us, could seriously harm our business, operating results and growth prospects.***

Mobile advertising services have been contributing a majority of our revenues, accounting for 98.2%, 91.2% and 71.4% of our revenues in 2021, 2022 and 2023, respectively. Therefore, any failure to continue generating substantial revenue through our mobile advertising services could materially harm our business.

Advertisers purchase advertising services either directly from us or through third-party advertising exchanges and advertising agencies. Our advertising customers, including advertisers and advertising exchanges and agencies, typically do not have long-term contractual arrangements with us. They may be dissatisfied with our advertising services or perceive our advertising services as ineffective. Potential new customers may view our advertising services as unproven, and we may need to devote additional time and resources to convince them. In addition, new advertising formats emerge from time to time and customer preferences can change. We may not be able to adapt our products and services to future advertising formats or changing customer preferences on a timely and cost-effective basis, and any such adaptation failure could materially and adversely affect our financial conditions, results of operations and prospects.

We compete for advertising customers not only with other providers of digital advertising spaces, but also with other types of platforms and advertising service providers such as newspapers, magazines, billboards, television and radio stations. Some of our competitors have access to considerably greater financial and other resources for expanding their product offerings and present considerable challenges to gaining and maintaining additional market share.

If we fail to deliver advertising services in an effective manner, or if our advertising customers believe that placing advertisements through our products and services does not generate a competitive return when compared to placing advertisements through our competitors' products, they may not continue to do business with us or they may only be willing to advertise with us at reduced prices. If our existing advertising customers reduce or discontinue their advertising spending with us, or if we fail to attract new advertising customers, our business, financial condition and results of operations could be materially and adversely affected.

***We depend on certain third-party advertising exchanges and agencies for a large portion of our mobile advertising revenues.***

We generate a large portion of our mobile advertising revenues from a limited number of third-party advertising exchanges and advertising agencies in 2023. Our top two advertising customers, which are advertising exchanges, accounted for approximately 26.6% of our total revenues in 2023. Our dependence on a limited number of advertising exchange customers increases their bargaining power and the need for us to maintain good relationships with them. The major advertising customers we work with typically offer standard terms and conditions that govern their contractual relationships with us. We have entered into distribution cooperation agreements with Chuan Shan Jia and AppLovin, leading advertising exchange platforms who are also our top advertising customers, for the cooperation in placing advertisements on our mobile apps. If any of these advertising customers we work with ceases to do business with us for any reason or alters its standard terms and conditions to our disadvantage, or if we fail to collect any significant amount of account receivables from these advertising customers timely, or at all, our business, financial conditions and operating results may be materially and adversely affected.

***We rely on our business collaborations with third parties, including major digital distribution platforms, to maintain and expand our user base. Our failure to maintain good relationships with these business partners may materially and adversely affect our business and operating results.***

We collaborate with various business partners to promote our products and enlarge our user base. We use third-party digital distribution platforms such as Apple App Store and Google Play, and various app stores operated by PRC mobile manufacturers such as Oppo App Store, to distribute our mobile applications to users. We also advertise on third-party platforms, such as Douyin and AppLovin, to acquire users. The promotion and distribution of our mobile applications are subject to such digital distribution platforms' standard terms and policies for application developers, which are subject to the interpretation of, and frequent changes by, these platforms. In addition, our applications may be suspended by or removed from such platforms as a result of allegations or claims by third parties regardless of their merits. For instance, in July 2019, some of our global apps were disabled by Google from Google Play Store and Google Admob, and our access to Google Play Store and Google Admob was disabled too. See “—We have been and may continue to be subject to notices or complaints alleging, among other things, our infringement of copyrights and delivery of illegal or inappropriate content through our products, which could lead to suspension or removal of such products from digital distribution platforms, a decrease of our user base, and a significantly adverse impact on our financial results and our reputation.”

If we are unable to maintain good relationships with our business partners or the business of our business partners declines, the reach of our products and services may be adversely affected and our ability to maintain and expand our user base may decrease. Most of the agreements with our business partners, including digital distribution platforms, do not prohibit them from working with our competitors or from offering competing services. If our partner distribution platforms change their standard terms and conditions in a manner that is detrimental to our business, or if our business partners decide not to continue working with us or choose to devote more resources to supporting our competitors or their own competing products, we may not be able to find a substitute on commercially favorable terms, or at all, and our competitive advantages may be diminished.

***We have been and may continue to be subject to notices or complaints alleging, among other things, our infringement of copyrights and delivery of illegal or inappropriate content through our products, which could lead to suspension or removal of such products from digital distribution platforms, a decrease of our user base, and a significantly adverse impact on our financial results and our reputation.***

We use third-party digital distribution platforms such as Apple App Store and Google Play, and various app stores operated by PRC mobile manufacturers such as Oppo App Store, to distribute our mobile applications to users. In the ordinary course of our business, we and digital distribution platforms have received, and may from time to time in the future receive, notices or complaints from third parties alleging that certain of our products infringe copyrights, deliver illegal, fraudulent, pornographic, violent, bullying or other inappropriate content, or otherwise fail to comply with applicable policies, rules and regulations. Upon receipt of such notices or complaints, those digital distribution platforms may suspend or remove such products from such platforms. The processes for appealing such suspensions and removals with those platforms could be time-consuming, and we cannot guarantee that our appeals will always prevail or that any such suspended or removed application will be made available again. Such suspensions and removals of our products could lead to a decrease of our user base and, if they occur frequently and/or in a large scale, could significantly adversely affect our reputation, business operation and financial performance. In our operating history, some of our global apps were disabled by Google from the Google Play Store and Google Admob, and this suspension led to the decrease in our DAUs of our portfolio products and negatively impact on our net revenues. There can be no assurance that our products will not be disabled by digital distribution platforms in the future. In addition to third-party digital distribution platforms, other third-party platforms may also receive, from time to time, notices or complaints from third parties alleging that certain of our products infringe copyrights, deliver illegal, fraudulent, pornographic, violent, bullying or other inappropriate content, or otherwise fail to comply with applicable policies, rules and regulations, consequently those digital distribution platforms may suspend or remove such products from their platforms and those third-party platforms may terminate their collaboration with us.

***We have international operations and plan to continue maintaining our global presence. We may face challenges and risks presented by our global operations, which may have a material and adverse impact on our business and operating results.***

We are headquartered in mainland China and provide our products and services to a global user base. We intend to continue our international business operations and develop products for global users. The headquarters of our major advertising customers are located in China and the United States and therefore a majority of our mobile advertising revenues in 2021, 2022 and 2023 were derived from China and the United States.



We believe the sustainable growth of our business depends on our ability to increase the penetration of our products in both developed and emerging markets. Our continued international operations and global expansion may expose us to a number of challenges and risks, including:

- challenges in developing successful products and localized adaptations, and implementing effective marketing strategies that respectively target mobile internet users and advertising customers from various countries and with a diverse range of preferences and demands;
- difficulties in managing and overseeing global operations and in affording increased costs associated with doing business in multiple international locations;
- local competitions;
- difficulties in integrating and managing potential foreign acquisitions or investments;
- compliance with applicable laws and regulations in various countries worldwide, including, but not limited to, internet content requirements, cyber security and data privacy requirements, intellectual property protection rules, exchange controls, and cash repatriation restrictions;
- fluctuations in currency exchange rates;
- political, social or economic instability in markets or regions in which we operate; and
- compliance with statutory equity requirements and management of tax consequences.

Our business, financial condition and results of operations may be materially and adversely affected by these challenges and risks associated with our global operations.

***Our product development and monetization strategies are highly dependent on our technology capabilities and infrastructure. If the amount of user data generated on our products declines, or if we fail to enhance or upgrade our technologies at a competitive pace, the effectiveness of our business model may be harmed and our operating results may be materially and severely affected.***

We depend on our technological capabilities and infrastructure to analyze our users' preferences and needs and to generate valuable user insights. Active users of our products generate a large amount of data across our applications and in a variety of use cases on a daily basis. The data generated by our users lays the foundation for us to build our user profiles. By analyzing such user data with our big data analytics and other technologies, we aim to understand our users' interests and needs for content in order to develop products that deliver content catering to their interests and needs. Therefore, the effectiveness of our product development and monetization strategies is dependent on our ability to obtain and process data and to refine the algorithms used in processing such data. If we fail to maintain and expand the user base of our products to continually generate large amounts of user data, or if we fail to keep up with the rapid development and upgrade of big data analytics and other technologies on a timely and cost-effective basis, we may not be able to effectively grow and monetize our products, and our business and operating results may be materially and adversely affected.

***We may not be able to grow our revenue or user base or to achieve the effectiveness of our monetization.***

Over the past three years, we have experienced fluctuations in DAUs and MAUs of our portfolio products. During the same periods, our net revenues decreased from US\$272.1 million in 2021 to US\$83.9 million in 2022, and further to US\$32.0 million in 2023. Our mobile advertising revenue decreased from US\$267.3 million in 2021 to US\$76.5 million in 2022, and further decreased to US\$22.8 million in 2023. We may not be able to successfully grow our user base in future periods.

In addition, growing our revenue in the future depends on successfully building our portfolio products. We monetize our user base primarily through mobile advertising, which contributed a majority of our revenues in 2021, 2022 and 2023. Most of the mobile advertising revenues were generated from our portfolio products in 2023, in particular our online literature products and mobile games. If we are unable to build new products which are attractive to users, our ability to effectively monetize our advertising services and grow our revenues may be materially impacted.

We have been diversifying our monetization with our online literature products and mobile games. In 2021, we started the IP operations based on original content on Fengdu Novel, including licensing e-books, cooperating with audio book publishers to produce audio books of original literature on Fengdu Novel, and short drama production. In addition to in-app advertising, we allow users to make in-app purchases to unlock special features or tools in our mobile games and extra content in our online literature products.

However, we cannot assure you that we can successfully implement the existing commercialization strategies to sustainably generate growing revenues, or that we will be able to develop new commercialization strategies to grow our revenues. If our strategic initiatives do not enhance our ability to monetize or enable us to develop new commercialization approaches, we may not be able to maintain or increase our revenues or recover any associated costs. In addition, we may introduce new products and services to expand our revenue streams, including products and services with which we have little or no prior development or operating experience. If these new or enhanced products or services fail to engage users, content creators or business partners, we may fail to diversify our revenue streams or generate sufficient revenues to justify our investments and costs, and our business and operating results may suffer as a result.

***If we fail to correctly anticipate user preferences and develop and commercialize new products and services, we may fail to attract or retain existing users, the lifecycles of our mobile applications may end prematurely and our operating results may be materially and adversely affected.***

Our success depends on our ability to maintain, grow and monetize our user base, which in turn depends on our ability to continually develop and commercialize new mobile applications, introduce new features or functions to our existing mobile applications and provide users with high-quality content and an enjoyable user experience. This is particularly important since the mobile internet industry is characterized by fast and frequent changes, including rapid technological evolution, shifting user demands, frequent introductions of new products and services, and constantly evolving industry standards, operating systems and practices. We have launched over 210 portfolio products as of December 31, 2023. In December 2023, the user base of our portfolio products reached an average of 1.9 million DAUs. We intend to continue implementation of our business plan to focus our resources on our more profitable business, including our internally developed casual games and online literature, in order to enlarge our active user base. Our ability to roll out new or enhanced products and services depends on a number of factors, including our timely and successful research and development efforts as well as correctly analyzing and predicting users' interests and demands for content using our big data analytical capabilities. If we fail to correctly analyze and predict users' interests and demands for content, fail to cater to the anticipated needs and preferences of users, or fail to provide a superior user experience, our existing and new mobile applications may suffer from reduced user traffic or be unsuccessful in the market and our user base may decrease, which in turn may impact our ability to earn advertising revenue. There can be no assurance that our new products and services will generate revenues or profits and we may not be able to recoup the investments and expenditures involved in such development. Our results may also experience significant fluctuations as we continue to invest in the development of new products and services.

In addition, as a result of rapidly evolving user preferences, our existing mobile applications may reach the end of their lifecycles prematurely. There can be no assurance that we will be able to correctly predict the lifecycles of our new mobile applications, our estimates regarding the lifecycles of our existing mobile applications may turn out to be incorrect, and our business, financial condition and results of operations may be materially and adversely affected.

***We generate a considerable portion of our advertising revenues through in-app advertisements in our mobile games. If we do not deliver new games to the market, or if users prefer our competitors' products or services over those we provide, our operating results may be materially and adversely affected.***

We generate a considerable portion of our advertising revenues through in-app advertisements in our mobile games. Game is a highly competitive and dynamic industry, and our future success depends not only on the popularity of our existing mobile games but also, in a large part, on our ability to develop and introduce new games that are attractive to our customers. To achieve this, we need to anticipate and effectively adapt to rapidly changing user tastes and preferences and technological advances. The development of new games can be very difficult and requires high levels of innovation and significant investments. We will continue to focus on developing our own proprietary games. We may decide to cease to operate or develop any game that is no longer profitable. If our mobile games are not as attractive as users expect, we may lose our existing or fail to attract new users. As a result, our ability to increase our revenues from mobile games and our margins and prospects may be materially and adversely affected. We embarked on a number of new initiatives in 2023, including our emphasis on interactive story game series and other engaging art designs. Since these initiatives have been implemented for a limited period of time and are not yet at scale, it is difficult for us to evaluate the effect, if any, they will bring to our financial prospects. We cannot reasonably predict the future trends of our revenues from mobile games or our total revenues.

There is no assurance that any new game that we introduce from time to time, could become widely accepted by the users and the market. We may incur losses and experience net cash outflow from operating activities, decrease in cash and cash equivalents balance and net current liabilities if we fail to introduce popular games or products which gain substantial market acceptance. In addition, products offered by our competitors may take a larger share of the market than we anticipate, which could cause revenues generated by our mobile games to fall below expectations. Our competitors may develop more successful games, or offer similar games pursuant to payment models viewed as offering a better value than we do. Any such negative development may materially and adversely affect our business, financial condition and results of operations.

We need to continue to develop and release upgrades to our new mobile games. We cannot assure you that we will be able to identify appropriate games, or that we can maintain the expected life span of our new mobile games. If we are not able to develop, acquire or license additional, attractive mobile games with strong or lasting appeal to users, our business, financial condition and results of operations may be materially and adversely affected.

***We had incurred declining revenue and negative working capital in the past, and we cannot assure you that we will sustain or improve profitability.***

You should not rely on our revenues or gross profit from any previous period as an indication of our future revenues. Our revenues might decline, or the growth rate of our revenues may slow down for a number of reasons, including declined demand for our products and services, increasing competition, emergence of alternative business models, changes in regulations and government policies, changes in general economic conditions as well as other risks described in this annual report.

Our revenue declined from US\$272.1 million in 2021 to US\$83.9 million in 2022, and further to US\$32.0 million in 2023. As of December 31, 2023, our current liabilities exceeded our current assets by US\$1.2 million, compared to US\$0.3 million as of December 31, 2022. We incurred a net loss of US\$2.6 million and negative cash flows from operating activities of US\$6.6 million in 2023, and recorded an accumulated deficit of US\$216.9 million as of December 31, 2023. These adverse conditions indicate that there is substantial doubt about our ability to continue as a going concern.

Our ability to continue as a going concern is dependent on our ability to successfully execute our business plan including the implementation of a balanced development approach between growth and profitability and an effective financial management which can contribute to the optimization of the operating cost and expense structure. For a detailed discussion, please see “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources.”

We cannot assure you that we will be able to generate net income or positive cash flows from operations in the future. Our future revenue growth and profitability will depend on a variety of factors, many of which are beyond our control. These factors include market acceptance of our products, effectiveness of our monetization strategy, our ability to control cost and expenses and to manage our growth effectively, market competition, macroeconomic and regulatory environment. We also expect to continue to make investments in research and development, which will place significant demands on our management and our operational and financial resources. Expansion may increase the complexity of our business, and we may encounter various difficulties. We may fail to develop and improve our operational, financial and managerial controls, enhance our financial reporting systems and procedures, recruit, train and retain skilled professional personnel, or maintain customer satisfaction to effectively support and manage our growth. If we invest substantial time and resources to expand our operations but fail to manage the growth of our business and capitalize on our growth opportunities effectively, we may not be able to achieve profitability, and our business, financial condition, results of operations, liquidity and prospects would be materially and adversely affected.

Our consolidated financial statements for the year ended December 31, 2023 included in this annual report beginning on page F-1 have been prepared based on the assumption that we will continue on a going concern basis. The auditors of our consolidated financial statements for the year ended December 31, 2023 have included in their audit reports an explanatory paragraph relating to substantial doubt about our ability to continue as a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business.

***If we fail to control our content-related costs, lack popular literacy content that can be monetized, fail to acquire various forms of copyrights of such literacy content for monetization, or fail to attract and retain signed authors or maintain the business relationships with the key authors and third party content providers, our online literature products and their profitability will be materially and adversely affected.***

Popular and quality content is the core driver and foundation of our online literature products. The content costs have been material along with our efforts to enrich content of Fengdu Novel and Readict by signing more authors and to deepen the cooperation with more third party content providers globally. In 2021, 2022 and 2023, content costs constituted 42.9%, 31.9% and 27.9% of our total cost of revenues, respectively. We generally license the copyright of the content published on our Fengdu Novel on an exclusive basis with our signed authors, either at fixed prices or pursuant to revenue-sharing arrangements, under which the authors will receive royalties based on sales and other forms of monetization of their works. We also license the copyright of the content published on our platform generally on a non-exclusive basis with other authors, publishers or content providers. As the market further develops, the expectation of copyright owners for compensation may continue to rise, as such, they may demand higher licensing fees, and our content costs may increase as we enrich our content library.

Moreover, we rely primarily on our signed authors to create original literature works. We may not be able to attract or retain signed authors by offering more competitive and favorable terms than our competitors in online literature sector or higher licensing fees that our signed authors may request. In addition, even if our signed authors agree to create content exclusively for us for a certain period of time, we cannot control their productivity or the quality of their works produced within such term. Furthermore, any disputes or legal proceedings with our signed authors, especially the best-selling signed authors that create popular or high-quality literature works, may disrupt our business relationships with them. Therefore, we cannot assure you that we will retain sufficient online literature works with monetization value or control a broad range of copyrights for high quality literature works. If we fail to provide popular or quality literature on Fengdu Novel and Readict, we may fail to attract or retain active users and the monetization potential of this product could be materially and adversely affected. If we lack popular literature content that can be monetized or fail to acquire a broad range of copyrights of literature works for monetization, our business and operating results could be materially and adversely affected.

***Our financial results and cash flows may be adversely affected by our continued cost-control initiatives.***

We have been implementing cost-control initiatives, including decreases in sales and marketing expenses, research and development expenses, and general and administrative expenses. The decrease in sales and marketing expenses is in line with the continuous transition of our strategy in relation to the acquisition of new users and retention of existing users, which resulted in a reduction of the user acquisition costs. However, such cost-control measure, in the short term, may negatively affect our ability to acquire new users and to retain existing users, which may in turn result in a decrease in our revenues and disruptions to our operations and adversely affect our business, financial condition or results of operations. Any future contribution of cost-control measures to our profitability will be influenced by the actual savings achieved and by our ability to sustain these ongoing efforts.

Furthermore, in transitioning into our focus on mobile games and online literature, we expect to incur higher development, operation and potential acquisition costs in order to keep pace with the new market and technology needs in this industry. As a result, our cost-control initiatives to increase efficiency of user retention and management and improve our operational performance may not prove to be effective in the short term and we may experience losses in connection with our business strategies.

***We may require additional financing in the future to meet our business requirements. Such capital raising may be costly, difficult or not possible to obtain and, if obtained, could significantly dilute current stockholders' equity interests or increase our debt service obligations.***

We may continue to experience a material decrease in our cash and cash equivalents balance. We may require additional cash resources to fund our working capital and expenditure needs, such as content investment, sales and marketing expenses, product development expenses and investment or acquisition transactions. Although we may attempt to raise funds through bank loans, additional financing may not be available to us on terms acceptable us or at all or such resources may not be received in a timely manner. If we are unable to raise additional capital when required or on acceptable terms, we may be required to scale back or to discontinue certain operations, scale back or discontinue the development of new business lines, reduce headcount, sell assets, file for bankruptcy, reorganize, merge with another entity or cease operations.

***Our advertising services may display advertisements when our products are in use, or insert promoted marketing messages into users' feeds, which may negatively affect user experience and may lead to a decline in user engagement and, in turn, a reduction in revenues generated from our advertising services.***

We primarily generate revenues by distributing advertisements to targeted audience through our products. Advertisements are displayed in various formats when users launch or exit our products, in our theme stores or in-app stores, and in customized news feeds, among others. See “Item 4. Information on the Company—B. Business Overview—Monetization.” It is important for us to balance the frequency, prominence, size and content of advertisements that we display against ensuring a favorable user experience of our products. If our users find the advertisements displayed irrelevant, disturbing or negatively affecting their user experience of our products, they may become less engaged or stop using our products altogether. Furthermore, if advertisements contain controversial, false or misleading content, or the marketing messages we display or the products or services we advertise result in negative emotions or associations in our users, the user experience of our products could be diminished, our financial results could suffer and our reputation could be damaged. If we are unable to deliver advertisements in a way that is acceptable or favorable to our users, our users may not maintain the current level of engagement, and our advertising customers may perceive our advertising services as ineffective in generating a competitive return for them. As a result, our revenues may decline and our business, financial conditions and operating results may be materially and adversely affected.

***We are subject to a variety of laws and other obligations regarding cyber security and data protection in the PRC, and any failure to comply with applicable laws and obligations or exposure to government interference actions could have a material and adverse effect on our business, financial condition and operating results.***

We are subject to PRC laws relating to the collection, use, sharing, retention, security, and transfer of confidential and private information, such as personal information and other data. The cyber security legal regime in mainland China is relatively new and evolving rapidly, and their interpretation and enforcement involve significant uncertainties. As a result, it may be difficult to determine what actions or omissions may be deemed to be in violations of applicable laws and regulations in certain circumstances.

Under the current PRC cyber security laws, personal information and important data collected and generated by a “critical information infrastructure operator” in the course of its operations in mainland China must be stored in mainland China, and if a “critical information infrastructure operator” purchases internet products and services that affects or may affect national security, it should be subject to cyber security review by the Cyberspace Administration of China. As advised by our PRC counsel, the exact scope of “critical information infrastructure operators” under the current regulatory regime remains unclear, and the PRC government authorities may have wide discretion in the interpretation and enforcement of these laws. The current PRC cyber security laws have established more stringent requirements applicable to operators of computer networks, especially to operators of networks which involve critical information infrastructure. The current PRC cyber security laws also contain an overarching framework for regulating Internet security, protection of private and sensitive information, and safeguards for national cyberspace security and provisions for the continued government regulation of the Internet and content available in mainland China. Because of their exceptional breadth in scope, ambiguous requirements and broadly defined terminology, there is substantial uncertainty as to the potential impact of such laws on our operations in mainland China, particularly in relation to the safeguarding of user information.

On December 28, 2021, the Cyberspace Administration of China published the Measures for Cyber Security Review, effective on February 15, 2022, which provides that critical information infrastructure operators purchasing network products and services, and internet platform operators engaging in data processing activities that affect or may affect national security must apply with the Cyber Security Review Office for a cyber security review. However, the scope of operators of “critical information infrastructure” under the current regulatory regime remains unclear and is subject to the decisions of competent PRC regulatory authorities. The Measures for Cyber Security Review also required internet platform operators processing over one million users’ personal information, if seeking for listing abroad, to apply for a cyber security review with the Cyber Security Review Office. We cannot guarantee you that we will not be subject to cyber security review for our future capital raising activities, or that new rules or regulations promulgated in the future, if any, will not impose additional compliance requirements on us.

On November 14, 2021, the Cyberspace Administration of China published a discussion draft of the Administrative Measures for Internet Data Security, which provides that data processors conducting the following activities shall apply for cyber security review: (i) merger, reorganization or division of Internet platform operators that have acquired a large number of data resources related to national security, economic development or public interests affects or may affect national security; (ii) listing abroad of data processors processing over one million users' personal information; (iii) listing in Hong Kong which affects or may affect national security; or (iv) other data processing activities that affect or may affect national security. There have been no clarifications from the authorities as of the date of this annual report as to the standards for determining such activities that "affects or may affect national security." The Cyberspace Administration of China has solicited comments on this draft until December 13, 2021, but there is no timetable as to when it will be enacted. As such, substantial uncertainties exist with respect to the enactment timetable, final content, interpretation and implementation, including the standards for determining whether a listing in Hong Kong "affects or may affect national security." The draft administrative measures, if enacted as proposed, may materially impact our capital raising activities. Any failure to obtain such approval or clearance from the regulatory authorities could materially constrain our liquidity and have a material adverse impact on our business operations and financial results, especially if we need additional capital or financing.

We cannot assure you that we will not be subject to PRC regulatory inspection and/or review relating to cyber security, especially when there remains significant uncertainty as to the scope and manner of the regulatory enforcement and/or the possible government interference that we may be exposed to. If we become subject to cyber security inspection and/or review by the Cyberspace Administration of China or other PRC authorities or are required by them to take any specific actions, it could cause suspension or termination of the future offering of our securities, disrupt our operations, result in negative publicity regarding our company, and divert our managerial and financial resources. We may also be subject to fines or other penalties, which could materially and adversely affect our business, financial condition and operating results. Furthermore, as the legal and regulatory framework for the protection of information in cyberspace in the PRC continues to evolve, we may be required to adjust our business practices or incur additional operating expenses, which may adversely affect our operating results and financial condition. See "Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Relating to Personal Privacy and Data Protection."

***Data privacy concerns relating to our products and current practices may, particularly in light of increased regulatory scrutiny of and user expectations regarding the processing, collection, use, storage, dissemination, transfer and disposal of user data, require changes to our business practices and may result in declines in user growth or engagement, increased costs of operations and threats of lawsuits, enforcement actions and related liabilities, including financial penalties.***

Companies' practices regarding collection, use, retention, transfer, disclosure and security of user data have been, and continue to be, the subject of enhanced regulations and increased public scrutiny. The regulatory frameworks regarding privacy issues in many jurisdictions are constantly evolving and can be subject to significant changes from time to time, and therefore we may not be able to comprehensively assess the scope and extent of our compliance responsibility at a global level. Moreover, certain of our users, particularly those in the United States and Europe, may have strong expectations for the level of privacy afforded to their personal data and the content of their communications. Further, the developing requirements around clear and prominent privacy notices (including in the context of obtaining informed and specific consent to the collection and processing of personal data, if applicable) can potentially deter users from consenting to certain uses of their personal information. In general, negative publicity of us or our industry regarding actual or perceived violations of our users' privacy-related rights may also impair users' trust in our privacy practices and make them reluctant to give their consent to share their data with us.

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

In the European Union, the General Data Protection Regulation which came into effect on May 25, 2018, increased our burden of regulatory compliance and requires us to change certain of our privacy and cyber security practices in order to achieve compliance. The General Data Protection Regulation applies to any company established in the European Union as well as any company outside the European Union that processes personal data in connection with the offering of goods or services to individuals in the European Union or the monitoring of their behavior. The General Data Protection Regulation implements more stringent operational requirements for processors and controllers of personal data, including, for example, requiring expanded disclosures about how personal information is to be used, limitations on retention of information, mandatory data breach notification requirements, and higher standards for data controllers to demonstrate that they have obtained either valid consent or have another legal basis in place to justify their data processing activities. The General Data Protection Regulation further provides that EU member states may make their own additional laws and regulations in relation to certain data processing activities, which could further limit our ability to use and share personal data and could require localized changes to our operating model. Under the General Data Protection Regulation, fines of up to 20 million euros or up to 4% of the total worldwide annual turnover of the preceding financial year, whichever is higher, may be assessed for noncompliance, which significantly increases our potential financial exposure for non-compliance. However, with limited precedence on the interpretation and application of the regulation and limited guidance from EU regulators, the application of the General Data Protection Regulation to the provision of internet services remains unsettled. The Company has adopted policies and procedures in compliance with the General Data Protection Regulation, however, such policies and procedures may need to be updated when additional information concerning the best practices is made available through guidance from regulators or published enforcement decisions.

Outside of the United States and the European Union, many jurisdictions have adopted or are adopting new data privacy and data protection laws that may impose further onerous compliance requirements, such as data localization, which prohibits companies from storing data relating to resident individuals in data centers outside the jurisdiction. The proliferation of such laws within jurisdictions and countries in which we operate may result in conflicting and contradictory requirements.

In order for us to maintain or become compliant with applicable laws as they come into effect, it may require substantial expenditures on resources to continually evaluate our policies and processes and adapt to new requirements that are or become applicable to us. Complying with any additional or new regulatory requirements on a jurisdiction-by-jurisdiction basis would impose significant burdens and costs on our operations or may require us to alter our business practices. While we strive to protect our users' privacy and cyber security and to comply with material data protection laws and regulations applicable to us, it is possible that our practices are, and will continue to be, inconsistent with certain regulatory requirements. Our international business expansion could be adversely affected if these laws and regulations are interpreted or implemented in a manner that is inconsistent with our current business practices or that requires changes to these practices. In particular, the large amount of user data generated on and collected from our products has been, and will continue to be, critical for our business model, including to enable us to understand our users' interests and demands for content, improve their user experience with our products and services and deliver targeted advertising. Therefore, if these laws and regulations materially limit our ability to collect and use our users' data, our ability to continue our current operations without modification, develop new services or features of the products and expand our user base will be impaired. Any of our failure or perceived failure to comply with applicable data privacy laws and regulations, including in relation to the collection of necessary end-user consents and providing end-users with sufficient information with respect to our use of their personal data may result in fines and penalties imposed by regulators, governmental enforcement actions (including enforcement orders requiring us to cease collecting or processing data in a certain way), litigation and/or adverse publicity. Proceedings against us, regulatory, civil or otherwise, could force us to spend money and devote resources in the defense or settlement of, and remediation related to, such proceedings. Furthermore, any of the foregoing consequences could damage our reputation and discourage current and potential users from using our mobile applications. In addition, as users' expectations and regulatory attitudes with respect to personal privacy and cyber security continue to evolve, future regulations on the extent to which personal information and user-generated data we are allowed to use or share with third parties may adversely affect our ability to leverage and derive economic value from the data that our users generate and share with us, which may limit our ability to carry out targeted advertising and thereby result in a decline in the mobile advertising revenues upon which our revenues are dependent.

***If we fail to obtain or maintain the requisite licenses and approvals, or if we are required to apply for new licenses and approvals which are time-consuming or costly to obtain, our business and operating results may be materially and adversely affected.***

The internet industry, including the mobile internet industry, is highly regulated in mainland China. The VIEs are required to obtain and maintain applicable licenses and approvals from different regulatory authorities in order to provide their current services to our users. If we fail to obtain or maintain any of the required licenses or approvals, make any necessary filings, or otherwise fail to comply with the applicable laws and regulations, we may be subject to various penalties, such as confiscation of revenues that were generated through the unlicensed internet or mobile activities, the imposition of fines and the discontinuation or restriction of our operations. Any such penalties may disrupt our business operations and materially and adversely affect our business, financial condition and operating results.

The operations of our game mobile apps may require us to apply for additional license and permits. Under regulations issued by the State Administration of Press, Publication, Radio, Film and Television, the publication of each online game requires its approval. As of the date of this annual report, we have not obtained approvals from the State Administration of Press, Publication, Radio, Film and Television or its successor for all of the online games we operate in mainland China. After the re-organization of State Administration of Press, Publication, Radio, Film and Television, we shall apply with the National Administration of Press and Publication for the approvals for publishing our games. In the past years since April 2018, as the National Administration of Press and Publication at the national level has delayed and suspended its review and issuance of publication for online games from time to time, it is difficult to obtain game publication codes in a timely manner or at all. Any delay in game registration or obtaining game publication codes could negatively affect the operation results of our games. Pursuant to the Notice to Adjust the Scope of Online Culture Operation Permit Approval and to Further Regulate the Approval Work released in May 2019, the Ministry of Culture and Tourism no longer assumes the responsibility to regulate online game industry, and the provincial counterparts of the Ministry of Culture and Tourism would no longer grant Online Culture Operation Permit covering the business scope of using the information network to operate online games. However, the licenses granted by the Ministry of Culture and Tourism before this notice will remain valid until the expiration dates of these licenses. On December 22, 2023, the National Press and Publication Administration promulgated the draft Measures for the Administration of Online Games, which provide that the national publishing regulatory authority oversees online game publishing activities nationwide while local authorities at county level and above are responsible for supervision within their respective administrative regions. As of the date of this annual report, the draft has not been formally adopted. For more information, see “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Related to Online Games.” If we are unable to obtain the online culture operating license, the internet publication service license and publication codes, our ability to introduce, launch, operate and promote new games or games may be adversely affected, and our financial condition and operating results could be adversely affected. In addition, we cannot assure you that we can obtain the approvals from the National Administration of Press and Publication or complete the filings with the governmental authorities for all games we operate in a timely manner or at all, which could adversely and materially impact our ability to introduce new games, the timetable to launch new games and our business growth. If any future regulations or restrictive rules in this regard are promulgated, we are not sure whether these rules or regulations would negatively impact our operations, including by increasing our compliance costs, implementing additional requirements to obtain licenses or permits, and negatively impacting our ability to launch and operate new games.

Moreover, the provisions of online games and online literature are deemed to be internet publication activities. According to the Administrative Measures for Internet Publication Services jointly issued by the State Administration of Press, Publication, Radio, Film and Television and the Ministry of Industry and Information Technology in 2016, we may be required to obtain an internet publication service license for the provisions of online games and online literature. According to the Notice on Administration of Mobile Game Publishing Services issued by the State Administration of Press, Publication, Radio, Film and Television in 2016, we may be required to obtain publishing and authorization codes for the online games. As of the date of this annual report, we have not obtained the internet publication service license or the publication codes for all of the online games we operate in mainland China. In the event of failure to obtain these licenses and approvals, an operator may face heavy penalties, such as being ordered by the regulatory authority to shut down services and delete all relevant internet publications. The regulatory authority may also confiscate all of such operator’s illegal income as well as major equipment and specialized tools used in illegal publishing activities. If the illegal income exceeds RMB10,000, such operator may face a fine of five to ten times of such illegal income; and if the illegal income is less than RMB10,000, such operator may face a fine of less than RMB50,000. Such operator may also bear civil liability if its operation has infringed on other persons’ legal rights and interests. For more information, see “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Relating to Internet Publication Services.”



On October 25, 2019, the National Administration of Press and Publication issued the Notice on Preventing Minor’s Addiction to Online Games, which requires all online gamers to register accounts with their valid identity information and all game companies to stop providing game services to users who fail to do so. On October 17, 2020, the Standing Committee of the National People’s Congress issued the Law of the PRC on the Protection of Minors (2020 Revision), effective on June 1, 2021, and on October 16, 2023, the Standing Committee of the National People’s Congress issued the Regulations on the Protection of Minors in Cyberspace, effective on January 1, 2024. These laws and regulations require online games service providers to request minors to register and log into online games with their valid identity information. In addition, pursuant to the Notice of on Further Strengthening Regulation to Effectively Prevent Online Gaming Additions among Minors, which became effective on September 1, 2021, all online games are required to be connected to the online game anti-fatigue compliance system and a real-name registration system of the National Press and Publication Administration of China. For more information, see “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Related to Anti-fatigue System, Real-name Registration System and Parental Guardianship Project.” We are compliant with the current real-name registration system requirements for all our mobile games with in-app purchase functions. However, we have yet achieved such compliance for our other mobile games. The PRC government may further tighten the real-name registration requirements or require us to implement a more thorough compulsory real-name registration system for all users on our platform in the future, in which case we will need to upgrade our system or purchase services from third-party service providers and incur additional costs in relation thereto. If we were required to implement a more rigid real-name registration system for users on our platform, potential users may be deterred from registering with our platform, which may in turn negatively affect the growth of our user base and business prospects.

***Our business is subject to complex and evolving laws, regulations and governmental policies in China and other countries and regions where we have business. Many of these laws, regulations and governmental policies are subject to change and uncertain interpretation, and could result in claims, changes to our business practices, increased cost of operations, or declines in our growth or engagement, financial performance, or otherwise harm our business.***

We are subject to a variety of laws and regulations that involve matters important to or may otherwise impact our business, including, but not limited to, privacy and data protection, rights of publicity, content, intellectual property, advertising, marketing, distribution, cyber security, data retention and deletion, national security, electronic contracts and other communications, competition, consumer protection, telecommunications, taxation, and economic or other trade prohibitions or sanctions.

Because our products and services are used worldwide, one or more other jurisdictions may claim that we are required to comply with their laws based on the location of our offices and staff, commercial operations, equipment or our users. Foreign laws and regulations can impose different obligations or be more restrictive than those in the PRC. It may be difficult to determine what actions or omissions may be deemed to be violations of applicable laws and regulations in certain circumstances.

PRC and foreign laws and regulations are constantly evolving and can be subject to significant change from time to time. As a result, the application, interpretation, and enforcement of these laws and regulations are often uncertain, particularly in the new and rapidly evolving mobile internet industry in which we operate, and may be interpreted and applied inconsistently from country to country and inconsistently with our current policies and practices. New laws and regulations may require us to obtain new license and permits, or take certain actions that may adversely affect the industry that we operate in and our business operations. Complying with new laws and regulations could cause us to incur substantial costs or require us to change our business practices in a manner materially adverse to our business. There can be no assurance that we will not be found in violation of any future laws and regulations or violation of any of the laws and regulations currently in effect due to changes in the authorities’ implementation or interpretation of such laws and regulations.

If we fail to timely address all the change in policy or to obtain and maintain approvals, licenses or permits required for our business, or to comply with laws and regulations, we could be subject to liabilities, fines, penalties and operational disruptions, or we could be required to modify our business model, which could materially and adversely affect our growth and financial performance, including, but not limited to, our profitability, the trading price of our listed securities and our valuation. See also “—Risks Relating to Our Business—If we fail to obtain or maintain the requisite licenses and approvals, or if we are required to apply for new licenses and approvals which are time-consuming or costly to obtain, our business and operating results may be materially and adversely affected.”

***If we fail to prevent security breaches, cyber-attacks or other unauthorized access to our systems or our users' data, we may be exposed to significant consequences, including legal and financial exposure and loss of users, and our reputation, business and operating results may be materially and adversely affected.***

We collect, store, transmit and process a large volume of personal and other sensitive data generated by our users through their interactions with our products. Although we have taken various security measures and adopted robust internal policies to protect our users' personal privacy and cyber security, we may nevertheless be exposed to risks of security breaches or unauthorized access to or cyber-attacks on our systems or the data we store. Given the size of our user base, and the types and volume of personal data on our systems, we believe that we may be a particularly attractive target for security breaches and cyber-attacks. Our efforts to protect our data may be unsuccessful due to software "bugs," system errors or other technical deficiencies, mistakes or malfeasance of our employees or contractors, vulnerabilities of our vendors and service providers, or other cyber security-related vulnerabilities. Any failure to prevent or mitigate security breaches, cyber-attacks or other unauthorized access to our systems or disclosure of our users' data, including personal information, could result in loss or misuse of such data, interruptions to the services we provide, diminished user experience, loss of user confidence and trust in our products, impairment of our network and technological infrastructure, and harm to our reputation and business, significant legal and financial exposure and potential lawsuits brought by private individuals or regulators. We have invested and will continue to devote resources to maintain strong security protections that shield our systems and our users' data against bugs, theft, misuse or security vulnerabilities or breaches. Although we have developed systems and processes that are designed to prevent and detect security breaches and protect our users' data, we cannot guarantee that such measures will be sufficient defenses against the evolving techniques used to obtain unauthorized access, disable or degrade services or sabotage systems. In addition, as our data centers and servers are dispersed around the world, we may incur significant costs in protecting them against, or remediating, security breaches and cyber-attacks.

***Our products and internal systems rely on software that is highly technical, and if it contains undetected errors or vulnerabilities, our business could be adversely affected.***

Our products and internal systems rely on numerous proprietary and licensed software that is highly technical and complex. In addition, our products and internal systems depend on the ability of certain software to encrypt, store, retrieve, process, and manage large amounts of data. The software on which we rely now or in the future may contain undetected errors, bugs, or vulnerabilities that may not be discovered until after the source code is released and examined. Errors, vulnerabilities, or other design defects within the software on which we rely may result in a negative experience for users of our products, delay product introductions or enhancements, compromise our ability to protect the data of our users and/or our intellectual property or lead to reductions in our ability to provide some or all of our services. In addition, any errors, bugs, vulnerabilities, or defects discovered in the software on which we rely, and any associated degradations or interruptions of service, could result in damage to our reputation, loss of users, loss of revenue, or liability for damages, any of which could materially and adversely affect our business and operating results.

***The industry in which our business operates is highly competitive. If we fail to compete effectively, our business will suffer.***

We face intense competition in every aspect of our business, including competition for users, usage time, advertising customers, technology, and highly skilled employees. Our portfolio products compete with applications of the same or a similar kind. Our Fengdu Novel competes with other leading free online literature applications in the Chinese market including Fanqie Novel and Qimao Novel. Our Readict competes with other online literature applications in the global market including Goodnovel and Dreame. Our mobile game products such as Hey Beauty and Merge Lover compete primarily with other mobile games developed by companies such as WebEye and Magic Tavern. In addition, we compete with all major internet companies for user attention and advertising spend.

We compete with other developers of mobile applications for users, usage time and advertising customers on the basis of quality, features, availability and ease of use of products and services, and the number and quality of advertising distribution channels. We also compete with other developers for talented employees with technological expertise that is crucial for the sustained development of successful products and services. Our competitors may operate with more efficient business models and cost structures. They may prove more adaptable to new technological and other market developments than we are. Many of our competitors are larger and more established companies and may have significantly more financial, technological, marketing and other resources than we do and may be able to devote greater resources to the development, promotion, sales and support of their products and services. They may allow our competitors to respond to new or emerging technologies and changes in market requirements better than we can. Our competitors may also develop products, features, or services that are similar to ours or that achieve greater market acceptance. These products, features, and services may undertake more far-reaching and successful product development efforts or marketing campaigns. As a result, our competitors may acquire and engage users at the expense of our user growth or engagement, which may seriously harm our business. If we cannot effectively compete, our user engagement may decrease, which could make us less attractive to users, advertisers and seriously harm our business and have a material and adverse impact on our business, operating results and growth potential.

***User growth and engagement depend upon effective interoperation of our products with mobile devices, operating systems and standards that we do not control.***

Our products and services are available across a variety of mobile devices and mobile operating systems. In order to deliver high quality products and services to a broad spectrum of mobile internet users, it is important for our products and services to work well with a range of mobile devices, operating systems, networks and standards that we do not control, including Android and iOS operating systems. Any changes in such devices or operating systems that degrade the functionality of our products and services would affect our users' experience with our products. If we fail to develop relationships with the key participants in the mobile internet industry and mobile advertising industry, or if we fail to maintain the effective interoperation of our products and services with these mobile devices, operating systems, networks and standards, our user growth and user engagement could be harmed, and our business and operating results could be adversely affected.

Any significant decline in the overall popularity of the Android or iOS ecosystem or devices could materially and adversely affect the demand for, and revenues generated from, our mobile applications. There can be no assurance that these operating systems will grow in the future and at what growth rate. Any other operating system for mobile devices may replace the existing operating systems and decrease their popularity, especially considering the constantly evolving nature of the mobile internet industry. To the extent that our mobile applications continue to mainly support Android devices and iOS devices, our mobile business could be vulnerable to any decline in popularity of these devices and their operating systems. In addition, any changes, bugs, or technical issues in these operating systems may degrade our products' functionality and limit our ability to deliver, target, or measure the effectiveness of ads, or to charge fees related to our delivery of ads, which may have an adverse impact on our business and operating results.

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

We may display third-party content, such as videos, pictures, books, articles and other works, on our mobile applications without the explicit consent from such third party, and we may further explore market opportunities in the content-related business. Our users may misuse our products to disseminate content that contains inappropriate, fraudulent or illegal information or that infringes the intellectual property rights of third parties. We have implemented control measures and procedures to detect and block inappropriate, fraudulent or illegal content uploaded to or disseminated through our products, particularly those that violate our user agreements or applicable laws and regulations. However, such procedures may not be sufficient to block all such content due to the large volume of third-party content. Despite the procedures and measures we have taken, if the content displayed on our products are found to be fraudulent, illegal or inappropriate, we may suffer a loss of users and damage to our reputation. In response to any allegations of fraudulent, illegal or inappropriate activities conducted through our mobile applications or any negative media coverage about us, government authorities may intervene and hold us liable for non-compliance with laws and regulations concerning the dissemination of information on the internet and subject us to administrative penalties or other sanctions, such as requiring us to restrict or discontinue certain features and services provided by our mobile applications or to temporarily or permanently disable such mobile applications. If any of such events occurs, our reputation and business may suffer and our operating results may be materially and adversely affected.

***We may not be able to prevent unauthorized use of our intellectual property, which could harm our business and competitive position.***

We regard our patents, copyrights, trademarks, trade secrets, and other intellectual property as critical to our business. Unauthorized use of our intellectual property by third parties may adversely affect our business and reputation. We rely on a combination of intellectual property laws and contractual arrangements to protect our proprietary rights. It is often difficult to register, maintain, and enforce intellectual property rights in countries with less developed regulatory regimes or inconsistent and unreliable enforcement mechanisms. Sometimes laws and regulations are subject to interpretation and enforcement and may not be applied consistently due to the lack of clear guidance on statutory interpretation. In addition, our contractual agreements may be breached by our counterparties, and there may not be adequate remedies available to us for any such breach. Accordingly, we may not be able to effectively protect our intellectual property rights or to enforce our contractual rights in China and other jurisdictions in which we operate. Detecting and preventing any unauthorized use of our intellectual property is difficult and costly and the steps we have taken may be inadequate to prevent infringement or misappropriation of our intellectual property. In the event that we resort to litigation to enforce or protect our intellectual property rights, such litigation could result in substantial costs and a diversion of our managerial and financial resources. We can provide no assurance that we will prevail in such litigation. For a detailed description of such a litigation, see “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings.” In addition, our trade secrets may be leaked or otherwise become available to, or be independently discovered by, our competitors.

***We may be subject to intellectual property infringement lawsuits which could be expensive to defend and may result in our payment of substantial damages or licensing fees, disruption to our product and service offerings, and reputational harm.***

The success of our business relies on the quality of our products, which in turn depends on the underlying software and related technology, such as big data analytics. The protection of such software and related technologies primarily relies on intellectual property rights including patents and trade secrets. Meanwhile, for the purpose of our business expansion, we may from time to time display third-party content, such as videos, pictures, books, articles and other works, on our mobile applications without acquiring the explicit consent from such third party. Third parties, including our competitors, may assert claims against us for alleged infringements of their patents, copyrights, trademarks, trade secrets and internet content.

For instance, in December 2022, a third-party company in mainland China brought a lawsuit against Shanghai Dengyong Information Technology Co., Ltd., a subsidiary of one of the VIEs, in Shanghai Minhang District People’s Court for copyright infringement. The plaintiff alleged that a short drama adapted from an online novel provided by Fengdu Novel infringed its copyright, and claimed for stopping the infringement and compensation of RMB1,000,000. In October 2023, this third-party company brought another lawsuit against Shanghai Dengyong Information Technology Co., Ltd. and Molihong in Shanghai Minhang District People’s Court for copyright infringement. The plaintiff alleged that the online novel mentioned above infringed its copyright, and claimed for the cessation of the infringement and compensation totaling RMB500,000. As of the date of this annual report, no conclusive judicial decision has been made with respect to these lawsuits. For more information, see “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings.”

The lengthy application procedures of software-related patents may lead to uncertainty on our intellectual property rights to our internally developed software because it increases the likelihood that there are pending patent applications whose priority dates pre-date the development of our own software that is identical or substantially similar to the software subject of the pending patent application. We have been subject to patent disputes, and expect that we may increasingly be subject to patent infringement claims as our products and monetization model expand in market share, scope and complexity. Claims have been threatened and brought against us for alleged copyright or trademark infringements based on the nature and content of information that we or third parties, including our users, generated and posted in our products. In addition, we may in the future be subject to actions alleging that certain content we have generated or third-party content that we have made available within our products and services violates the applicable laws in China or other jurisdictions.

Intellectual property claims against us, whether meritorious or not, are time consuming and costly to resolve, could divert management attention away from our daily business, could require changes of the way we do business or develop our products, could require us to enter into costly royalty or licensing agreements or to make substantial payments to settle claims or satisfy judgments, and could require us to cease conducting certain operations or offering certain products in certain areas or generally. We do not conduct comprehensive patent searches to determine whether the technologies used in our products infringe upon patents held by others. In addition, product development is inherently uncertain in a rapidly evolving technological environment in which there may be numerous patent applications pending, many of which are confidential when filed, with regard to similar technologies. While we believe that our products do not infringe in any material respect upon any intellectual property rights of third parties, we cannot be certain that this is the case.

In addition, in any potential dispute involving our patents or other intellectual property, our advertising customers and business partners could also become the target of litigation. We have certain contractual obligations to indemnify our advertising customers and the mobile device manufacturers that pre-install our products on their devices for liability that they may incur based on third-party claims of intellectual property infringement for the use of our products or technology. Many of our collaboration contracts with mobile device manufacturers provide for a cap on our indemnity obligations. In addition, in the event of any such claims, our advertising customers or business partners may decide not to use our products in the future, which could harm our financial condition and operating results.

Finally, we may also face infringement claims from the employees, consultants, agents and outside organizations we have engaged to develop our technology. While we have sought to protect ourselves against such claims through contractual means, there can be no assurance that such contractual provisions are adequate, and any of these parties might claim full or partial ownership of the intellectual property in the technology that they were engaged to develop for us.

***Pending or future litigation could have a material and adverse impact on our financial condition and operating results.***

We have been, and may continue to be, subject to lawsuits brought by our competitors, individuals or other entities against us. For example, in June 2020, a mobile device manufacturer sued us for unfair competition, alleging that one of our mobile applications had interfered with the normal use of their devices by ways of pop-up advertisements, and claimed for stopping the act and compensation of RMB4,900,000. The first-instance judgment was made in March 2021, which ordered the suspension of pop-up advertisements and awarded RMB3,000,000 to the plaintiff. After filing an appeal, we entered into a settlement agreement with the plaintiff, pursuant to which we need to provide compensation to the plaintiff of RMB1,485,955. We may also in the future be involved in legal proceedings between us and the mobile device manufacturers who had contractual arrangements with us with respect to the pre-installation of our products on their mobile devices. In addition, we have been involved in lawsuits brought by our competitors alleging the infringement of intellectual property from time to time. See “—We may be subject to intellectual property infringement lawsuits which could be expensive to defend and may result in our payment of substantial damages or licensing fees, disruption to our product and service offerings, and reputational harm.”

Where we can make a reasonable estimate of the liability relating to pending litigation against us and can determine that an adverse liability resulting from such litigation is probable, we record a related contingent liability. As additional information becomes available, we assess the potential liability and revise estimated liability as appropriate. However, due to the inherent uncertainties of litigation, the amount of our estimated liability may be inaccurate, in which case our financial condition and results of operation may be adversely affected. In addition, the outcomes of actions we institute may not be successful or favorable to us. Lawsuits against us may also generate negative publicity that significantly harms our reputation, which in turn may adversely affect our user base and advertising customer base. In addition to the related cost, managing and defending litigation and related indemnity obligations can significantly divert our management’s attention from operating our daily business. We may also need to pay damages or settle lawsuits with substantial amounts of cash, which may adversely affect our cash flow and financial conditions. While we do not believe that any currently pending proceedings are likely to have a material adverse effect on our business, financial condition, results of operations and cash flows, if there were adverse determinations in legal proceedings against us, we could be required to pay substantial monetary damages or to materially alter our business practices, which could have an adverse effect on our financial condition and results of operations and cash flows.

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

We use open source software in our products and services and expect to continue to use open source software in the future. The terms of many open source licenses to which we are subject have not been interpreted by U.S. or foreign courts, and there is a risk that such licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to sell or distribute our mobile applications. Additionally, we may from time to time face threats or claims from third-parties claiming ownership of, or demanding release of, the alleged open source software or derivative works we developed using such software, which could include our proprietary source code, or otherwise seeking to enforce the terms of the applicable open source license. These threats or claims could result in litigation and could require us to make our source code freely available, purchase a costly license or cease offering the implicated mobile applications unless and until we can re-engineer them to avoid infringement. Such a re-engineering process could require significant additional research and development resources, and we may not be able to complete it successfully. In addition to risks related to license requirements, our use of certain open source software may lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or controls on the origin of the software. Additionally, because any software source code we contribute to open source projects is publicly available, our ability to protect our intellectual property rights with respect to such software source code may be limited or lost entirely, and we are unable to prevent our competitors or others from using such contributed software source code. Any of these risks could be difficult to eliminate or manage and, if not addressed, could adversely affect our business, financial condition and operating results.

***Potential issues in the adoption and use of artificial intelligence in our product offerings may result in reputational harm or liability.***

We are building artificial intelligence, or AI, into many of our product offerings. We employ AI generated content tools that use machine learning algorithms to create content automatically in mobile game art design and creating novel outlines. We have also developed an AI and data-driven system to enable the authors on our online literature platform to produce more suitable content for our users and continually adapt to changing demand based on data feedback. As with many disruptive innovations, AI presents risks and challenges that could affect its adoption, and, therefore, our business. AI algorithms may be flawed. Datasets may be insufficient or contain biased information. Our or other parties' inappropriate or controversial data practices could impair the acceptance of our AI solutions. The use of AI generated content tools may result in copyright and other legal issues and our AI generated content related offerings may not be able to compete against that of our competitors. These deficiencies could undermine the decisions, predictions, or analysis that AI applications produce, subjecting us to legal liability, and brand or reputational harm. In addition, some AI scenarios present ethical issues. If we offer AI related products that are controversial because of their impact on human rights, privacy, employment, or other social issues, we may experience reputational harm or be exposed to liability.

The regulatory and legal framework on generative AI is evolving rapidly and may not sufficiently cover all aspects of the research, development, and application of generative AI in mainland China. Before the year of 2022, the regulations related to generative AI were also provided in other regulations and rules of Internet information services dispersedly. However, PRC government authorities have gradually accelerated the pace of legislation for generative AI related technologies including algorithm recommendation and deep synthesis recently. Since the end of 2021, PRC government authorities released the Administration Provisions on Algorithmic Recommendation of Internet Information Services and the Administrative Provisions on Deep Synthesis of Internet Information Services successively. On July 10, 2023, the Cyberspace Administration of China published the Provisional Administrative Measures for Generative Artificial Intelligence Services, effective on August 15, 2023. These measures apply to the use of generative AI that is offered to the public within the territory of China. Providers of generative AI are required to adopt measures to filter any inappropriate content created by generative AI, optimize algorithms to prevent the generation of such content, apply to the Cyberspace Administration of China for a security assessment before offering any generative AI service to the public at large, and protect data submitted by end users. A provider of generative AI that violates the requirements under these measures will be penalized in accordance with regulations, or receive warnings, be ordered to take corrective actions, suspend services, or pay fines, or be held criminally liable. For more information, see "Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Relating to Generative AI." However, since these laws and regulations are still relatively new and significant uncertainties exist with respect to the interpretation and implementation of such laws and regulations, we cannot assure whether we will be able to comply with the requirements of such laws and regulations in a timely manner or at all. If we are unable to obtain the necessary approvals or if we have any dispute with any third party relating to intellectual property or data security, our business operation may be adversely affected.

***A severe or prolonged downturn in the Chinese or global economy could materially and adversely affect our business and financial condition.***

COVID-19 had a severe and negative impact on the Chinese and the global economy from 2020 through 2022, and the global macroeconomic environment still faces numerous challenges. The growth rate of the Chinese economy has been slowing since 2010 and the Chinese population began to decline in 2022. The Federal Reserve and other central banks outside of China have raised interest rates. The Russia-Ukraine conflict, the Hamas-Israel conflict and the attacks on shipping in the Red Sea have heightened geopolitical tensions across the world. The impact of the Russia-Ukraine conflict on Ukraine food exports has contributed to increases in food prices and thus to inflation more generally. There have also been concerns about the relationship between China and other countries which may potentially have economic effects. In particular, there is significant uncertainty about the future relationship between the United States and China with respect to a wide range of issues including trade policies, treaties, government regulations and tariffs. Economic conditions in China are sensitive to global economic conditions, as well as changes in economic and political policies and the expected or perceived overall economic growth rate in China. In addition, advertising customers and their advertising and marketing budgets may be sensitive to changes in macroeconomic conditions. If macroeconomic conditions deteriorate, advertisers' businesses may be directly hit, which may in turn lead to decreased advertising and marketing budgets. As a result, any severe or prolonged slowdown in the global or Chinese economy may materially and adversely affect our business, results of operations and financial condition.

***Changes in international trade policies and international barriers to trade or the escalation of trade tensions may have an adverse effect on our business.***

International trade disputes could result in tariffs and other protectionist measures that could adversely affect our business. Tariffs could increase our operating costs as well as the cost of the goods and products which could affect our customer's discretionary spending level. In addition, any escalation in existing trade tensions or the advent of a trade war, or news and rumors of the escalation of a potential trade war, could affect consumer confidence and have a material adverse effect on our business, results of operations and, ultimately, the trading price of our ADSs.

Political tensions between the United States and China have escalated due to, among other things, the COVID-19 outbreak, the PRC National People's Congress' passage of Hong Kong national security legislation, sanctions imposed by the U.S. Department of Treasury on certain officials of the Hong Kong Special Administrative Region and the central government of the PRC, and the executive orders issued by U.S. President in August 2020 and the new executive order issued by the U.S. President in June 2021 which sought or seek to prohibit certain transactions with, or equity investment in, certain Chinese companies and their respective subsidiaries. In addition, on December 31, 2020, the New York Stock Exchange commenced proceedings to delist securities of three major telecommunications service providers in China in light of an executive order prohibiting any transaction in publicly traded securities of certain China-based companies by any U.S. person. We have been closely monitoring policies in the United States designed to restrict certain Chinese companies from supplying or operating in the U.S. market. However, it remains unclear what additional actions, if any, will be taken by the U.S. or other governments with respect to international trade agreements, the imposition of tariffs on goods imported into the United States, tax policy related to international commerce, or other trade matters. If any new tariffs, legislation and/or regulations are implemented, or if existing trade agreements are renegotiated or, in particular, if the U.S. government takes retaliatory trade actions due to the recent U.S.-China trade tensions, such changes could have an adverse effect on our business, financial condition and results of operations.

Likewise, we are monitoring policies in the United States that are aimed at restricting U.S. persons from investing in or supplying certain Chinese companies. The United States and various foreign governments have imposed controls, license requirements and restrictions on the import or export of technologies and products (or voiced the intention to do so). For instance, the United States is in the process of developing new export controls with respect to "emerging and foundational" technologies, which may include certain AI and semiconductor technologies. In addition, the U.S. government may potentially impose a ban prohibiting U.S. persons from making investments in or engaging in transactions with certain Chinese companies. Measures such as these could deter suppliers in the United States and/or other countries that impose export controls and other restrictions from providing technologies and products to, making investments in, or otherwise engaging in transactions with Chinese companies. As a result, Chinese companies would have to identify and secure alternative supplies or sources of financing, while they may not be able to do so in a timely manner and at commercially acceptable terms, or at all. In addition, Chinese companies may have to limit and reduce their research and development and other business activities, or cease conducting transactions with parties, in the United States and other countries that impose export controls or other restrictions. Like other Chinese companies, our business, financial condition and results of operations could be adversely affected as a result.



***If relations between China and the United States deteriorate, our business, results of operations and financial condition could be adversely affected.***

At various times during recent years, the United States and China have had significant disagreements over monetary, economic, political and social issues, and future relations between these two countries may deteriorate. Changes in political conditions and changes in the state of China-U.S. relations are difficult to predict and could adversely affect our business, results of operations and financial condition. In addition, because of our extensive operations in the Chinese market, any deterioration in political or trade relations might cause a public perception in the United States or elsewhere that might cause our products to become less attractive. We cannot predict what effect any changes in China-U.S. relations may have on our ability to access capital or effectively do business in China or the United States. Moreover, any political or trade controversies between the United States and China, whether or not directly related to our business, could cause investors to be unwilling to hold or buy our ADSs and consequently cause the trading price of our ADSs to decline.

***Our business depends on a number of key employees, including our executive officers and other employees with key technical skills and knowledge. If we fail to hire, retain, or motivate our key employees, our business and operating results may be materially and adversely affected.***

We depend on the continued contributions of our executive officers and other key employees, including those with key technological expertise, many of whom are difficult to replace. Any loss of the services of any of our senior management or other key employees could harm our business. Competition for qualified employees in and outside China is intense. Some of the companies with which we compete for experienced employees may have greater resources than we do and may be able to offer more attractive terms of employment. Our future success is dependent on our ability to attract a significant number of qualified employees and retain our existing key employees. If our key employees cease to work for us, our business may be materially and adversely affected and we may incur additional expenses to recruit, train and retain qualified personnel to replace them.

Although we have entered into confidentiality and non-compete agreements with our key employees, our key employees may join our competitors or form a competing business. If any dispute arises between our current or former officers and us, we may have to incur substantial costs and expenses in order to enforce such agreements in China or we may be unable to enforce them at all. We commit significant time and other resources to training our employees, which increases their value to competitors if they subsequently leave us for our competitors.

***Our failure to effectively manage our growth or implement our business strategies may harm our business and operating results.***

Managing our growth requires allocation of valuable management time and resources, and significant expenditures. As part of our strategy, we intend to continue making investments to expand our user base, strengthen our research and development efforts, enhance our ability to deliver highly targeted content, and expand our product offering in the global market. To execute our business plan and growth strategy, we need to continually improve our operational and financial systems, procedures and controls, and hire, train, manage and maintain good relations with our employees. Continued growth could also strain our ability to maintain reliable service levels for our users, advertising customers and business partners. We have limited operational experience in managing the business at the current scale and we cannot assure you we will be able to successfully grow our user base in the future.

***From time to time we may conduct strategic investments and acquisitions, which may require significant management attention, disrupt our business and adversely affect our financial conditions.***

We may take advantage of opportunities to invest in or acquire additional businesses, services, assets or technologies. For example, we have invested several game studios in China and overseas during the past, including Smillage, a game studio that has created popular games such as Catwalk Beauty, Truth Runner and Love Fantasy. However, we may fail to select appropriate investment or acquisition targets, or we may not be able to negotiate optimal arrangements, including arrangements to finance any acquisitions. Acquisitions and the subsequent integration of new assets and businesses into our own could require significant management attention and could result in a diversion of resources away from our existing business. Investments and acquisitions could result in the use of substantial amounts of cash, increased leverage, potentially dilutive issuances of equity securities, goodwill impairment charges, amortization expenses for other intangible assets and exposure to potential liabilities of the acquired business. In addition, the invested or acquired assets or businesses may not generate the financial results we expect. Moreover, the costs of identifying and consummating these transactions may be significant. In addition to obtaining the necessary corporate governance approvals, we may also need to obtain approvals and licenses from government authorities for the acquisitions and investments to comply with applicable laws and regulations, which could result in increased costs and delays.

***We rely on our assumptions and estimates to calculate certain key operating metrics. Any real or perceived inaccuracies in our calculations may harm our reputation and negatively affect our business.***

The numbers of daily and monthly active users of our products are calculated using our internal data that has not been independently verified. While these numbers are based on what we believe to be reasonable calculations for the applicable periods of measurement, there are inherent challenges in accurately measuring usage and user engagement across our large user base. For example, we treat each mobile device or each application on a mobile device as a separate user for purposes of calculating our DAUs and MAUs, and we may not be able to distinguish individual users who use multiple applications from us or have multiple mobile devices. Accordingly, the calculations of our active users may not accurately reflect the actual number of people using our products.

We regularly review and may adjust our processes for calculating our internal metrics to improve their accuracy. Our measures of user growth and user engagement may differ from estimates published by third parties or from similarly titled metrics used by our competitors due to differences in methodology. If our advertising customers, business partners or investors do not perceive our user metrics to be accurate representations of our user base or user engagement, or if we discover material inaccuracies in our user metrics, our reputation may be harmed and our advertising customers and business partners may be less willing to allocate their spending or resources to our products, which could negatively affect our business and operating results.

***Our operating results are subject to seasonal fluctuations due to a number of factors, any of which could adversely affect our business and operating results.***

We are subject to seasonality and other fluctuations in our business. Revenues from our mobile advertising services, which constituted a large majority of our revenues in 2023, are affected by seasonality in advertising spending in both international and China markets. We believe that such seasonality in advertising spending affects our quarterly results, partially resulting in the significant growth in our mobile advertising revenues between the first and the third quarters but a decline from the third quarter to the fourth quarter. Our operating results for one or more future quarters or years may fluctuate or fall below the expectations of securities analysts and investors. In such event, the trading price of the ADSs may fluctuate.

***The successful operation of our business depends upon the performance and reliability of the internet infrastructure in China and in other countries as well as the safety of our network and infrastructure.***

Our growth and expansion will depend in part on the reliability of state-owned telecommunications services providers in China and similar providers in other countries in maintaining and expanding internet and telecommunications infrastructure, standards, protocols, and complementary products and services.

Almost all access to the internet in China is offered through China Mobile, China Unicom and China Telecom, which are under the administrative control and regulatory supervision of the Ministry of Industry and Information Technology. We rely on the internet infrastructure of China Mobile, China Unicom, and China Telecom to provide bandwidth and transmit data. Although the Chinese government has announced plans to develop China's national information infrastructure, this infrastructure may not be developed in time or at all, and the existing internet infrastructure in China may not be able to support the continued growth of internet usage. In addition, it is unlikely that we will have access to alternative networks and services on a timely basis, if at all, in the event of any infrastructure disruption or failure.

In addition, we have no control over the costs of the services provided by telecommunication service providers. If the prices we pay for telecommunications and internet services rise significantly, our results of operations may be materially and adversely affected. Furthermore, if internet access fees or other charges to internet users increase, some users may be prevented from accessing the mobile internet and thus cause the growth of mobile internet users to decrease, which may in turn adversely affect our ability to continue to expand our user base.

Our IT systems and content delivery network are also vulnerable to damage or interruption as a result of fire, floods, earthquakes, power losses, telecommunication failures, undetected errors in software, computer viruses, hacking or other attempts to harm our IT systems. We may experience service disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes and cybersecurity-related threats, if we fail to address these issues promptly and in a way satisfactory to our users, our user experience may be negatively affected, which in turn may have a material and adverse effect on our reputation and business.

We currently rely on AliCloud, Tencent Cloud and Huoshan Cloud for a majority of our computing, storage, bandwidth and other services both in and outside of China. Any transition of the cloud services to other cloud providers would be difficult to implement and will cause us to incur significant time and expense. Any significant disruption of or interference with our use of existing cloud service providers would negatively impact our operation and our business would be seriously harmed. If our users or partners are not able to access our mobile platform through AliCloud, Tencent Cloud and Huoshan Cloud or encounter difficulties in doing so, we may lose users, partners or revenues. The level of service provided by AliCloud and Tencent Cloud may also impact the usage of and our users' and partners' satisfaction with our mobile platform and could seriously harm our business and reputation. If AliCloud, Tencent Cloud and Huoshan Cloud experience interruptions in service regularly or for a prolonged basis, or other similar issues, our business would be seriously harmed. Hosting costs will also increase as our user base and user engagement grows and may seriously harm our business if we are unable to grow our revenues faster than the cost of utilizing the services of AliCloud, Tencent Cloud and Huoshan Cloud or similar service providers.

***Users of our mobile applications may employ existing or new technologies to block advertisements we place, which may limit our ability to generate revenues from our advertising services.***

Existing or new technologies that can disable the display of our advertisements may impair the growth of our mobile advertising business. Most of our revenues are derived from fees paid to us by advertising exchange customers based on the effective price per impression, which is impacted by the number of our users' valid clicks, conversions, impressions delivered or other measurable results. If technologies capable of blocking advertisements on our products are adopted by a significant number of our users, we may not be able to continue delivering such advertisements to our users and our revenues may decrease. In addition, advertisers may choose not to advertise on or through our products in light of the perceived use by our users of advertisement-blocking measures, which may adversely affect our business and growth prospects.

***If we fail to detect click-through fraud, we could lose the confidence of our advertisers and our revenues may decline as a result.***

Our business is exposed to the risk of click-through fraud on our mobile applications. Click-through fraud occurs when a person clicks an advertisement we display for a reason other than to view the underlying content of such advertisement. If we fail to detect significant fraudulent click-throughs or otherwise are unable to prevent significant fraudulent activity, the affected advertisers may experience a reduced return on their investment in our mobile advertising services and may lose confidence in the integrity of our systems. As a result, we may have to issue refunds to our advertisers and we may be unable to retain existing advertising customers and attract new advertising customers for our advertising services, and our mobile advertising revenues may decline. In addition, affected advertisers may commence legal action against us for claims related to click-through fraud. Any such claims or similar claims, regardless of their merit, could be time-consuming and costly for us to defend against and could also adversely affect our brand and operating results.

***Our business emphasizes rapid innovation and prioritizes the growth in user base and cultivation of pan-entertainment products. That strategy may produce results that do not align with investors' expectation and our stock price may be negatively affected as a result.***

Our growth depends on our ability to actively develop and launch new and innovative products and services. We intend to quickly adapt our products to changes in market trends and user needs, but we have no control over whether these adaptations will be well received by our users, advertising customers or business partners, and may result in unintended outcomes or consequences. We prioritize the growth in user base and cultivation of pan-entertainment products. For example, we monitor how our delivery of advertisements on our products affects our users' experience with the products and we may decide to decrease the number of advertisements placed on our products to ensure our users' satisfaction and retention with our products. This could result in a loss of advertising customers and negatively impact our mobile advertising revenue. Our decisions may not be consistent with the short-term expectations of investors and may not produce the long-term benefits that we expect, in which case the maintenance and growth of our user base, our relationships with advertising customers, and our business and operating results could be adversely and materially harmed.

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

We adopted a stock incentive plan in 2012 and a share incentive plan in 2018, as amended from time to time, for the purpose of granting share-based compensation awards to our directors, officers, employees and advisors to incentivize their performance and align their interests with ours. Expenses associated with share-based compensation have affected our net income and may reduce our net income in the future, and any additional securities issued pursuant to share-based incentive awards will dilute the ownership interests of our shareholders, including holders of the ADSs. On November 6, 2018, our board of directors approved an option modification to reduce the exercise price of certain options granted under our 2012 Plan to employees. Other terms of the share options granted remain unchanged. The modification resulted in incremental compensation costs of US\$ 0.3 million, which is amortized over the remaining vesting period of the modified options, ranging from 2018 to 2021. We believe the granting of share-based incentive awards is of significant importance to our ability to attract and retain key employees, and we plan to grant share-based incentive awards in the future. As a result, our share-based compensation expenses may increase, which may have an adverse effect on our results of operations.

***If we fail to build, maintain and enhance our brands, or if we incur a disproportionate amount of expenses pursuing this effort, our business, operating results and prospects may be materially and adversely affected.***

We believe that maintaining and enhancing our brand is critical to expanding our user base and number of advertising customers. We also believe that maintaining and enhancing our brand will depend largely on our ability to continue to provide useful, reliable, trustworthy, and innovative products, which we may not be able to do successfully in the future. We will also continue to experience media, legislative, or regulatory scrutiny of our decisions regarding user privacy, content, advertising, and other issues, which may adversely affect our reputation and brands. We also may fail to respond expeditiously to the sharing and uploading of objectionable content on our products and services or objectionable practices by advertising customers, or may fail to otherwise address user concerns, which could erode confidence in our brands. In addition, maintaining and enhancing our brands may require us to make substantial investments and these investments may not be successful. We promote our brand and products through online advertising networks and platforms, which primarily include Douyin, Tencent, AppLovin and Facebook Ads, as well as social media channels, which primarily include WeChat. These branding and marketing efforts may not result in increased user traffic in a cost-effective way. If we fail to successfully promote and maintain our brands or if we incur excessive expenses in this effort, our business and financial results may be adversely affected. In addition, any negative publicity in relation to our mobile applications, regardless of its veracity, could harm our brands and reputation and, in turn, our business and financial results.

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

Our management has concluded that our internal control over financial reporting was effective as of December 31, 2023 in accordance with the standards established by the PCAOB. However, we and our independent registered public accounting firm identified one significant deficiency as of December 31, 2023. As defined in the standards established by the PCAOB, a “significant deficiency” is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of financial reporting.

The significant deficiency that has been identified relates to our insufficient formal risk assessment process and monitoring activities. Following the identification of the material weakness and significant deficiency, we have taken measures and plan to continue to take measures to remediate these control deficiencies. See “Item 15. Controls and Procedures—(b) Management’s Annual Report on Internal Control Over Financial Reporting.” The significant deficiency, if not remediated timely, may lead to material misstatements in our consolidated financial statements.

Neither we nor our independent registered public accounting firm undertook a comprehensive assessment of our internal control for purposes of identifying and reporting material weaknesses and other deficiencies in our internal control over financial reporting. 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 deficiencies may have been identified.

We are subject to reporting obligations under the U.S. securities laws. The SEC adopted rules pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 requiring every public company to include a management report on such company’s internal control over financial reporting in its annual report, which contains management’s assessment of the effectiveness of our internal control over financial reporting. We ceased to be an “emerging growth company” as such term is defined under the JOBS Act since December 31, 2023. Once we cease to be a non-accelerated filer as such term is defined under Rule 12b-2 under the Exchange Act, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. Our management may conclude that our internal control over financial reporting is not effective. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm, after conducting its own independent testing, may issue a report that is qualified if it is not satisfied with our internal controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the requirements differently from us. 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 of the Sarbanes-Oxley Act of 2002, 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 of the Sarbanes-Oxley Act of 2002. Generally, 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 regulatory investigations and civil or criminal sanctions.

***Non-compliance on the part of third parties with whom we conduct business could disrupt our business and adversely affect our financial conditions and operating results.***

We may be implicated by the non-compliant or improper activities of our users, advertising customers and business partners. For example, we may be involved in litigation related to user-generated content uploaded to our mobile applications. See also “—We may be held liable for information or content displayed on, distributed by, retrieved from or linked to the mobile applications integrated into our products, which may adversely impact our brand image and materially and adversely affect our business and operating results.” Similarly, we may also be subject to disputes related to advertisements displayed on our mobile applications. Although we have adopted a comprehensive internal control and screening procedure over the content of advertisements, a third party may find advertisements displaying on our mobile applications improper or illegal, and may take actions against us over such advertisements. We incurred costs of US\$1.7 million to compensate victims of the alleged illegal advertisements for our failure to supervise advertising contents displayed on our platform in compliance with PRC laws and regulations. Besides, we may be subject to disputes related to certain alleged illegal act of our customers, the advertising service fees paid by the customers to us in the course of normal advertising business may be deemed to involve illegal funds and be confiscated. A local authority had frozen our bank accounts with a total balance of US\$21.7 million as of December 31, 2020 in connection with an investigation related to an alleged illegal act of certain customers in 2020, which were unfrozen in 2021.

In addition, we may be impacted by lawsuits against our business partners, such as mobile devices manufacturers that have contractual arrangements with us. Although we have no control over the design, system, network or standard of the manufacturing of smartphones by these business partners, any lawsuits against them claiming infringement of intellectual property and any cessation of handset production resulting from such lawsuits may interrupt our collaborative operations and result in the reduction of our delivery of products and services to potential users.

***We lease premises and may not be able to fully control the rental costs, quality, maintenance and our leasehold interest in these premises, nor can we guarantee that we will be able to successfully renew or find suitable premises to replace our existing premises upon expiration of the existing leases.***

We lease all premises used in our operations from third parties and we require the landlords’ cooperation to effectively manage the condition of such premises, buildings and facilities. In the event that the condition of the office premises, buildings and facilities deteriorates, or if any or all of our landlords fail to properly maintain and renovate such premises, buildings or facilities in a timely manner or at all, the operation of our offices could be materially and adversely affected. In addition, with respect to our leased premises, at the end of each lease term, we may need to negotiate an extension of the lease when the lease expires. If we are unable to successfully extend or renew our leases upon expiration of the current term on commercially reasonable terms or at all, we may be forced to relocate our offices, or the rental costs may increase significantly.

Moreover, certain lessors have not provided us with valid ownership certificates or authorizations of sublease for our leased properties. Under PRC laws and regulations, if the lessors are unable to obtain certificate of title because such real estates were built illegally or failed to pass the inspection, such lease contracts may be recognized as void. In addition, if our lessors are not the owners of the properties and they have not obtained consents from the owners or their lessors or permits from the government authorities, our leases could be invalidated. If this occurs, we may have to renegotiate the leases with owners or parties who have the right to lease the properties, and the terms of the new leases may be less favorable to us.

As of the date of this annual report, we are not aware of any material claims or actions being contemplated or initiated by government authorities, property owners or any other third parties with respect to our leasehold interests in or use of such properties. However, we cannot assure you that our use of such leased properties will not be challenged. In the event that our use of properties is successfully challenged, we may be subject to fines and forced to relocate the affected operations. In addition, we may become involved in disputes with the property owners or third parties who otherwise have rights to or interests in our leased properties. We can provide no assurance that we will be able to find suitable replacement sites on terms acceptable to us on a timely basis, or at all, or that we will not be subject to liabilities resulting from third parties' challenges on our use of such properties. As a result, our business operations may be interrupted, and our financial condition and results of operations may be adversely affected.

***We have limited business insurance coverage. Any interruption of our business may result in substantial costs to us and the diversion of our resources, which could have an adverse effect on our financial condition and operating results.***

There are currently limited options of insurance products available in China . Consistent with customary industry practice in China, our business insurance is limited and we do not carry business liability or disruption insurance to cover our operations. We have determined that the costs of insuring for related risks and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to obtain or maintain such insurance. Any uninsured damage to our systems or disruption of our business operations could require us to incur substantial costs and divert our resources, which could have an adverse effect on our financial condition and results of operations.

***We face risks related to natural disasters, health epidemics.***

Our business could be materially and adversely affected by natural disasters, health epidemics or other public safety concerns affecting the PRC, and particularly Shanghai. Natural disasters may give rise to server interruptions, breakdowns, system failures, website or app failures or internet failures, which could cause the loss or corruption of data or malfunctions of software or hardware, as well as adversely affecting our ability to operate our website or apps and provide services. Our business could also be adversely affected if our employees are affected by health epidemics, such as new variants of COVID-19 or outbreaks of other diseases. In addition, our results of operations could be adversely affected to the extent that any health epidemic harms the Chinese economy in general. Our headquarters are located in Shanghai, where most of our directors and management and many of our employees currently reside. Most of our system hardware and back-up systems are hosted in facilities located in Shanghai. Consequently, if any natural disasters, health epidemics or other public safety concerns were to affect Shanghai, our operation may experience material disruptions, which may materially and adversely affect our business, financial condition and results of operations.

## Risks Related to Our Corporate Structure

*If the PRC government determines that the contractual arrangements constituting part of the VIE structure do not comply with PRC regulations on foreign investment in internet and other related businesses, or if these regulations or their interpretation change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.*

Current PRC laws and regulations impose certain restrictions or prohibitions on foreign ownership of companies that engage in internet and other related businesses, including the provision of internet information services. Specifically, foreign ownership of an internet information services provider may not exceed 50%, with limited exemptions in sectors such as e-commerce. We are a company incorporated in the Cayman Islands and Shanghai Chule (CooTek) Information Technology Co., Ltd., which we refer to as Shanghai Chule or the WFOE, is our wholly owned PRC subsidiary and therefore is considered as a foreign-invested enterprise. To comply with PRC laws and regulations, we conduct our business in mainland China through the VIEs, based on a series of contractual arrangements by and among Shanghai Chule, the VIEs and their respective shareholders, and the VIEs' subsidiaries. As a result of these contractual arrangements, we exert control over the VIEs and consolidate or combine their operating results in our financial statements under U.S. GAAP. The VIEs hold the licenses, approvals and certain key assets that are essential for our business operations. For a detailed discussion of these contractual arrangements, see "Item 4. Information on the Company—C. Organizational Structure."

In the opinion of our PRC counsel, JunHe LLP, based on its understanding of the PRC laws and regulations, (i) the ownership structures of the VIEs in mainland China and the PRC subsidiary that have entered into contractual arrangements with the VIEs comply with all existing PRC laws and regulations; and (ii) the contractual arrangements among our PRC subsidiary, the VIEs and their respective shareholders are valid and binding under the existing PRC laws and regulations.

However, we are a Cayman Islands holding company with no equity ownership in the VIEs and we conduct our operations in China through (i) our PRC subsidiaries, and (ii) the VIEs with which we have maintained contractual arrangements and the VIEs' subsidiaries. Investors in our ADSs thus are not purchasing equity interest in our PRC operating entities but in our Cayman Islands holding company. If the PRC government determines that contractual arrangements constituting part of the VIE structure do not comply with PRC regulatory restrictions on foreign investment in those industries, or if these regulations or the interpretation of existing regulations change or are interpreted differently in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations, and our ADSs may decline in value or become worthless if we are unable to assert our contractual control rights over the assets of the VIEs. We may not be able to repay our outstanding indebtedness, and our shares may decline in value or become worthless, if we are unable to assert our contractual control rights over the assets of our PRC affiliated entities, which contributed to 35.6% of our net revenues in 2023. Our holding company in the Cayman Islands, the VIEs, and investors of our company face uncertainties about potential future actions by the PRC government that could affect the enforceability of the contractual arrangements with the VIEs and, consequently, significantly affect the financial performance of the VIEs and our company as a group.

Our PRC legal counsel has also advised us 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 opinion of our PRC legal counsel. It is uncertain whether any other new PRC laws or regulations relating to variable interest entity structures will be adopted or if adopted, what they would provide. If we or any of the VIEs are found in violation of any PRC laws or regulations or if the contractual arrangements among Shanghai Chule, the VIEs and their respective shareholders are determined as illegal or invalid by the PRC court, arbitral tribunal or regulatory authorities, the governmental authorities would have broad discretion in dealing with such violation, including, without limitation:

- revoke our business and operating licenses;
- levy fines on us;
- confiscate any of our income that they deem to be obtained through illegal operations;
- require us to discontinue or restrict operations;
- restrict our right to collect revenues;



- block our mobile applications;
- require us to restructure the operations in such a way as to compel us to establish a new enterprise, re-apply for the necessary licenses or relocate our businesses, staff and assets;
- impose additional conditions or requirements with which we may not be able to comply; or
- take other regulatory or enforcement actions against our company that could be harmful to our business.

The imposition of any of these penalties may result in a material and adverse effect on our ability to conduct the business. In addition, if the imposition of any of these penalties causes us to lose the rights to direct the activities of the VIEs or the right to receive their economic benefits, we would no longer be able to consolidate the VIEs. We do not believe that any penalties imposed or actions taken by the PRC government would result in the liquidation of our company, Shanghai Chule, or the VIEs.

Although we believe we, our PRC subsidiaries and the VIEs comply with current PRC laws and regulations, we cannot assure you that the PRC government would agree that our 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. The PRC government has broad discretion in determining rectifiable or punitive measures for non-compliance with or violations of PRC laws and regulations. If the PRC government determines that we or the VIEs do not comply with any applicable laws, it could revoke the VIEs' business and operating licenses, require the VIEs to discontinue or restrict the VIEs' operations, restrict the VIEs' rights to collect revenues, block the VIEs' websites, require the VIEs to restructure operations, impose additional conditions or requirements with which the VIEs may not be able to comply, impose restrictions on the VIEs' business operations or on their customers, or take other regulatory or enforcement actions against the VIEs that could be harmful to their business. Any of these or similar occurrences could significantly disrupt our or the VIEs' business operations or restrict the VIEs from conducting a substantial portion of their business operations, which could materially and adversely affect the VIEs' business, financial condition and results of operations. If any of these occurrences results in our inability to direct the activities of any of the VIEs that most significantly impact its economic performance, and/or our failure to receive the economic benefits from any of the VIEs, we may not be able to consolidate these entities in our consolidated financial statements in accordance with U.S. GAAP, and our ADSs may decline in value or become worthless.

***We rely on contractual arrangements with the VIEs and their respective shareholders for our operations in mainland China, which may not be as effective in providing operational control as direct ownership.***

Due to the PRC restrictions or prohibitions on foreign ownership of internet and other related businesses in mainland China, we operate our business in mainland China through the VIEs, in which we have no ownership interest. We rely on a series of contractual arrangements with the VIEs and their respective shareholders, including the powers of attorney, to control and operate their business.

Our ability to control the VIEs depends on the powers of attorney, pursuant to which Shanghai Chule can vote on all matters requiring shareholder approval in the VIEs.

We believe these powers of attorney are legally enforceable but may not be as effective as direct equity ownership. These contractual arrangements are intended to provide us with effective control over the VIEs and allow us to obtain economic benefits from them. See "Item 4. Information on the Company—C. Organizational Structure" for further details.

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

***Any failure by the VIEs or their shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on our business.***

If the VIEs or their shareholders fail to perform their respective obligations under the contractual arrangements, we may have to incur substantial costs and expend additional resources to enforce such arrangements. We may also have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and claiming damages, which we cannot assure you will be effective. For example, if the shareholders of the VIEs were to refuse to transfer their equity interest in the VIEs to us or our designee when we exercise the purchase option pursuant to these contractual arrangements, or if they were otherwise to act in bad faith toward us, we may have to take legal actions to compel them to perform their contractual obligations.

All the agreements under our contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in mainland China. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. See “—Risks Related to Doing Business in China—Uncertainties with respect to the PRC legal system could adversely affect us.” Meanwhile, there are very few precedents and little formal guidance as to how contractual arrangements in the context of a variable interest entity should be interpreted or enforced under PRC law, and as a result it may be difficult to predict how an arbitration panel would view such contractual arrangements. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. Additionally, under PRC law, rulings by arbitrators are final, parties cannot appeal the arbitration results in courts, and if the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may only enforce the arbitration awards in courts in mainland China through arbitration award recognition proceedings, which would require additional expenses and delay.

The VIEs hold certain assets that are important to our business operations. Under our contractual arrangements, the shareholders of the VIEs may not voluntarily liquidate the VIEs or approve them to sell, transfer, mortgage or dispose of their assets or legal or beneficial interests exceeding certain threshold in the business in any manner without our prior consent. However, in the event that the shareholders breach this obligation and voluntarily liquidate the VIEs, or the VIEs declare bankruptcy, or all or part of their assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business operations, which could materially and adversely affect our business, financial condition and results of operations. Furthermore, if the VIEs undergo a voluntary or involuntary liquidation proceeding, their shareholders or unrelated third-party creditors may claim rights to some or all of their assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.

***Contractual arrangements we have entered into with the VIEs and their respective shareholders may be subject to scrutiny by the PRC tax authorities. A finding that we owe additional taxes could significantly reduce our consolidated net income and the value of your investment.***

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

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

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

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

The shareholders of certain VIEs include Karl Kan Zhang, Susan Qiaoling Li, Michael Jialiang Wang, Jim Jian Wang and Haiyan Zhu. Karl Kan Zhang and Susan Qiaoling Li are our co-founders, directors and executive officers. Michael Jialiang Wang is our consultant and one of our directors. Jim Jian Wang is a former director of our company. Haiyan Zhu is one of our early investors.

Conflicts of interest may arise between the roles of these persons as shareholders, directors or officers of our company and as shareholders of the VIEs. We rely on these individuals to abide by the laws of the Cayman Islands, which provide that our directors and officers owe a fiduciary duty to our company to act in good faith and in the best interest of our company and not to use their positions for personal gain. The shareholders of the VIEs have executed powers of attorney to appoint Shanghai Chule, our PRC subsidiary, or a person designated by Shanghai Chule to vote on their behalf and exercise voting rights as shareholders of the VIEs. We cannot assure you that when conflicts arise, shareholders of the VIEs will act in the best interest of our company or that conflicts will be resolved in our favor. If we cannot resolve any conflicts of interest or disputes between us and these shareholders, we would have to rely on legal proceedings, which may be expensive, time-consuming and disruptive to our operations. There is also substantial uncertainty as to the outcome of any such legal proceedings.

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

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

Under PRC laws and regulations, our wholly owned subsidiary in the PRC, Shanghai Chule, may pay dividends only out of its accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise is required to set aside at least 10% of its after-tax profits each year, after making up previous years' accumulated losses, if any, to fund certain statutory reserve funds, until the aggregate amount of such a fund reaches 50% of its registered capital. The PRC company could distribute the remaining after-tax profits after making up losses and funding reserve funds in accordance with the provisions of the PRC Company Law.

Any limitation on the ability of our wholly owned PRC subsidiary 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—Under the PRC Enterprise Income Tax Law, we may be classified as a PRC ‘resident enterprise,’ which could result in unfavorable tax consequences to us and our shareholders and have a material adverse effect on our results of operations and the value of your investment.”

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

The National People's Congress approved the Foreign Investment Law on March 15, 2019, and the State Council approved the Regulation on Implementing the Foreign Investment Law on December 12, 2019, effective from January 1, 2020. The Supreme People's Court of China issued a judicial interpretation on the Foreign Investment Law on December 26, 2019, effective from January 1, 2020, to ensure fair and efficient implementation of the Foreign Investment Law. According to this judicial interpretation, courts in mainland China shall not, among other things, support contracted parties to claim foreign investment contracts in sectors not on the Special Administrative Measures (Negative List) for Access to Foreign Investment (2021 Revision) as void because the contracts have not been approved or registered by administrative authorities. The Foreign Investment Law grants national treatment to foreign invested enterprises, except for those operating in “restricted” or “prohibited” industries in the “negative list,” where if a foreign invested enterprise proposes to conduct business in an industry subject to foreign investment “restrictions” in the “negative list,” the foreign invested enterprise must go through a pre-approval process with the Ministry of Commerce. The internet content service, internet audio-visual program services and online culture activities that we conduct through the VIEs are subject to foreign investment restrictions set forth in this negative list. The Foreign Investment Law and the Regulation on Implementing the Foreign Investment Law embody an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments.

However, uncertainties still exist in relation to their interpretation. For instance, under the Foreign Investment Law, “foreign investment” refers to the investment activities directly or indirectly conducted by foreign individuals, enterprises or other entities in mainland China. Though it does not explicitly classify contractual arrangements as a form of foreign investment, there is no assurance that foreign investment via contractual arrangement would not be interpreted as a type of indirect foreign investment activities under the definition in the future. In addition, the definition contains a catch-all provision which includes investments made by foreign investors through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions promulgated by the State Council to provide for contractual arrangements as a form of foreign investment. In any of these cases, it will be uncertain whether our contractual arrangements will be deemed to be in violation of the market access requirements for foreign investment under the PRC laws and regulations. Furthermore, if future laws, administrative regulations or provisions prescribed by the State Council mandate further actions to be taken by companies with respect to existing contractual arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure, corporate governance and business operations.

## Risks Related to Doing Business in China

***Regulatory developments in mainland China may subject us to additional regulatory review and disclosure requirement, expose us to government interference, or otherwise restrict our ability to offer securities and raise capitals outside China, all of which could materially and adversely affect our business and the value of our securities.***

As substantially all of our daily operations are conducted in mainland China, we are subject to PRC laws relating to, among others, cyber security and restrictions over foreign investments in value-added telecommunications services. Specifically, we may be subject to PRC laws relating to the collection, use, sharing, retention, security, and transfer of confidential and private information, such as personal information and other data provided by our users. These PRC laws apply not only to third-party transactions, but also to transfers of information among us, our PRC subsidiary and the VIEs, and other parties with which we have commercial relations. These PRC laws and their interpretations and enforcement continue to develop and are subject to change, and the PRC government may adopt other rules and restrictions in the future.

The regulatory developments in mainland China, in particular with respect to restrictions on China-based companies raising capital offshore, including through the variable interest entities structure, or the VIE structure, and the government-led cyber security reviews of certain companies with the VIE structure, may lead to additional regulatory review in mainland China over our financing and capital raising activities in the United States. In addition, we may become subject to industry-wide regulations that may be adopted by the PRC authorities, which may have the effect of limiting our product and service offerings, restricting the scope of our operations in mainland China, or causing the suspension or termination of our business operations in mainland China entirely, all of which will materially and adversely affect our business, financial condition and results of operations. We may have to adjust, modify, or completely change our business operations in response to adverse regulatory changes or policy developments, and we cannot assure you that any remedial action we adopt can be completed in a timely, cost-efficient, or liability-free manner or at all.

On June 10, 2021, the Standing Committee of the National People’s Congress promulgated the PRC Data Security Law, which took effect on September 1, 2021. The PRC Data Security Law, among other things, provides for a security review procedure for the data activities that may affect national security. Furthermore, on December 28, 2021, the Cyberspace Administration of China published the Measures for Cyber Security Review, effective from February 15, 2022, which provided that critical information infrastructure operators that procure internet products and services, and internet platform operators engaging in data processing activities, must be subject to the cyber security review if their activities affect or may affect national security. The measures further stipulate that internet platform operators holding over one million users’ personal information shall apply with the Cyber Security Review Office for a cyber security review before any public offering at a foreign stock exchange. On August 17, 2021, the State Council promulgated the Regulations on Protection of Critical Information Infrastructure, which became effective on September 1, 2021. Pursuant to the Regulations on Protection of Critical Information Infrastructure, critical information infrastructure shall mean any important network facilities or information systems of the important industry or field such as public communication and information service, energy, communications, water conservation, finance, public services, e-government affairs and national defense science, which may endanger national security, people’s livelihood and public interest in case of damage, function loss or data leakage. In addition, the administration departments of each critical industry and sector shall be responsible to formulate eligibility criteria and determine the critical information infrastructure operator in the respective industry or sector. The operators shall be informed about the final determination as to whether they are categorized as critical information infrastructure operators. On July 7, 2022, the Cyberspace Administration of China published the Measures for the Security Assessment of Cross-Border Data Transfer, which came into effect on September 1, 2022, and provided that certain types of data processors transferring important data or personal information collected and generated during operations within the territory of the PRC to an overseas recipient must apply for security assessment of cross-border data transfer.

As of the date of this annual report, no detailed rules or implementation has been issued by any administration departments and we have not been informed as a critical information infrastructure operator by any governmental authorities. Furthermore, the exact scope of “critical information infrastructure operators” under the current regulatory regime remains unclear, and the PRC governmental authorities may have wide discretion in the interpretation and enforcement of these laws. Therefore, it is uncertain whether we would be deemed as a critical information infrastructure operator under PRC law. We cannot predict the impact of the measures, if any, at this stage, and we will closely monitor and assess any development in the rule-making process.

Furthermore, the Standing Committee of the National People's Congress passed the PRC Personal Information Protection Law, effective from November 1, 2021, which required each general network operator to obtain a personal information protection certification issued by recognized institutions in accordance with the Cyberspace Administration of China regulation before such information can be transferred out of mainland China. PRC Personal Information Protection Law provides special rules for processing sensitive personal information. Sensitive personal information refers to personal information that, once leaked or illegally used, could easily lead to the infringement of human dignity or harm to the personal or property safety of an individual, including biometric recognition, religious belief, specific identity, medical and health, financial account, personal whereabouts and other information of an individual, as well as any personal information of a minor under the age of 14. An information processor is allowed to process personal information only if it has a specific purpose and processing personal information is necessary for that purpose, and it has implemented strict measures to protect personal information. A personal information processor shall inform the individual of the necessity of processing such sensitive personal information and the impact thereof on the individual's rights and interests. As uncertainties remain regarding the interpretation and implementation of the PRC Personal Information Protection Law, we cannot assure you that we will comply with the PRC Personal Information Protection Law in all respects and our current practice of collecting and processing sensitive personal information may be ordered to be rectified or terminated by regulatory authorities. We may also become subject to fines and other penalties which may have material adverse effect on our business, operations and financial condition.

It also remains uncertain whether the future regulatory changes would impose additional restrictions on companies like us. If we are not able to comply with the cyber security and data privacy requirements in a timely manner, or at all, we may be subject to government enforcement actions and investigations, fines, penalties, suspension of our non-compliant operations, or removal of our app from the application stores, among other sanctions, which could materially and adversely affect our business and results of operations. As of the date of this annual report, we have not been involved in any investigations on cyber security review made by the Cyberspace Administration of China on such basis, and we have not received any inquiry, notice, warning, or sanctions in such respect.

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

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

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

***The PRC government's significant oversight and discretion over our business operation could result in a material adverse change in our operations and the value of our ADSs.***

We conduct operations in China through (i) our PRC subsidiaries and (ii) the VIEs with which we have maintained contractual arrangements and the VIEs' subsidiaries in mainland China. Our operations in mainland China are governed by PRC laws and regulations. The PRC government has significant oversight and discretion over the conduct of our business, and it may influence our operations, which could result in a material adverse change in our operation and/or the value of our ADSs. The PRC government has promulgated certain regulations and rules to exert more oversight and control over offerings that are conducted overseas and/or foreign investment in China-based issuers in recent years. Any such actions could significantly limit or completely hinder our ability to continue to offer securities to investors and cause the value of such securities to significantly decline or be worthless. In addition, implementation of industry-wide regulations directly targeting our operations could cause the value of our securities to significantly decline, or become worthless. Therefore, investors of our company and our business face potential uncertainty from actions taken by the PRC government affecting our business.

***The approval of, report and filings with the CSRC or other PRC government authorities may be required in connection with our future offshore offerings and listings under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval or complete such filing and report process.***

Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors adopted by six PRC regulatory agencies in 2006 and amended in 2009, requires an overseas special purpose vehicle formed for listing purposes through acquisitions of PRC domestic companies and controlled by PRC persons or entities to obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange. The interpretation and application of the regulations remain unclear, and our offshore offerings may ultimately require approval of the CSRC. If the CSRC approval is required, it is uncertain whether we can or how long it will take us to obtain the approval and, even if we obtain such CSRC approval, the approval could be rescinded. Any failure to obtain or delay in obtaining the CSRC approval for any of our offshore offerings, or a rescission of such approval if obtained, would subject us to sanctions imposed by the CSRC or other PRC regulatory authorities, which could include fines and penalties on our operations in mainland China, restrictions or limitations on our ability to pay dividends outside of mainland China, and other forms of sanctions that may materially and adversely affect our business, financial condition, and results of operations.

The PRC government authorities have promulgated certain regulations and rules to exert more oversight and control over securities offerings and other capital markets activities that are or have been conducted overseas and foreign investment in China-based companies like us.

On July 6, 2021, the PRC government authorities issued Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law. These opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take effective measures, such as promoting the construction of regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies.

On February 17, 2023, the CSRC issued Trial Administrative Measures of Overseas Securities Offerings and Listings by Domestic Companies and five supporting guidelines, with effect from March 31, 2023. According to these measures, mainland China companies that directly or indirectly offer or list their securities in an overseas market are required to file with the CSRC. An overseas listed company must also submit the filing with respect to its follow-on offerings, issuance of convertible corporate bonds and exchangeable bonds, and other equivalent offering activities, within a specific time frame requested under these measures. An overseas listed company is also required to report material events to the CSRC within three working days after the occurrence and announcement of certain events, including, among other things, the change of control, investigation or penalties imposed by relevant authorities, the conversion of listing status or the transfer of listing board. Failure to comply with the filing requirements under these measures may result in warnings, forced corrections and fines. The responsible persons, controlling shareholder(s) and actual controller(s) may face a warning and fines. These measures have no retroactive effect and thus are not applicable to our listing and offering prior to the promulgation. We cannot assure you that we would be able to complete such filing or procedure for our future offering or listing, if any, and fully comply with these measures on a timely basis, if at all. For details, please see "Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Relating to M&A and Overseas Listing."

If we fail to file with the CSRC in a timely manner or at all, for any future listing or offering (including, among others, follow-on offerings, issuance of convertible corporate bonds and exchangeable bonds, and other equivalent offering activities) pursuant to these measures due to our contractual arrangements, our ability to raise or utilize funds could be materially and adversely affected, and we may even need to unwind our contractual arrangements or restructure our business operations to rectify the failure to complete the filings. There remain substantial uncertainties as to the interpretation, application, and enforcement of these measures and how they will affect our operations and our future financing.

On February 24, 2023, the CSRC and the other authorities issued the Provisions on Strengthening the Confidentiality and Archives Administration of Overseas Securities Issuance and Listing by Domestic Companies, with effect from March 31, 2023. A domestic company shall first obtain approval from competent authorities and file with the secrecy administrative department at the same level, if it plans to, either directly or through its overseas listed entity, publicly disclose or provide any documents and materials that contain state secrets or working secrets of government agencies. Any domestic enterprises must seek the consent of the CSRC or administrative authorities before cooperating with overseas securities regulators or securities authorities in inspections or investigations, or providing documents and materials for such cooperation.

On December 27, 2021, the National Development and Reform Commission and the Ministry of Commerce jointly issued the Special Administrative Measures (Negative List) for Foreign Investment Access (2021 Version), which became effective on January 1, 2022. Pursuant to these measures, if a PRC company engaging in the prohibited business stipulated in this negative list seeks an overseas offering and listing, it shall obtain the approval from the competent governmental authorities. Besides, according to the further explanation of the National Development and Reform Commission, the foreign investors of the direct overseas offering and listing company shall not be involved in the company's operation and management, and their shareholding percentages shall be subject, mutatis mutandis, to the regulations on the domestic securities investments by foreign investors. There remain substantial uncertainties as to the interpretation and implementation of these new requirements, and it is unclear as to whether and to what extent listed companies like us will be subject to these new requirements. If we are required to comply with these requirements and fail to do so on a timely basis, if at all, our business operation, financial conditions and business prospect may be adversely and materially affected.

In addition, we cannot assure you that any new rules or regulations promulgated in the future will not impose additional requirements on us. We may be required to obtain regulatory approvals from the Cyberspace Administration of China or complete filing procedures with CSRC or any other PRC governmental authorities for our future offshore offerings and listings. We cannot assure you that we will be able to obtain such approvals in a timely manner, or at all, and such approvals may be rescinded even if obtained. Any failure to obtain or delay in obtaining such approval or completing such filing procedures for our future offshore offerings or listings, or a rescission of any such approval or filing we obtained, would subject us to sanctions by the CSRC or other PRC regulatory authorities for failure to seek CSRC approval or filing or other government authorization for our future offshore offerings and listings. These regulatory authorities may impose fines and penalties on our operations in mainland China, limit our ability to pay dividends outside of mainland China, limit our operating privileges in mainland China, delay or restrict the repatriation of the proceeds from our future offshore offerings and listings into mainland China or take other actions that could materially and adversely affect our business, financial condition, results of operations, and prospects, as well as the trading price of our listed securities. The CSRC or other PRC regulatory authorities also may take actions requiring us, or making it advisable for us, to halt our future offshore offerings and listings before settlement and delivery of the shares offered. Consequently, if investors engage in market trading or other activities in anticipation of and prior to settlement and delivery, they do so at the risk that settlement and delivery may not occur. In addition, if the CSRC or other regulatory authorities later promulgate new rules or explanations requiring that we obtain their approvals or accomplish the required filing or other regulatory procedures for our prior offshore offerings, we may be unable to obtain a waiver of such approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties or negative publicity regarding such approval requirement could materially and adversely affect our business, prospects, financial condition, reputation, and the trading price of our listed securities.

***Content posted or displayed on our platform may be found objectionable by PRC regulatory authorities and may subject us to penalties and other severe consequences.***

The PRC government has adopted regulations governing internet and wireless access and the distribution of information over the internet and wireless telecommunication networks. Under these regulations, internet content providers and internet publishers are prohibited from posting or displaying over the internet or wireless networks content that, among other things, violates PRC laws and regulations, impairs the national dignity of China or the public interest, or is obscene, superstitious, fraudulent or defamatory. Furthermore, internet content providers are also prohibited from displaying content that may be deemed by government authorities as “socially destabilizing” or leaking “state secrets” of the PRC. Failure to comply with these requirements may result in the revocation of licenses to provide internet content or other licenses, the closure of the concerned platforms and reputational harm. The operator may also be held liable for any censored information displayed on or linked to their platform. For a detailed discussion, see “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Relating to Cyber Security.”

We operate a number of portfolio products in China, including Fengdu Novel. We have implemented procedures to monitor the content displayed on our products in order to comply with laws and regulations. However, it may not be possible to determine in all cases the types of content that could result in our liability as a distributor of such content and, if any of the content posted or displayed on our products is deemed by the PRC government to violate any content restrictions, we would not be able to continue to display such content and could become subject to penalties, including confiscation of income, fines, suspension of business and revocation of required licenses, which could materially and adversely affect our business, financial condition and results of operations.



We may also be subject to potential liability for any unlawful actions by our users on our products. It may be difficult to determine the type of content or actions that may result in liability to us and, if we are found to be liable, we may be prevented from operating our business in China. Moreover, the costs of compliance with these regulations may continue to increase as a result of more content being made available by an increasing number of users of our platform, which may adversely affect our results of operations. Although we have adopted internal procedures to monitor content and to remove offending content once we become aware of any potential or alleged violation, we may not be able to identify all the content that may violate laws and regulations or third-party intellectual property rights. Even if we manage to identify and remove offensive content, we may still be held liable. For example, on September 19, 2022, a local branch of the Ministry of Culture and Tourism imposed a fine of RMB10,000 on Shanghai Dengyong Information Technology Co., Ltd. for providing online publication to the public without any internet publication service license on Fengdu Novel. We cannot assure you that our business and operations will be immune from government actions or sanctions in the future. To the extent that PRC regulatory authorities find any content displayed on our platform objectionable, they may require us to limit or eliminate the dissemination of such content on our platform in the form of take-down orders or otherwise. In addition, these laws and regulations are subject to interpretation by the authorities, and it may not be possible to determine in all cases the types of content that could result in our liability as a platform operator.

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

Under PRC advertising laws and regulations, we are obligated to monitor the advertising content shown on our platform to ensure that such content is true and accurate and in full compliance with applicable laws and regulations. Advertisements shall not hinder public order, violate social morality or contain illegal contents, including, but not limited to, obscenity, pornography, gambling, superstition, terror and violence contents. Otherwise, the administration of market regulation may (i) order to stop publishing of the advertisement and; (ii) confiscate the advertising fees; (iii) impose a penalty ranging from RMB200,000 to RMB1,000,000; or (iv) in serious cases, cancel the business license and cancel the registration certificate for publishing advertisements. In addition, where a special government review is required for specific types of advertisements prior to internet posting, such as advertisements relating to pharmaceuticals, medical instruments, agrochemicals and veterinary pharmaceuticals, we are obligated to confirm that such review has been performed and approval has been obtained. Violation of these laws and regulations may subject us to penalties, including fines, confiscation of our advertising income, orders to cease dissemination of the advertisements and orders to publish an announcement correcting the misleading information. In circumstances involving our serious violations, PRC governmental authorities may force us to terminate our advertising operations.

While we have made significant efforts to ensure that the advertisements shown on our platform are in full compliance with applicable PRC laws and regulations, we cannot assure you that all the content contained in such advertisements or offers is true and accurate as required by the advertising laws and regulations or otherwise in full compliance with applicable PRC laws and regulations, especially given the uncertainty in the interpretation of these PRC laws and regulations. If we are found to be in violation of applicable PRC advertising laws and regulations, we may be subject to penalties and our reputation may be harmed, which may negatively affect our business, financial condition, and results of operations and prospects. Although the advertisements displayed on our platform may not directly contain sensitive or illegal contents, including, but not limited to, gambling and pyramid selling, the advertisers may use inducing words to indirectly attract advertisement viewers to participate in gambling, pyramid selling, or other illegal activities. If we receive a complaint that any superficially compliant advertisement is linked to one or more webpages that feature non-compliant advertising content, we will remove the related advertisement. Although our agreements with the advertising agencies provide that the advertisements provided by the advertisers shall comply with the requirements of laws and regulations, we cannot control or supervise advertising contents and the linked webpages all the time. Therefore, we cannot guarantee you that all of the advertisements displayed on our platform will comply with laws and regulations.

In April 2015, the Standing Committee of the National People’s Congress promulgated the PRC Advertising Law, effective on September 1, 2015, and amended on October 26, 2018 and April 29, 2021. According to the Advertising Law, advertisements shall not have any false or misleading content, or defraud or mislead consumers. Furthermore, an advertisement will be deemed as a “false advertisement” if any of the following situations exist: (i) the advertised product or service does not exist; (ii) there is any inconsistency that has a material impact on the decision to purchase in what is included in the advertisement with the actual circumstances with respect to the product’s performance, function, place of production, usage, quality, specification, ingredient, price, producer, term of validity, sales condition and honors received, among others, or the service’s content, provider, form, quality, price, sales condition, and honors received, among others, or any commitments, among others, made on the product or service; (iii) using fabricated, forged or unverifiable scientific research results, statistical data, investigation results, excerpts, quotations or other information as supporting material; (iv) effect or results of using the good or receiving the service are fabricated; or (v) other circumstances where consumers are defrauded or misled by any false or misleading content.

The laws and regulations of advertising are relatively new and evolving and there is substantial uncertainty as to the interpretation of “false advertisement” by the State Administration for Market Regulation (formerly known as the State Administration for Industry and Commerce). If any of the advertisements that we publish is deemed to be a “false advertisement” by the State Administration for Market Regulation or its local branch, we could be subject to various penalties, such as discontinuation of publishing this advertisement, imposition of fines and obligations to eliminate any adverse effects incurred by such false advertisement, revocation of our business license and other approvals, rejection of our other advertisement examination application, or even criminal liabilities under circumstances of serious violations. For detailed descriptions, see “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Relating to Online Advertising Services.” We have received and may continue to receive administrative penalties from local branch of the State Administration for Market Regulation for illegal or inappropriate content and false advertisements placed on our mobile apps. Any resulting penalties may disrupt our business and materially adversely affect our results of operations and financial conditions.

***Under the PRC Enterprise Income Tax Law, we may be classified as a PRC “resident enterprise,” which could result in unfavorable tax consequences to us and our shareholders and have a material adverse effect on our results of operations and the value of your investment.***

Under the PRC Enterprise Income Tax Law, which became effective in January 2008 and most recently amended in December 2018, an enterprise established outside mainland China with “de facto management bodies” within mainland China is considered a “resident enterprise” for PRC enterprise income tax purposes and is generally subject to a uniform 25% enterprise income tax rate on its worldwide income. In 2009, the State Administration of Taxation issued the Notice Regarding the Determination of Chinese-Controlled Overseas Incorporated Enterprises as PRC Tax Resident Enterprise on the Basis of De Facto Management Bodies, 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 mainland China. In 2011, the State Administration of Taxation issued the Administrative Measures for Enterprise Income Tax of Chinese-Controlled Offshore Incorporated Resident Enterprises (Trial), as amended in 2018, to provide more guidance on the implementation of the notice. The administrative measures clarified certain issues in the areas of resident status determination, post-determination administration and competent tax authorities’ procedures.

According to this notice, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be considered as a PRC tax resident enterprise by virtue of having its “de facto management body” in mainland China and will be subject to PRC enterprise income tax on its worldwide income only if all of the following conditions are met: (a) the senior management and core management departments in charge of its daily operations function have their presence mainly in mainland China; (b) its financial and human resources decisions are subject to determination or approval by persons or bodies in mainland China; (c) its major assets, accounting books, company seals, and minutes and files of its board and shareholders’ meetings are located or kept in mainland China; and (d) more than half of the enterprise’s directors or senior management with voting rights habitually reside in mainland China. These administrative measures specify that when provided with a copy of Chinese tax resident determination certificate from a resident Chinese controlled offshore incorporated enterprise, the payer should not withhold 10% income tax when paying the Chinese-sourced dividends, interest, royalties, etc. to the Chinese controlled offshore incorporated enterprise.

Although this notice and these administrative measures only apply to offshore incorporated enterprises controlled by PRC enterprises or PRC enterprise groups and not those controlled by PRC individuals or foreigners, the determination criteria set forth therein may reflect the State Administration of Taxation's general position on how the term "de facto management body" could be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises, individuals or foreigners.

In addition, the State Administration of Taxation issued the Announcement of the State Administration of Taxation on Issues concerning the Determination of Resident Enterprises Based on the Standards of Actual Management Institutions in January 2014 to provide more guidance on the implementation of the Notice Regarding the Determination of Chinese-Controlled Overseas Incorporated Enterprises as PRC Tax Resident Enterprise on the Basis of De Facto Management Bodies. This bulletin further provides that, among other things, an entity that is classified as a "resident enterprise" in accordance with the circular shall file the application for classifying its status of residential enterprise with the local tax authorities where its main domestic investors are registered. From the year in which the entity is determined to be a "resident enterprise," any dividend, profit and other equity investment gain shall be taxed in accordance with the enterprise income tax law and its implementing rules.

Although our offshore holding entity is not controlled by PRC enterprises or a PRC enterprise group, our revenues are primarily generated from business operations conducted in PRC, and we cannot rule out the possibility that the PRC tax authorities determine that we or any of our non-PRC subsidiaries is a PRC resident enterprise for PRC enterprise income tax purposes, which could subject our company or any of our non-PRC subsidiaries to PRC tax at a rate of 25% on its worldwide income, which could materially reduce our net income. In addition, we may also be subject to PRC enterprise income tax reporting obligations.

If the PRC tax authorities determine that our company is a PRC resident enterprise for PRC enterprise income tax purposes, gains realized on the sale or other disposition of ADSs or ordinary shares may be subject to PRC tax, at a rate of 10% in the case of non-PRC enterprises or 20% in the case of non-PRC individuals (in each case, subject to the provisions of any applicable tax treaty), if such gains are deemed to be from PRC sources. Any such tax may reduce the returns on your investment in the ADSs.

***There are significant uncertainties under the PRC Enterprise Income Tax Law relating to the withholding tax liabilities of our PRC subsidiary, and dividends payable by our PRC subsidiary to our offshore subsidiaries may not qualify to enjoy certain treaty benefits.***

Under the PRC Enterprise Income Tax Law and its implementation rules, the profits of a foreign-invested enterprise generated through operations, which are distributed to its immediate holding company outside mainland China, will be subject to a withholding tax rate of 10.0%. Pursuant to a special arrangement between Hong Kong and mainland China, such rate may be reduced to 5.0% if a Hong Kong resident enterprise owns more than 25.0% of the equity interest in the PRC company. Our current PRC subsidiary is wholly owned by our Hong Kong subsidiary, CooTek Hong Kong Limited. Accordingly, this Hong Kong subsidiary may qualify for a 5.0% tax rate in respect of distributions from its PRC subsidiary. Under the Notice of the State Administration of Taxation on Issues regarding the Administration of the Dividend Provision in Tax Treaties promulgated on February 20, 2009, the taxpayer needs to satisfy certain conditions to enjoy the benefits under a tax treaty. These conditions include: (1) the taxpayer must be the beneficial owner of the dividends, and (2) the corporate shareholder to receive dividends from the PRC subsidiary must have continuously met the direct ownership thresholds during the 12 consecutive months preceding the receipt of the dividends. Further, the State Administration of Taxation promulgated the Notice on How to Understand and Recognize the "Beneficial Owner" in Tax Treaties in 2009, most recently amended on February 3, 2018, and effective from April 1, 2018, which sets forth several non-rebuttable presumptions to be a "beneficial owner," and certain detailed factors in determining the "beneficial owner" status.

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

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

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

In February 2015, the State Administration of Taxation issued the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises, as amended in 2017. Pursuant to this bulletin, an “indirect transfer” of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. According to this bulletin, “PRC taxable assets” include assets attributed to an establishment in mainland China, immovable properties located in mainland China, and equity investments in PRC resident enterprises, in respect of which gains from their transfer by a direct holder, being a non-PRC resident enterprise, would be subject to PRC enterprise income taxes. When determining whether there is a “reasonable commercial purpose” of the transaction arrangement, features to be taken into consideration include: whether the main value of the equity interest of the offshore enterprise derives from PRC taxable assets; whether the assets of the offshore enterprise mainly consist of direct or indirect investment in mainland China or if its income mainly derives from mainland China; whether the offshore enterprise and its subsidiaries directly or indirectly holding PRC taxable assets have real commercial nature which is evidenced by their actual function and risk exposure; the duration of existence of the business model and organizational structure; the replicability of the transaction by direct transfer of PRC taxable assets; and the tax situation of such indirect transfer and applicable tax treaties or similar arrangements. In respect of an indirect offshore transfer of assets of a PRC establishment, the resulting gain is to be included with the enterprise income tax filing of the PRC establishment or place of business being transferred, and would consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to the immovable properties located in mainland China or to equity investments in a PRC resident enterprise, which is not related to a PRC establishment or place of business of a non-resident enterprise, a PRC enterprise income tax of 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. Where the payor fails to withhold any or sufficient tax, the transferor is required to declare and pay such tax to the tax authority by itself within the statutory time limit. Late payment of applicable tax will subject the transferor to default interest. This bulletin does not apply to transactions of sale of shares by investors through a public stock exchange where such shares were acquired from a transaction through a public stock exchange.

There is uncertainty as to the application of this bulletin. We face uncertainties as to the reporting and other implications of certain past and future transactions where PRC taxable assets are involved, such as offshore restructuring, sale of the shares in our offshore subsidiaries or investments. Our company may be subject to filing obligations or taxed if our company is transferor in such transactions, and may be subject to withholding obligations if our company is transferee in such transactions under this bulletin. In 2014, we repurchased certain number of ordinary shares in CooTek (Cayman) Inc. from an existing shareholder for the consideration of US\$9.3 million. The existing shareholder undertook to make the necessary tax filings in relation to this repurchase by herself and to indemnify us against any losses arising from the failure to make such tax filings. However, we cannot assure you that, if the existing shareholder fails to make necessary tax filings, the tax authority would not require us to make such tax filings and even subject us to fines. As of the date of this annual report, we have neither received any notice of warning nor been subject to any penalties or other disciplinary action from the government authorities regarding such tax filing. For transfer of shares in our company by investors that are non-PRC resident enterprises, our PRC subsidiary may be requested to assist in the filing under this bulletin. As a result, we may be required to expend valuable resources to comply with this bulletin or to request the transferors from whom we purchase taxable assets to comply with these circulars, or to establish that our company should not be taxed under these circulars.

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

The Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors and other 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 Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors 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, if (i) any important industry is concerned, (ii) such transaction involves factors that impact or may impact national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honored brand. Moreover, the Anti-Monopoly Law promulgated by the Standing Committee of the National People's Congress in August 2007 and last amended on June 24, 2022, and the Provisions of the State Council on the Thresholds for Declaring Concentration of Business Operators, promulgated by the State Council on August 3, 2008 and last amended on January 22, 2024 require that transactions which are deemed concentrations and involve parties with specified turnover thresholds (i.e., (i) during the previous fiscal year, the total global turnover of all undertakings participating in the concentration exceeded RMB12 billion, and at least two of these undertakings each had a turnover of more than RMB800 million within China; or (ii) during the previous fiscal year, the total turnover within China of all the undertakings participating in the concentration exceeded RMB4 billion, and at least two of these undertakings each had a turnover of more than RMB800 million within China) must be cleared by the Ministry of Commerce before they can be completed. In addition, in February 2011, the General Office of the State Council promulgated a Notice on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, which officially established a security review system for mergers and acquisitions of domestic enterprises by foreign investors. Further, in August 2011, the Ministry of Commerce promulgated the Regulations on Implementation of Security Review System for the Merger and Acquisition of Domestic Enterprises by Foreign Investors to implement this notice. Under this notice, a security review is required for mergers and acquisitions by foreign investors having "national defense and security" concerns and mergers and acquisitions by which foreign investors may acquire the "de facto control" of domestic enterprises with "national security" concerns. Under the Regulations on Implementation of Security Review System for the Merger and Acquisition of Domestic Enterprises by Foreign Investors, the Ministry of Commerce will focus on the substance and actual impact of the transaction when deciding whether a specific merger or acquisition is subject to security review. If the Ministry of Commerce decides that a specific merger or acquisition is subject to security review, it will submit it to the Inter-Ministerial Panel, an authority established under the notice led by the National Development and Reform Commission and the Ministry of Commerce under the leadership of the State Council, to carry out security review. The regulations prohibit foreign investors from bypassing the security review by structuring transactions through trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions. There is no explicit provision or official interpretation stating that the merging or acquisition of a company engaged in the internet information services, online games, online audio-visual program services and related businesses requires security review, and there is no requirement that acquisitions completed prior to the promulgation of the Security Review Circular are subject to the Ministry of Commerce review. In addition, on December 19, 2020, the National Development and Reform Commission and the Ministry of Commerce promulgated the Measures for Security Review of Foreign Investment, which took effect on January 18, 2021. Under these measures, investment in certain key areas which results in acquiring the actual control of the assets is required to obtain approval from designated governmental authorities in advance.

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

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

In July 2014, the SAFE promulgated the Circular on Relevant Issues Relating to Domestic Resident's Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37. SAFE Circular 37 requires PRC residents or entities to register with SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. In addition, such PRC residents or entities must update their SAFE registrations when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, or mergers or divisions. According to the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment released on February 13, 2015, by the SAFE, as amended in 2019, local banks will examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration, under SAFE Circular 37 from June 1, 2015.

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

Karl Kan Zhang, Susan Qiaoling Li, Michael Jiali Wang, Jim Jian Wang and Haiyan Zhu, who directly or indirectly hold shares in CooTek (Cayman) Inc. and who are PRC residents, have completed the SAFE registration in connection with our financings and have committed to update their registration filings with SAFE when any changes should be registered under SAFE Circular 37. However, we may not at all times be fully aware or informed of the identities of all our shareholders or beneficial owners that are required to make such registrations, and we cannot compel our beneficial owners to comply with SAFE registration requirements. As a result, we cannot assure you that all of our shareholders or beneficial owners who are PRC residents or entities have complied with, and will in the future make or obtain any applicable registrations or approvals required by, SAFE regulations. Failure by such shareholders or beneficial owners to comply with SAFE regulations, or our failure to amend the foreign exchange registrations of our PRC subsidiary, could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiary's ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

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

Pursuant to SAFE Circular 37, PRC residents who participate in share incentive plans in overseas non-publicly listed companies due to their position as director, senior management or employees of the PRC subsidiaries of the overseas companies may submit applications to SAFE or its local branches for the foreign exchange registration with respect to offshore special purpose companies. Our directors, executive officers and other employees who are PRC residents and who have been granted options may follow SAFE Circular 37 to apply for the foreign exchange registration before our company becomes an overseas listed company. In February 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. Under these notices and other rules and regulations, PRC residents who participate in stock incentive plan in an overseas publicly listed company are required to register with SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of such overseas publicly listed company or another qualified institution selected by such PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. We and our PRC employees who have been granted stock options are subject to these regulations. We have completed such SAFE registrations for our PRC stock option holder employees in March 2019. However, we cannot assure you that we will be able to complete the registration for new employees who participate in such stock incentive plan in the future in a timely manner or at all. Failure of our PRC stock option holders to complete their SAFE registrations may subject these PRC residents to fines and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiary, limit our PRC subsidiary's ability to distribute dividends to us, or otherwise materially adversely affect our business.

***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 our overseas offerings to make loans to our PRC subsidiary and the VIEs, or to make additional capital contributions to our PRC subsidiary.***

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

Most of these ways are subject to PRC regulations and approvals. For example, loans we make to our wholly owned PRC subsidiary to finance its activities cannot exceed statutory limits and must be registered with the local counterpart of SAFE. If we decide to finance our wholly owned PRC subsidiary by means of capital contributions, these capital contributions are subject to the requirement of making necessary filings with the Ministry of Commerce and registration with other governmental authorities in mainland China. Due to the restrictions imposed on loans in foreign currencies extended to any PRC domestic companies, we are not likely to make such loans to the VIEs, which are PRC domestic companies. Further, we are not likely to finance the activities of the VIEs by means of capital contributions due to regulatory restrictions relating to foreign investment in PRC domestic enterprises engaged in internet information services, online games, online audio-visual program services and related businesses.

The SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprises, effective in June 2015, according to which the flow and use of the RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company is regulated such that RMB capital may not be used for the issuance of RMB entrusted loans, the repayment of inter-enterprise loans or the repayment of banks loans that have been transferred to a third party. Although this notice allows RMB capital converted from foreign currency-denominated registered capital of a foreign-invested enterprise to be used for equity investments within mainland China, it also reiterates the principle that RMB converted from the foreign currency-denominated capital of a foreign-invested company may not be directly or indirectly used for purposes beyond its business scope. SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account, effective in June 2016, which changes the prohibition against using RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company to issue RMB entrusted loans to a prohibition against using such capital to issue loans to non-associated enterprises. These notices may significantly limit our ability to transfer any foreign currency we hold, including the net proceeds from our overseas offerings, to our PRC subsidiary, which may adversely affect our liquidity and our ability to fund and expand our business in mainland China. On October 23, 2019, SAFE issued Notice of the State Administration of Foreign Exchange on Further Promoting the Facilitation of Cross-border Trade and Investment, which allows non-investment foreign-invested enterprises to use their capital funds to make equity investments in mainland China; *provided* that such investments do not violate the Negative List and the target investment projects are genuine and in compliance with PRC laws. The interpretation and implementation of this notice are subject to uncertainties.

In light of the various requirements imposed by PRC regulations on loans to and direct investment in PRC entities by offshore holding companies, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans we make to our PRC subsidiary or with respect to future capital contributions we make to our PRC subsidiary. If we fail to complete such registrations or obtain such approvals, our ability to use the proceeds we received from our initial public offering and to capitalize or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

***Fluctuation in the value of the RMB may have a material adverse effect on the value of your investment.***

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

A certain percentage of our costs, expenses and revenues are denominated in RMB. Any significant depreciation of the RMB may materially adversely affect the value of, and any dividends payable on, our ADSs in U.S. dollars. To the extent that we need to convert U.S. dollars we received from our initial public offering into RMB for our operations, appreciation of the RMB against the U.S. dollars would have an adverse effect on the RMB amount we would receive from the conversion. Conversely, if we decide to convert our RMB into U.S. dollars for the purpose of paying dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollars against the RMB would have an adverse effect on the U.S. dollars amount available to us.

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

***The PRC government's significant oversight and discretion over our business operation could result in a material adverse change in our operations and the value of our ADSs.***

We conduct our operations in China through (i) our PRC subsidiaries, and (ii) the VIEs with which we have maintained contractual arrangements and the VIEs' subsidiaries. Our operations in mainland China are governed by PRC laws and regulations. The PRC government has significant oversight and discretion over the conduct of our business, and it may influence our operations, which could result in a material adverse change in our operation and the value of our ADSs. Also, the PRC government has promulgated certain regulations and rules to exert more oversight and control over offerings that are conducted overseas and foreign investment in China-based issuers. Any such action could significantly limit or completely hinder our ability to offer or continue to offer securities to investors and cause the value of our ADSs to significantly decline or become worthless. In addition, implementation of industry-wide regulations directly targeting our operations could cause the value of our securities to significantly decline, or become worthless. Therefore, investors of our company and our business face potential uncertainty from actions taken by the PRC government affecting our business.

***The PCAOB had historically been unable to inspect our former auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections of our auditor in the past has deprived our investors with the benefits of such inspections.***

Our former auditor, Deloitte Touche Tohmatsu Certified Public Accountants LLP, the independent registered public accounting firm that issued the audit report included elsewhere in this annual report, as an auditor of companies that are traded publicly in the United States and a firm registered with the PCAOB, is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. This auditor is located in mainland China, a jurisdiction where the PCAOB was historically unable to conduct inspections and investigations completely before 2022. As a result, we and investors in the ADSs were deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China in the past has made it more difficult to evaluate the effectiveness of our former independent registered public accounting firm's audit procedures or quality control procedures as compared to auditors outside of China that are subject to the PCAOB inspections. On December 15, 2022, the PCAOB issued a report that vacated its December 16, 2021 determination and removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms. However, if the PCAOB determines in the future that it no longer has full access to inspect and investigate completely accounting firms in mainland China and Hong Kong, and we use an accounting firm headquartered in one of these jurisdictions to issue an audit report on our financial statements filed with the SEC, we and investors in our ADSs would be deprived of the benefits of such PCAOB inspections again, which could cause investors and potential investors in the ADSs to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.



***Our ADSs may be prohibited from trading in the United States under the HFCAA in the future if the PCAOB is unable to inspect or investigate completely auditors located in China. The prohibition of trading in the ADSs, or the threat of the trading being prohibited, may materially and adversely affect the value of your investment.***

Pursuant to the HFCAA, if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspections by the PCAOB for two consecutive years, the SEC will prohibit our shares or the ADSs from being traded on a national securities exchange or in the over-the-counter trading market in the United States.

On December 16, 2021, the PCAOB issued a report to notify the SEC of its determination that the PCAOB was unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong and our former auditor, Deloitte Touche Tohmatsu Certified Public Accountants LLP, was subject to that determination. In May 2022, the SEC conclusively listed us as a Commission-Identified Issuer under the HFCAA following the filing of our annual report on Form 20-F for the fiscal year ended December 31, 2021.

On December 15, 2022, the PCAOB removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms. As of the date of this annual report, the PCAOB has not issued any new determination that it is unable to inspect or investigate completely registered public accounting firms headquartered in any jurisdiction. For this reason, we do not expect to be identified as a Commission-Identified Issuer under the HFCAA after we file this annual report on Form 20-F.

Each year, the PCAOB will determine whether it can inspect and investigate completely registered public accounting firms in mainland China and Hong Kong, among other jurisdictions. If the PCAOB determines in the future that it no longer has full access to inspect and investigate completely registered public accounting firms in mainland China and Hong Kong and we continue to use an accounting firm headquartered in one of these jurisdictions to issue an audit report on our financial statements filed with the SEC, we would be identified as a Commission-Identified Issuer following the filing of the annual report on Form 20-F for the relevant fiscal year. In accordance with the HFCAA, our securities would be prohibited from being traded on a national securities exchange or in the over-the-counter trading market in the United States if we are identified as a Commission-Identified Issuer for two consecutive years in the future. If our shares and ADSs are prohibited from trading in the United States, there is no certainty that we will be able to list on a non-U.S. exchange or that a market for our shares will develop outside of the United States. A prohibition of being able to trade in the United States would substantially impair your ability to sell or purchase our ADSs when you wish to do so, and the risk and uncertainty associated with delisting would have a negative impact on the price of our ADSs. Also, such a prohibition would significantly affect our ability to raise capital on terms acceptable to us, or at all, which would have a material adverse impact on our business, financial condition, and prospects.

***It may be challenging for overseas regulators to conduct investigations or collect evidence within mainland China.***

Pursuing shareholder claims or regulatory investigations in mainland China involves uncertainties and may be challenging as a matter of law or practicality. For example, in mainland China, there are uncertainties regarding providing information needed for regulatory investigations or litigations initiated by regulators outside mainland China. Although the authorities in mainland China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, such cooperation with the securities regulatory authorities in the United States may not be efficient in the absence of mutual and practical cooperation mechanism and involves uncertainty. The PRC government authorities have strengthened the supervision of cross-border information provision. For example, according to Article 177 of the PRC Securities Law, which became effective in March 2020, no overseas securities regulator is allowed to directly conduct investigation, evidence collection and other activities within the PRC territory. Furthermore, pursuant to the Provisions on Strengthening the Confidentiality and Archives Administration of Overseas Securities Issuance and Listing by Domestic Companies, which became effective on March 31, 2023, if any overseas securities regulators and competent overseas authorities requests to investigate, including to collect evidence for investigation purpose, or inspects a PRC domestic company that has been listed or offered securities in an overseas market or securities companies and securities service providers that undertake securities business for such PRC domestic companies, such investigation and inspection shall be conducted under a cross-border regulatory cooperation mechanism, and the CSRC and competent authorities will provide necessary assistance pursuant to bilateral and multilateral cooperation mechanisms. Any domestic enterprises, securities companies and securities service agencies must seek the consent of the CSRC or administrative authorities before cooperating with overseas securities regulators or securities authorities in inspections or investigations, or providing documents and materials for such cooperation. For more information, see “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Relating to M&A and Overseas Listing.” While detailed interpretation of or implementation rules under Article 177 have yet to be promulgated, the inability for an overseas securities regulator to directly conduct investigation or evidence collection activities within mainland China may further increase the uncertainties you face in protecting your interests. See also “Item 3. Key Information—D. Risk Factors—Risks Related to Our ADSs—You may face difficulties in protecting your interests, and your ability to protect your rights through U.S. courts may be limited, because we are incorporated under Cayman Islands law.”

***The custodians or authorized users of our controlling non-tangible assets, including chops and seals, may fail to fulfill their responsibilities, or misappropriate or misuse these assets.***

Under the PRC law, legal documents for corporate transactions, including agreements and contracts are executed using the chop or seal of the signing entity or with the signature of a legal representative whose designation is registered and filed with PRC market regulation administrative authorities.

In order to secure the use of our chops and seals, we have established internal control procedures and rules for using these chops and seals. In any event that the chops and seals are intended to be used, the responsible personnel will submit a formal application, which will be verified and approved by authorized employees in accordance with our internal control procedures and rules. In addition, in order to maintain the physical security of our chops, we generally have them stored in secured locations accessible only to authorized employees. Although we monitor such authorized employees, the procedures may not be sufficient to prevent all instances of abuse or negligence. There is a risk that our employees could abuse their authority, for example, by entering into a contract that we did not approve or seeking to gain control of one of our subsidiaries or our affiliated entities or their subsidiaries. If any employee obtains, misuses or misappropriates our chops and seals or other controlling non-tangible assets for whatever reason, we could experience disruption to our normal business operations. We may have to take corporate or legal action, which could involve significant time and resources to resolve and divert management from our operations, and we may not be able to recover our loss due to such misuse or misappropriation if the third party relies on the apparent authority of such employees and acts in good faith.

## Risks Related to Our ADSs

***The delisting of our ADSs from the NYSE may continue to have a material adverse effect on the trading and price of our ADSs, and we cannot assure you that our ADSs will be relisted, or that once relisted, they will remain listed.***

On June 6, 2022, the NYSE filed a Form 25 with the SEC to strike our ADSs from listing, which became effective 10 days after the filing. Our ADSs have been quoted on the OTC Pink Limited Information under the symbol “CTKY” after the NYSE suspended the trading of our ADSs on May 19, 2022. The delisting of our ADSs from the NYSE has had a material adverse effect on us by, among other things, causing investors to dispose of our ADSs and limiting:

- the liquidity of our ADSs;
- the market price of our ADSs;
- the number of institutional and other investors that will consider investing in our ADSs;
- the availability of information concerning the trading prices and volume of our ADSs;
- the number of broker-dealers willing to execute trades in our ADSs; and
- our ability to obtain equity or debt financing for the continuation of our operations.

The lack of an active trading market may limit the liquidity of an investment in our ADSs, meaning you may not be able to sell our ADSs you own at times, or at prices, attractive to you. Any of these factors may materially and adversely affect the price of our ADSs.

***The trading price of our ADSs has been and may continue to be volatile, which could result in substantial losses to investors.***

Our ADSs were listed on the NYSE since our initial public offering in September 2018. On June 6, 2022, the NYSE filed a Form 25 with the SEC to strike our ADSs from listing, which became effective 10 days after the filing. Our ADSs have been quoted on the OTC Pink Limited Information under the symbol “CTKY” since the NYSE suspended the trading of our ADSs in May 2022.

The OTC Market is a significantly more limited market than NYSE. The quotation of our ADSs on the OTC Market may result in a less liquid market available for existing and potential shareholders to trade our ADSs, could depress the trading price of our ADSs and could have a long-term adverse impact on our ability to raise capital in the future.

For the period from January 1, 2022 to May 19, 2022, the date when the trading in our ADSs was suspended, the closing trading prices of our ADSs ranged from US\$0.88 to US\$7.41 per ADS, including retrospective adjustments for the change in the number of ordinary shares represented by each ADS that became effective on May 9, 2022. In 2023, the closing trading prices of our ADSs quoted from the OTC marked ranged from US\$0.0012 to US\$0.49 per ADS.

The trading price of our ADSs has been and may continue to be volatile and could fluctuate widely due to factors beyond our control. This may happen because of broad market and industry factors, including the performance and fluctuation of the market prices of other mobile internet companies based in China that have listed their securities in the United States. In addition to market and industry factors, the price and trading volume for our ADSs may be highly volatile for factors specific to our own operations, including the following:

- variations in our revenues, earnings, cash flow and data related to our operating metrics;
- our or our competitors’ announcements of new investments, acquisitions, strategic partnerships or joint ventures;
- our or our competitors’ announcements of new product and service offerings and expansions;

- changes in financial estimates by securities analysts;
- financial projections that we may provide and changes to these projections;
- detrimental adverse publicity about us, our products and services or our industry;
- announcements of new regulations, rules or policies that apply to our business;
- additions or departures of key personnel;
- release of lock-up or other transfer restrictions on our outstanding equity securities or sales of additional equity securities;
- sales of additional ADSs in the public market or other equity-linked securities, or the perception of these events;
- convertible arbitrage strategy employed by certain investors in our outstanding convertible notes, including related short selling of our ADSs; and
- potential litigation or regulatory investigations.

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

In the past, shareholders of public companies have often brought securities class action suits against those companies following periods of instability in the market price of their securities. If we were involved in a class action suit, it could divert a significant amount of our management's attention and other resources from our business and operations and require us to incur significant expenses to defend the suit, which could harm our operating results. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations.

***Techniques employed by short sellers may drive down the market price of our ADSs.***

Short selling is the practice of selling securities that the seller does not own but rather has borrowed from a third party with the intention of buying identical securities back at a later date to return to the lender. The short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares, as the short seller expects to pay less in that purchase than it received in the sale. As it is in the short seller's interest for the price of the security to decline, many short sellers publish, or arrange for the publication of, negative opinions regarding the issuer and its business prospects in order to create negative market momentum and generate profits for themselves after selling a security short. These short attacks have, in the past, led to selling of shares in the market.

Public companies listed in the United States that have a substantial majority of their operations in China have been the subject of short selling. Much of the scrutiny and negative publicity has centered on allegations of a lack of effective internal control over financial reporting resulting in financial and accounting irregularities and mistakes, inadequate corporate governance policies or a lack of adherence thereto and, in many cases, allegations of fraud. As a result, many of these companies are now conducting internal and external investigations into the allegations and, in the interim, are subject to shareholder lawsuits and/or SEC enforcement actions.

We may be the subject of unfavorable allegations made by short sellers in the future. Any such allegations may be followed by periods of instability in the market price of our common shares and ADSs and negative publicity. If and when we become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we could have to expend a significant amount of resources to investigate such allegations and/or defend ourselves. While we would strongly defend against any such short seller attacks, we may be constrained in the manner in which we can proceed against the short seller by principles of freedom of speech, applicable federal or state law or issues of commercial confidentiality. Such a situation could be costly and time-consuming and could distract our management from growing our business. Even if such allegations are ultimately proven to be groundless, allegations against us could severely impact our business operations and shareholders' equity, and the value of any investment in our ADSs could be greatly reduced or rendered worthless.

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

We have created a dual-class share structure such that our ordinary shares shall consist of Class A ordinary shares and Class B ordinary shares. In respect of matters requiring the votes of shareholders, holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to twenty-five (25) votes per share on all matters subject to vote at general meetings of our company based on our dual-class share structure. Each Class B ordinary share is convertible into one Class A ordinary share at any time at the option of the holder thereof, while Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any sale, transfer, assignment or disposition of any Class B ordinary shares by a holder thereof to any person or entity other than holders of Class B ordinary shares or their affiliates, or upon a change of ultimate beneficial ownership of any Class B ordinary shares to any person who is not an affiliate of the holder thereof, such Class B ordinary shares shall be automatically and immediately converted into the equivalent number of Class A ordinary shares.

As of March 31, 2024, our chairman of the board of directors, chief technology officer and acting chief financial officer, Karl Kan Zhang, beneficially owned all of our issued Class B ordinary shares. These Class B ordinary shares constituted approximately 5.1% of our total issued and outstanding share capital and 57.3% of the aggregate voting power of our total issued and outstanding share capital as of March 31, 2024, due to the disparate voting powers associated with our dual-class share structure. See "Item 6. Directors, Senior Management and Employees—E. Share Ownership." As a result of the dual-class share structure and the concentration of ownership, holders of Class B ordinary shares have considerable influence over matters such as decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. Such holders may take actions that are not in the best interest of us or our other shareholders. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could have the effect of depriving our other shareholders of the opportunity to receive a premium for their shares as part of a sale of our company and may reduce the price of our ADSs. This concentrated control will limit your ability to influence corporate matters and could discourage others from pursuing any potential merger, takeover or other change of control transactions that holders of Class A ordinary shares and ADSs may view as beneficial.

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

S&P Dow Jones and FTSE Russell have announced changes to their eligibility criteria for inclusion of shares of public companies on certain indices, including the S&P 500, to exclude companies with multiple classes of shares and companies whose public shareholders hold no more than 5% of total voting power from being added to such indices. In addition, several shareholder advisory firms have announced their opposition to the use of multiple class structures. As a result, the dual-class structure of our ordinary shares may prevent the inclusion of our ADSs representing Class A ordinary shares in such indices and may cause shareholder advisory firms to publish negative commentary about our corporate governance practices or otherwise seek to cause us to change our capital structure. Any such exclusion from indices could result in a less active trading market for our ADSs. Any actions or publications by shareholder advisory firms critical of our corporate governance practices or capital structure could also adversely affect the value of our ADSs.

***If securities or industry analysts do not publish research 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.

***Substantial future sale or the perception of a potential sale of substantial amounts of our ADSs could adversely affect our ADRs' market price.***

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

***Because we do not expect to pay dividends in the foreseeable future, you must rely on price appreciation of our ADSs for return on your investment.***

We currently intend to retain most, if not all, of our available funds and any future earnings to fund the development and growth of our business. As a result, we do not expect to pay any cash dividends in the foreseeable future. Therefore, you should not rely on an investment in our ADSs as a source for a future dividend income.

Pursuant to our seventh amended and restated memorandum and articles of association, our board of directors has complete discretion as to whether to distribute dividends, subject to certain requirements of Cayman Islands law. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. Under Cayman Islands law, a Cayman Islands company may pay a dividend either out of profits or share premium account; *provided* that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, we received from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in our ADSs will likely depend entirely upon any future price appreciation of our ADSs. There is no guarantee that our ADSs will appreciate in value or even maintain the price at which you purchased the ADSs. You may not realize a return on your investment in our ADSs and you may even lose your entire investment in our ADSs.

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

Under the PRC Enterprise Income Tax Law and its implementation rules, subject to any applicable tax treaty or similar arrangement between the PRC and your jurisdiction of residence that provides for a different income tax arrangement, PRC withholding tax at the rate of 10% is normally applicable to dividends from PRC sources payable to investors that are non-PRC resident enterprises, which do not have an establishment or place of business in the PRC, or which have such establishment or place of business if the relevant income is not effectively connected with the establishment or place of business. Any gain realized on the transfer of ADSs or ordinary shares by such non-PRC resident enterprise investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC, unless a tax treaty or similar arrangement provides otherwise. Under the PRC Individual Income Tax Law and its implementation rules, dividends from sources within the PRC paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20% and gains from PRC sources realized by such investors on the transfer of ADSs or ordinary shares are generally subject to 20% PRC income tax, in each case, subject to any reduction or exemption set forth in applicable tax treaties and similar arrangements and PRC laws. Although substantially all of our daily operations are in China, it is unclear whether dividends we pay with respect to our ADSs, or the gain realized from the transfer of our ADSs, would be treated as income derived from sources within the PRC and as a result be subject to PRC income tax if we were considered a PRC resident enterprise, as described above. If PRC income tax were imposed on gains realized through the transfer of our ADSs or on dividends paid to our non-PRC resident investors, the value of your investment in our ADSs may be materially and adversely affected. Furthermore, our ADS holders whose jurisdictions of residence have tax treaties or similar arrangements with China may not qualify for benefits under such tax treaties or arrangements.

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

A non-U.S. corporation will be considered a passive foreign investment company, or PFIC, for any taxable year if either (i) at least 75% of its gross income for such year consists of certain types of “passive” income; or (ii) at least 50% of the value of its assets (generally determined on the basis of a quarterly average) during such year is attributable to assets that produce passive income or are held for the production of passive income, or the asset test. Although the law in this regard is not entirely clear, we treat the VIEs as being owned by us for United States federal income tax purposes because, in accordance with contractual arrangements, we control their management decisions and are entitled to substantially all of the economic benefits associated with them. As a result, we have a “controlling financial interest” in the VIEs (as defined in FASB ASC 810), and we are considered the primary beneficiary of the VIEs for accounting purposes. We therefore consolidate their results of operations in our consolidated U.S. GAAP financial statements. If it were determined, however, that we are not the owner of the VIEs for United States federal income tax purposes, we would likely be treated as a PFIC for the current taxable year and any subsequent taxable year.

Assuming that we are the owner of the VIEs for United States federal income tax purposes, we do not believe that we were a PFIC for our taxable year ended December 31, 2023, and we do not presently expect to be a PFIC for the current taxable year. However, no assurance can be given in this regard because the determination of whether we are or will become a PFIC is a fact-intensive inquiry made on an annual basis that depends, in part, upon the composition of our income and assets and the value of our assets.

Fluctuations in the market price of our ADSs may cause us to become a PFIC for the current or future taxable years because the value of our assets for the purpose of the asset test, including the value of our goodwill and unbooked intangibles, may be determined by reference to the market price of our ADSs from time to time (which may be volatile). In particular, recent decline in the market price of our ADSs increased our risk of becoming a PFIC. The market price of our ADSs may continue to fluctuate considerably and, consequently, we cannot assure you of our PFIC status for any taxable year. The composition of our income and assets may also be affected by how, and how quickly, we use our liquid assets. Under circumstances where our revenue from activities that produce passive income significantly increases relative to our revenue from activities that produce non-passive income, or where we determine not to deploy significant amounts of cash for active purposes, our risk of becoming a PFIC may substantially increase.

If we were to be or become a PFIC for any taxable year during which a U.S. Holder (as defined in “Item 10. Additional Information—Taxation—United States Federal Income Tax Considerations”) holds our ADSs or ordinary shares, certain adverse U.S. federal income tax consequences could apply to such U.S. Holder. See “Item 10. Additional Information—Taxation—United States Federal Income Tax Considerations—Passive Foreign Investment Company Rules.”

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

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

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

We are an exempted company limited by shares incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our memorandum and articles of association, the Companies Act (As Revised) of the Cayman Islands and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders, and the fiduciary duties owed to us by our directors under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our shareholders and the fiduciary duties owed to us by our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States. Some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, with respect to Cayman Islands companies, plaintiffs may face special obstacles, including but not limited to those relating to jurisdiction and standing, in attempting to assert derivative claims in state or federal courts of the United States.

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

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

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

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



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

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

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

***Your rights to pursue claims against the depositary as a holder of ADSs are limited by the terms of the deposit agreement.***

Under the deposit agreement, any action or proceeding against or involving the depositary, arising out of or based upon the deposit agreement or the transactions contemplated thereby or by virtue of owning the ADSs may only be instituted in a state or federal court in New York, New York, and you, as a holder of our ADSs, will have irrevocably waived any objection which you may have to the laying of venue of any such proceeding, and irrevocably submitted to the exclusive jurisdiction of such courts in any such action or proceeding.

The depositary may, in its sole discretion, require that any dispute or difference arising from the relationship created by the deposit agreement be referred to and finally settled by an arbitration conducted under the terms described in the deposit agreement, although the arbitration provisions do not preclude you from pursuing claims under the Securities Act or the Exchange Act in state or federal courts.

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

We are a Cayman Islands exempted company and substantially all of our assets are located outside of the United States. Substantially all of our daily operations are conducted in mainland China. In addition, substantially all of our current directors and officers are nationals and residents of countries other than the United States, and substantially all of the assets of these persons are located outside the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the United States in the event that you believe that your rights have been infringed under the U.S. federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of mainland China may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

On July 14, 2006, the Supreme People's Court of China and the Government of the Hong Kong Special Administrative Region signed an Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters, which came into effect on August 1, 2008. Under this arrangement, where any designated mainland China court or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil or commercial case pursuant to a "choice of court" agreement in writing, any party concerned may apply to the mainland China court or Hong Kong court for recognition and enforcement of the judgment.

On January 18, 2019, the Supreme Court of the People's Republic of China and the Department of Justice under the Government of the Hong Kong Special Administrative Region signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region, which became effective on January 29, 2024. This arrangement seeks to establish a mechanism for judgment recognition and enforcement with greater clarity and certainty in a wider range of civil and commercial matters between the mainland China and Hong Kong Special Administrative Region. Under this arrangement, a "choice of court" agreement in writing is no longer required for bilateral judgment recognition and enforcement. This arrangement will allow a broader range of civil and commercial judgments of the mainland China courts to be enforced in Hong Kong. However, since uncertainties exist with respect to the interpretation and implementation of this arrangement, there exist uncertainties about the outcomes and effectiveness of enforcement or recognition of judgments under this arrangement.

***As CooTek is an exempted company incorporated in the Cayman Islands and not listed on any stock exchange, its corporate governance practices may differ significantly from those of companies incorporated in Delaware or other states in the United States or those of companies listed on a stock exchange, and these practices may afford less protection to shareholders.***

CooTek is an exempted company incorporated under the laws of the Cayman Islands and not currently listed on any stock exchange. As a Cayman Islands company, CooTek's corporate affairs are governed by its memorandum and articles of association, the Companies Act (As Revised) of the Cayman Islands and the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England, but does not follow recent English statutory enactments.

In addition, as a Cayman Islands exempted company, CooTek is not required to hold an annual general meeting pursuant to its currently effective memorandum and articles of association.

Furthermore, as CooTek is not currently listed on any stock exchange, CooTek is not subject to any listing rules or listing standards. To the extent that CooTek continues to follow the NYSE corporate governance listing standards that were previously applicable to it, CooTek may stop following any or all of those listing standards at any time at the discretion of its board of directors or management, as the case may be. In May 2023, CooTek's independent directors resigned from the board and CooTek's board resolved to dissolve the audit committee, the compensation committee and the nominating and corporate governance committee. CooTek's board has been assuming the functions and responsibilities of these committees since May 2023 and there are no independent directors on CooTek's board as of the date of this annual report. As two out of four directors on CooTek's board are executive officers, including Karl Kan Zhang and Susan Qiaoling Li, the lack of independent directors on CooTek's board could create a potential conflict of interest in that the directors have the authority to determine issues concerning audit, management compensation, and director nominations that may conflict with the interest of the shareholders of CooTek. As a result, CooTek's corporate governance practices may afford shareholders less protection than they would otherwise enjoy as shareholders of companies incorporated in Delaware or other states in the United States or under the corporate governance listing standards of the NYSE, the Nasdaq Stock Market or other stock exchanges.

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

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

- the rules under the Exchange Act requiring the filing of quarterly reports on Form 10-Q or current reports on Form 8-K with the SEC;
- the sections of the Exchange Act regulating the solicitation of proxies, consents, or authorizations in respect of a security registered under the Exchange Act;
- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and
- the selective disclosure rules by issuers of material nonpublic information under Regulation FD.

We are required to file an annual report within four months of the end of each fiscal year. Press releases relating to financial results and material events are furnished to the SEC on Form 6-K. However, the information we are required to file with or furnish to the SEC are less extensive and less timely compared to that required to be filed with the SEC by U.S. domestic issuers. As a result, you may not be afforded the same protections or information, which would be made available to you, were you investing in a U.S. domestic issuer.

***The voting rights of holders of ADSs are limited by the terms of the deposit agreement, and you may not be able to exercise your right to vote your Class A ordinary shares.***

Holders of ADSs do not have the same rights as our registered shareholders. As a holder of our ADSs, you do not have any direct right to attend general meetings of our shareholders or to cast any votes at such meetings. You will only be able to exercise the voting rights which are carried by the underlying Class A ordinary shares represented by your ADSs indirectly by giving voting instructions to the depository in accordance with the provisions of the deposit agreement. Under the deposit agreement, you may vote by giving voting instructions to the depository. Upon receipt of your voting instructions, the depository will try, as far as is practicable, to vote the underlying Class A ordinary shares represented by your ADSs in accordance with your instructions. If we ask for your instructions, then upon receipt of your voting instructions, the depository will try to vote the underlying Class A ordinary shares in accordance with these instructions. If we do not instruct the depository to ask for your instructions, the depository may still vote in accordance with instructions you give, but it is not required to do so. You are not able to directly exercise your right to vote with respect to the underlying Class A ordinary shares represented by your ADSs unless you withdraw such shares, and become the registered holder of such shares prior to the record date for the general meeting. When a general meeting is convened, you may not receive sufficient advance notice of the meeting to withdraw the underlying Class A ordinary shares represented by your ADSs and become the registered holder of such shares to allow you to attend the general meeting and to vote directly with respect to any specific matter or resolution to be considered and voted upon at the general meeting. In addition, under our seventh amended and restated articles of association, for the purposes of determining those shareholders who are entitled to attend and vote at any general meeting, our directors may close our register of members and/or fix in advance a record date for such meeting, and such closure of our register of members or the setting of such a record date may prevent you from withdrawing the underlying Class A ordinary shares represented by your ADSs and becoming the registered holder of such shares prior to the record date, so that you would not be able to attend the general meeting or to vote directly. If we ask for your instructions, the depository will notify you of the upcoming vote and will arrange to deliver our voting materials to you. We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depository to vote the underlying Class A ordinary shares represented by your ADSs. In addition, the depository and its agents are not responsible for failing to carry out voting instructions or for their manner of carrying out your voting instructions. This means that you may not be able to exercise your right to direct how the underlying Class A ordinary shares represented by your ADSs are voted and you may have no legal remedy if the underlying Class A ordinary shares represented by your ADSs are not voted as you requested.

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

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

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

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

**ITEM 4. INFORMATION ON THE COMPANY**

**A. History and Development of the Company**

We commenced our mobile internet business and launched our first mobile application, TouchPal Smart Input, in 2008. We initially conducted our business through Shanghai Hanxiang (CooTek) Information Technology Co., Ltd., a PRC domestic company. The business of Shanghai Hanxiang (CooTek) Information Technology Co., Ltd. was migrated into other entities in our company, and it has gradually ceased its business operations since 2012.

In March 2012, we incorporated CooTek (Cayman) Inc., or CooTek Cayman, as our offshore holding company in order to facilitate foreign investment in our company. We established CooTek Hong Kong Limited as our intermediate holding company, which in turn established a wholly owned PRC subsidiary, Shanghai Chule (CooTek) Information Technology Co., Ltd., or Shanghai Chule or the WFOE, in June 2012.

In March 2012, we formed a PRC domestic company, Shanghai Chubao (CooTek) Information Technology Co., Ltd., or Shanghai Chubao, to operate part of our Chinese business.

In September 2014, we incorporated TouchPal HK Co., Limited to operate our overseas business.

In July 2015, we incorporated TouchPal, Inc., a U.S. company, to operate a research and development center in Silicon Valley and acquire talents from the United States.

In 2017, we formed Molihong (Shenzhen) Internet Technology Co., Ltd., or Molihong, in China to operate certain of our portfolio products.

In January 2018, we formed Nova (Cayman) Inc., former known as TouchPal (Cayman) Inc., as our intermediate holding company.

In September 2018, we completed our initial public offering and our ADSs began trading on the NYSE under the symbol “CTK.” On May 9, 2022, we changed the number of ordinary shares represented by each ADS from 50 to 650. Except as otherwise indicated, all ADS and per ADS data in this annual report give retroactive effect to the ADS ratio of one 1 ADS to 650 Class A ordinary shares. On May 19, 2022, we were notified by the NYSE that the staff of NYSE Regulation determined to commence proceedings to delist our ADSs from the NYSE. Trading in our ADSs was suspended after the market close on the NYSE on May 19, 2022. On June 6, 2022, the NYSE filed a Form 25 with the SEC to strike our ADSs from listing, which became effective 10 days after the filing. Our ADSs have been quoted on the OTC Pink Limited Information under the symbol “CTKYY” after the NYSE suspended the trading of our ADSs on May 19, 2022.

In June 2019, we formed Smillage, Inc. to operate mobile games in overseas markets.

In July 2019, we formed VitalTek, Inc. to operate online literature products in overseas markets.

In July 2020, Techdelic Investment Co., Limited was established for the operations of online literature products and mobile games in overseas markets.

In October 2020, we formed Shanghai Qianqi Technology Co., Ltd to operate mobile games in China market.

Due to restrictions imposed by PRC laws and regulations on foreign ownership of companies that engaged in mobile internet and mobile advertising businesses, our WFOE also entered into a series of contractual arrangements with Shanghai Chubao and Molihong, and their respective shareholders. We collectively refer to these domestic entities as the VIEs in this annual report. For more details and risks related to our variable interest entity structure, please see “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure.” As a result of our direct ownership in our WFOE and the variable interest entity contractual arrangements, we are regarded as the primary beneficiary of the VIEs. We treat them as the consolidated affiliated entities under U.S. GAAP, and have consolidated the financial results of these entities in our consolidated financial statements in accordance with U.S. GAAP.

Our principal executive offices are located at 11F, T2, No.16, Lane 399, Xinlong Road, Minhang District, Shanghai, 201101, People’s Republic of China. Our telephone number at this address is +86 21 6485-6352. Our registered office in the Cayman Islands is located at the offices of Maples Corporate Services Limited at PO Box 309, Uglund House, Grand Cayman, KY1-1104, Cayman Islands.

All information we file with the SEC can be obtained over the internet at the SEC’s website at [www.sec.gov](http://www.sec.gov). You can also find information on our website at [ir.cootek.com](http://ir.cootek.com).

## **B. Business Overview**

We are a mobile internet company with a global vision. Our mission is to empower everyone to enjoy content relevant to people seamlessly. We have developed and brought to market pan-entertainment mobile applications, focusing on two categories: online literature and mobile games. Sophisticated big data analytics and data-driven user insights are the backbone of our business, enabling us to release appealing products that capture mobile internet users’ ever-evolving content needs and attract targeted users. Our portfolio products of mobile applications serve a global user base comprised of an average of 1.9 million DAUs in December 2023.

Starting with our TouchPal Smart Input in 2008, an intelligent input method for mobile devices, we have enabled mobile users to enjoy better typing experience using smart phones. Based upon our user insights accumulated through our TouchPal Smart Input, we have formulated a systematic approach to develop a global portfolio of utility applications to enhance mobile users’ functional experiences on smart phones, such as phonebook, wallpaper, fitness and health tracking.

With the popularity of mobile phones and the improvement of mobile operating system in recent years, users’ attention has shifted from the basic functions of the mobile phones to the consumption of productivity or entertainment contents. Since 2019, we have invested in the development of pan-entertainment mobile applications. As of December 31, 2023, we have launched over 180 online literature applications and mobile games, the advertising revenue from which contributed 95.9% of our total advertising revenue in 2023, as compared to 25.3% in 2019.

### **Our Products**

#### ***Pan-entertainment Mobile Applications***

Following our user-centric and data-driven approach, we have developed and brought to market the following pan-entertainment mobile applications focusing on two categories: mobile games and online literature.

#### ***Mobile games***

We launched our first internally developed mobile game in the third quarter of 2019, and thereafter introduced a series of internally developed casual games, including dress-up games such as Catwalk Beauty, which ranked No.1 in the United States and other 57 countries and regions on App Store and Google Play game category as of May 2021, and interactive story game series such as Love Fantasy and Hey Beauty. Love Fantasy ranked No. 2 on the US iOS Games in December 2021.

We have rich experience in the development of casual games. Through the innovative combination of diversified casual games and the synergy with our online literature, we launched “Interactive Story+” series of games in 2021, which allows players to enjoy the thrill of casual games and also engages them in interactive plots.

We operate our mobile games in China and overseas markets, including various English, Spanish and Portuguese speaking countries and regions. Advertising revenues from mobile games in the overseas market contributed 14.6%, 43.1% and 37.9% of our total advertising revenues in 2021, 2022 and 2023, respectively.

#### *Online literature*

We launched Fengdu Novel in China in 2019 and Readict in the overseas market in 2020.

Fengdu Novel is a mobile application that provides users with free online novels. Unlike the other paid user-only model in the online literature industry that charges users a fee for most content offered, users of Fengdu Novel can enjoy literature works under a free-to-read model. Users have free access to a large literature library. We classify the genre, length, popularity, serial or completed literature works by adding keywords to the content, and users can search for content based on these key words. Fengdu Novel is currently available on both Android and iOS operating systems.

We launched Fengdu Literature Platform to develop our original content ecosystem at the end of 2019. Fengdu Literature Platform has accumulated approximately 5,100 signed authors and 7,000 original contract books as of December 31, 2023. Fengdu Literature Platform is deemed as diverse in category, covering 14 major categories of male and female preferred content including genres of romance, fantasy, science fiction, history and others. More than 50% of content focus on gender specialized stories in urban context and ancient romance.

In addition, we are actively diversifying our IP business based on the original books from Fengdu Literature Platform. We license our original books to third-party websites and applications to serve their users. We also created several short video series based on Fengdu Literature Platform content and IP resources.

We introduced online community feature in 2021 for book lovers on Fengdu Novel, which allows readers to make book reviews, chapter reviews and posts. We incentivize users to make comments by rewarding witty and popular review writers with virtual gold coins and VIP membership. The comment that has received most likes will be placed on the top of the section. By allowing users to directly share and express their comments, we believe this feature help improve the retention rate of users and users' reading time, which will in turn attract more writers to join our community to interact with their fans.

#### *Utility Mobile Applications*

Based upon our user insights accumulated through our TouchPal Smart Input, we have also developed a global portfolio of utility applications to enhance mobile users' functional experiences on smart phones, such as phonebook, wallpaper, fitness, and health tracking.

#### **Product Distribution and Marketing**

We distribute our products and acquire users primarily through user downloads from digital distribution platforms and social media.

We acquire new users through downloads of our products from digital distribution platforms such as Apple App Store and Google Play. Some of these users acquired through downloads are drawn to our applications through word-of-mouth or general interest in one of our global products, thus growing our user base organically. A majority of our users are drawn to our products through our paid marketing campaigns on third-party platforms in mainland China such as Douyin, Tencent and oversea distribution platforms such as AppLovin and Facebook.

#### **Monetization**

We generate a majority of our revenues through mobile advertising. Our value proposition to advertisers is driven by our large, engaged and sticky user base, insightful understanding of user interests and demands, and precision targeting of content to the preferred audience in a variety of usage scenarios. We provide performance-based advertising solutions that are compelling to our advertisers.

The number of our available advertising spaces is a function of the size of our user base and the number of our product offerings. We possess the technical capability to efficiently managing our advertising spaces. Our advertising spaces within our products can accommodate a variety of ad formats. At the same time, our priority is to achieve a balance between user experience and utilization of advertising spaces. Launched in 2019, CooTek Ads is our in-house advertising network platform that provides our clients with high-quality and tailored advertising services. We terminated the operation of this system in 2022 as part of our efforts to optimize our monetization strategies.

Our advertisers are from a broad range of industries, including healthcare, e-commerce, online games, merchant services and business services. Most of our advertisers are represented by third-party advertising exchanges and agencies. Our top two advertising customers, which are advertising exchanges, in aggregate accounted for approximately 26.6% of our total revenues in 2023. We have entered into standard forms of agreements with our major advertising customers. We have entered into distribution cooperation agreements with Chuan Shan Jia and AppLovin, leading advertising exchange platforms who are also our top advertising customers for the cooperation in placing advertisements on our mobile apps. Our business depends on our relationships with these large advertising exchanges and agencies. For more details, see “Item 3. Key Information—D. Risk Factors—We depend on certain third-party advertising exchanges and agencies for a large portion of our mobile advertising revenues.”

We are exploring methods to diversify our monetization. In addition to in-app advertising, we allow users to make in-app purchases to unlock special features or tools in our mobile games and extra content in our online literature products. Our in-app purchase revenues increased from US\$2.8 million in 2021 to US\$4.1 million in 2022, and further to US\$6.5 million in 2023. Our in-app purchase revenues as a percentage of our total net revenues increased from 1.0% in 2021 to 4.9% in 2022, and further to 20.2% in 2023.

We also diversify our monetization by out-licensing our original novels on Fengdu Literature Platform to produce audiobooks, short videos, etc. In addition, we operated IP content commercialization based on content on our online literature products, such as Fengdu Novel. As a part of our IP incubation efforts, Fengdu Novel has formed business relationships with third party content suppliers in content creation and adaptation.

## **Technology and Research and Development**

Technology is the key to our success. Our research and development efforts focus on big data analytical capabilities.

### ***AI Generated Content tools for content production***

We employ AI generated content tools that use machine learning algorithms to create content automatically. We have used AI generated content tools in mobile game art design to automatically generate backgrounds, characters, and other features based on user inputs from our mobile games. We have also used AI generated content tools to create novel outlines. The AI generated content tools allow us to analyze existing works, identify patterns in novels and generate outlines that fit within certain parameters. By using AI generated content tools, we are able to improve efficiency and save efforts while still producing high-quality work.

### ***AI-based analytics tool for content production***

We have developed an AI and data-driven system to enable the authors on our online literature platform to produce more suitable content for our users and continually adapt to changing demand based on data feedback. The platform that we are building is not just a place for authors to publish books, but also a platform to really enable them to improve their authorship based on a proper data matrix, so that even an average author may also produce valuable content.

### ***Data integration, mining and analytics***

We have deployed a scalable, distributed data system to manage and mine our massive and diverse data. We have developed an advanced data warehouse and real-time data analysis platform to support our build-up of user insights. We have also developed a business intelligence system which facilitates our product planning, data analytics, user growth and acquisition, monetization, and other crucial business activities.

### **Research and development team**

We are committed to technological innovation since our inception. Approximately 60% of our employees are software engineers and product designers tasked with research and development to achieve innovation and advancement.

### **Intellectual Property**

We rely on a combination of patent, copyright, trademark and trade secret laws, as well as non-competition and confidentiality agreements and contractual clauses, to establish and protect our intellectual property rights.

As of December 31, 2023, we held 39 patents in mainland China and 32 patents in other countries and regions, covering inventions and designs; we have 10 patent applications currently pending in mainland China; we have submitted 33 patent applications in other jurisdictions through the procedures under the Patent Cooperation Treaty, or PCT; and we intend to apply for more patents to protect our core technologies and intellectual properties. As of December 31, 2023, we have registered 279 trademarks with the Trademark Office of the State Administration for Industry and Commerce in mainland China, including our company's name "CooTek," CooTek logos, trademarks relating to our products such as TouchPal Smart Input and TouchPal Phonebook; and we are in the process of applying for the registration of one other trademark in mainland China; we have registered 26 trademarks in other countries and regions. As of December 31, 2023, we are the registered owner of 237 software copyrights in mainland China, each of which we have registered with the State Copyright Bureau of China. As of December 31, 2023, we own the rights to approximately 100 domain names that we use in connection with the operation of our business, including our CooTek and TouchPal websites *cootek.com*, *chubao.cn* and *touchpal.com*. In addition to the foregoing protections, we generally control access to and use of our proprietary and other confidential information through the use of internal and external controls. For example, for external controls, we enter into confidentiality agreements or agree to confidentiality clauses with our advertising customers and mobile device manufacturers and, for internal controls, we adopt and maintain policies governing the operation and maintenance of our IT systems and the management of user-generated data.

### **User Privacy and Cyber Security**

We place paramount importance on, and dedicate significant amount of resources to, the protection of the personal privacy of each of our users and the security of their data.

**Transparency.** Our end user license agreement and privacy policy describe our data use practices and how privacy works on our mobile applications. We provide our users with adequate and timely notices as to what data are being collected, and we undertake to manage and use the data collected in accordance with applicable laws and make reasonable efforts to prevent unauthorized use, loss or leak of such user data. Our users may opt out of personal data collection or choose to have personal data erased from our servers.

**Protection.** We have adopted comprehensive policies, procedures and guidelines to regulate our employees' actions in relation to user data in order to protect user privacy and cyber security. We also have adopted a strict access control mechanism to ensure implementation of least privilege and need-to-know principles and to protect user privacy while meeting business requirements. For instance, we strictly limit the number and clearance level of personnel who may access user data or those servers that store user data. In addition, we employ a variety of technical solutions to prevent and detect risks and vulnerabilities in user privacy and cyber security, such as encryption, firewall, vulnerability scanning and log audit. For instance, we have built an internal compliance team which has privacy professionals who participate in new product and feature development and are dedicated to the ongoing review and monitoring of cyber security practices and security professionals who monitor internal and external security threats and risks. We store and transmit all user data in encrypted format on separate servers depending on each individual user's location. We do not share any input data from our users or any user insight data with third parties or allow third parties to access user data stored on our servers, and we also utilize firewalls to protect against potential cyber-attacks or unauthorized access. We periodically audit our systems and procedures to detect information security risks and privacy risks.



**Compliance.** Various laws and regulations, such as the General Data Protection Regulation in the European Union, California, Consumer Privacy Act in the United States and the Cyber Security Law of the PRC, govern the collection, use, retention, sharing, and security of the personal data we receive from and about our users. Privacy groups and government bodies have increasingly scrutinized the ways in which companies link personal identities and data associated with particular users with data collected through the internet, and we expect such scrutiny to continue to increase. We devote substantial amount of resources to the compliance with, and the prevention of any violation of, the laws and regulations relating to user privacy and cyber security. For additional information on our efforts to comply with applicable laws and regulations relating to user privacy and cyber security, see “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—If we fail to prevent security breaches, cyber-attacks or other unauthorized access to our systems or our users’ data, we may be exposed to significant consequences, including legal and financial exposure and loss of users, and our reputation, business and operating results may be materially and adversely affected.” and “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—Data privacy concerns relating to our products and current practices may, particularly in light of increased regulatory scrutiny of and user expectations regarding the processing, collection, use, storage, dissemination, transfer and disposal of user data, require changes to our business practices and may result in declines in user growth or engagement, increased costs of operations and threats of lawsuits, enforcement actions and related liabilities, including financial penalties.”

### **Competition**

We face intense competition for users, usage time and advertising customers. Our portfolio products compete with applications of the same or a similar kind. In addition, we compete with all major internet companies for user attention and advertising spending. Fengdu Novel competes with other leading free online literature applications in the Chinese market including Fanqie Novel and Qimao Novel. Readict competes with other online literature applications in the global market including Goodnovel and Dreame. Our mobile game products such as Hey Beauty and Merge Lover compete primarily with other mobile games developed by companies such as WebEye and Magic Tavern.

### **Seasonality**

We are subject to seasonality and other fluctuations in our business. Revenues from our mobile advertising services, which constituted a majority of our revenues in the year ended December 31, 2021, 2022 and 2023, are affected by seasonality in advertising spending in both international and China markets. We believe that such seasonality in advertising spending affects our quarterly results, partially resulting in the significant growth in our mobile advertising revenues between the first and the third quarters but a decline from the third quarter to the fourth quarter.

### **Insurance**

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

### **Legal Proceedings**

We may from time to time be subject to various legal or administrative claims and proceedings arising in the ordinary course of business. For more information, see “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings.”

### **Regulation**

We are an international company that is incorporated as a Cayman Islands exempted company under the laws of Cayman Islands. Our principal offices are located in mainland China while we have business operations around the world. As a result of this organizational structure and the scope of our operations, we are subject to a variety of laws in different countries, including those related to personal privacy, data protection, content restrictions, telecommunications, intellectual property, consumer protection, advertising and marketing, labor, foreign exchange, competition and taxation. These laws and regulations are constantly evolving and may be interpreted, implemented or amended in a manner that could harm our business. It also is likely that if our business grows and evolves and our products and services are used more globally, we will become subject to laws and regulations in additional jurisdictions. This section sets forth the summary of material laws and regulations relevant to our business operations.

## **Regulations Relating to Personal Privacy and Data Protection**

In the area of personal privacy and data protection, we are subject to the laws in various jurisdictions where our products are available for use, and such laws and regulations can impose stringent requirements. Such requirements also vary from jurisdiction to jurisdiction. Many jurisdictions, including mainland China and the United States, continue to consider the need for greater regulation or reform to the existing regulatory framework.

In the United States, there is no single comprehensive national law governing the collection and use of user data or personal information. Instead, the U.S. has both federal and state laws in parallel and regulations that sometimes overlap and even contradict one another. In addition, there are many guidelines developed by government authorities and industry groups that, although lacking the force of law, are considered “best practices” and are relied upon for setting standards. All states in the U.S. have now passed laws to regulate the actions that a business must take in the event of a data breach, such as prompt disclosure and notification to affected users and regulatory authorities. In addition, some states have enacted statutes and rules requiring businesses to reasonably protect certain types of personal information they hold or to otherwise comply with certain specified cyber security requirements for personal information. At the federal level, the Federal Trade Commission Act is a federal consumer protection law that prohibits unfair or deceptive practices and has been applied to offline and online privacy and cyber security policies. The Federal Trade Commission empowered by the Federal Trade Commission Act, oversees consumer privacy compliance of most companies doing business in the U.S. and provides various guidelines regarding privacy and security practices for different industries. The Federal Trade Commission has brought many enforcement actions against companies for failing to comply with their own privacy policies and for the unauthorized disclosure of personal data. The U.S. federal and state legislatures will likely continue to consider the need for greater regulation aimed at restricting certain targeted advertising practices.

In the European Union, the General Data Protection Regulation which came into effect on May 25, 2018, increased our burden of regulatory compliance and requires us to change certain of our privacy and cyber security practices in order to achieve compliance. The regulation applies to any company established in the EU as well as any company outside the European Union that processes personal data in connection with the offering of goods or services to individuals in the European Union or the monitoring of their behavior. The regulation implements more stringent operational requirements for processors and controllers of personal data, including, for example, requiring expanded disclosures about how personal information is to be used, limitations on retention of information, mandatory data breach notification requirements, and higher standards for data controllers to demonstrate that they have obtained either valid consent or have another legal basis in place to justify their data processing activities. The regulation further provides that EU member states may make their own additional laws and regulations in relation to certain data processing activities, which could further limit our ability to use and share personal data and could require localized changes to our operating model. Under the regulation, fines of up to 20 million euros or up to 4% of the total worldwide annual turnover of the preceding financial year, whichever is higher, may be assessed for non-compliance, which significantly increases our potential financial exposure for non-compliance. However, in the absence of precedence and guidance from EU regulators, the application of the regulation to the provision of internet services remains unsettled. Moreover, the implementation of the regulation may require substantial amendments to our procedures and policies, and these changes could impact our business by increasing its operational and compliance costs. The Company has adopted policies and procedures in compliance with the regulation, however, such policies and procedures may need to be updated when additional information concerning the best practices is made available through guidance from regulators or published enforcement decisions.

PRC government authorities have enacted legislation on internet use to protect personal information from any unauthorized disclosure. The Decision on Strengthening Network Information Protection promulgated by the PRC National People's Congress in December 2012 provides that electronic information that identifies a citizen or involves privacy of any citizen is protected by law and must not be unlawfully collected or provided to others. ICP operators collecting or using personal electronic information of citizens must specify the purposes, manners and scopes of information collection and uses, obtain consent of the relevant citizens, and keep the collected personal information confidential. ICP operators are prohibited from disclosing, tampering with, damaging, selling or illegally providing others with, collected personal information. ICP operators are required to take technical and other measures to prevent the collected personal information from any unauthorized disclosure, damage or loss. The Administrative Measures on Internet Information Services prohibit an ICP operator from insulting or slandering a third party or infringing upon the lawful rights and interests of a third party. According to the Provisions on Protection of Personal Information of Telecommunication and Internet Users, which was promulgated by the Ministry of Industry and Information Technology and became effective in September 2013, telecommunication business operators and ICP operators are responsible for the security of the personal information of users they collect or use in the course of their provision of services. Without obtaining the consent from the users, telecommunication business operators and ICP operators may not collect or use the users' personal information. The personal information collected or used in the course of provision of services by the telecommunication business operators or ICP operators must be kept in strict confidence, and may not be divulged, tampered with or damaged, and may not be sold or illegally provided to others. The ICP operators are required to take certain measures to prevent any divulgence of, damage to, tampering with or loss of users' personal information. In accordance with the Cyber Security Law, network operators are required to collect and use personal information in compliance with the principles of legitimacy, properness and necessity, and strictly within the scope of authorization by the subject of personal information unless otherwise prescribed by laws or regulations. In the event of any unauthorized disclosure, damage or loss of collected personal information, network operators must take immediate remedial measures, notify the affected users and report the incidents to the authorities in a timely manner. If any user knows that a network operator illegally collects and uses his or her personal information in violation of laws, regulations or any agreement with the user, or the collected and stored personal information is inaccurate or wrong, the user has the right to request the network operator to delete or correct the collected personal information.

The telecommunications authorities are further authorized to order ICP operators to rectify unauthorized disclosure. ICP operators are subject to legal liability, including warnings, fines, confiscation of illegal gains, revocation of licenses or filings, closing of the websites, administrative punishment, criminal liabilities, or civil liabilities, if they violate provisions on internet privacy. Pursuant to the Ninth Amendment to the Criminal Law issued by the Standing Committee of the National People's Congress in August 2015 and becoming effective in November 2015, the standards of crime of infringing citizens' personal information were amended accordingly and the criminal culpability of unlawful collection, transaction, and provision of personal information has been reinforced. In addition, any ICP provider that fails to fulfill the obligations related to internet information security administration as required by applicable laws and refuses to rectify upon orders, will be subject to criminal liability for (i) any dissemination of illegal information in large scale; (ii) any severe effect due to the leakage of the client's information; (iii) any serious loss of evidence of criminal activities; or (iv) other severe situations, and any individual or entity that (x) sells or provides personal information to others unlawfully, or (y) steals or illegally obtains any personal information, will be subject to criminal liability in severe situations. In addition, the Interpretations of the Supreme People's Court and the Supreme People's Procuratorate of the PRC on Several Issues Concerning the Application of Law in Handling Criminal Cases of Infringing Personal Information, effective in June 2017, have clarified certain standards for the conviction and sentencing in relation to personal information infringement. The PRC government has the power and authority to order ICP operators to turn over personal information if an internet user posts any prohibited content or engages in illegal activities on the internet. The Civil Code further provides in a stand-alone chapter of right of personality and reiterate that the personal information of a natural person shall be protected by the law. Any organization or individual shall legitimately obtain such personal information of others in due course on a need-to-know basis and ensure the safety and privacy of such information, and refrain from excessively handling or using such information.

With respect to the security of information collected and used by mobile apps, pursuant to the Announcement of Conducting Special Supervision against the Illegal Collection and Use of Personal Information by Apps, which was issued on January 23, 2019, app operators should collect and use personal information in compliance with the Cyber Security Law and should be responsible for the security of personal information obtained from users and take effective measures to strengthen the personal information protection. Furthermore, app operators should not force their users to make authorization by means of bundling, suspending installation or in other default forms and should not collect personal information in violation of laws, regulations or breach of user agreements. Such regulatory requirements were emphasized by the Notice on the Special Rectification of Apps Infringing upon User's Personal Rights and Interests, which was issued by the Ministry of Industry and Information Technology on October 31, 2019. On November 28, 2019, the Cyberspace Administration of China, the Ministry of Industry and Information Technology, the Ministry of Public Security and the State Administration for Market Regulation jointly issued the Methods of Identifying Illegal Acts of Apps to Collect and Use Personal Information. This regulation further illustrates certain commonly seen illegal practices of apps operators in terms of personal information protection, including "failure to publicize rules for collecting and using personal information," "failure to expressly state the purpose, manner and scope of collecting and using personal information," "collection and use of personal information without consent of users of such App," "collecting personal information irrelevant to the services provided by such app in violation of the principle of necessity," "provision of personal information to others without users' consent," "failure to provide the function of deleting or correcting personal information as required by laws" and "failure to publish information such as methods for complaints and reporting." Among others, any of the following acts of an app operator will constitute "collection and use of personal information without consent of users": (i) collecting an user's personal information or activating the permission for collecting any user's personal information without obtaining such user's consent; (ii) collecting personal information or activating the permission for collecting the personal information of any user who explicitly refuses such collection, or repeatedly seeking for user's consent such that the user's normal use of such app is disturbed; (iii) any user's personal information which has been actually collected by the app operator or the permission for collecting any user's personal information activated by the app operator is beyond the scope of personal information which such user authorizes such app operator to collect; (iv) seeking for any user's consent in a non-explicit manner; (v) modifying any user's settings for activating the permission for collecting any personal information without such user's consent; (vi) using users' personal information and any algorithms to directionally push any information, without providing the option of non-directed pushing such information; (vii) misleading users to permit collecting their personal information or activating the permission for collecting such users' personal information by improper methods such as fraud and deception; (viii) failing to provide users with the means and methods to withdraw their permission of collecting personal information; and (ix) collecting and using personal information in violation of the rules for collecting and using personal information promulgated by such app operator.

On August 22, 2019, the Cyberspace Administration of China promulgated the Children Information Protection Provisions, which took effect on October 1, 2019, requiring that before collecting, using, transferring or disclosing the personal information of a child, the Internet service operator should inform the child's guardians in a noticeable and clear manner and obtain their consents. Meanwhile, internet service operators should take measures like encryption when storing children's personal information.

On March 12, 2021, the Cyberspace Administration of China and three other authorities jointly issued the Rules on the Scope of Necessary Personal Information for Common Types of Mobile Internet Applications. The Rules specifies the scope of necessary personal information to be collected each for a variety of common mobile internet applications, such as maps and navigation apps, online ride-hailing apps, instant messaging apps, online community apps. Operators of such apps shall not refuse to provide basic services to users on the ground of users' refusal to provide their personal non-essential information.

On April 26, 2021, the Ministry of Industry and Information Technology issued the Interim Administrative Provisions on Personal Information Protection in Internet Mobile Applications (Draft for Comment). The draft of the Interim Administrative Provisions on Personal Information Protection in Internet Mobile Applications sets forth two principles of collection and utilization of personal information, namely "explicit consent" and "minimum necessity."

## Regulations Relating to Generative AI

On December 31, 2021, the Cyberspace Administration of China, the Ministry of Industry and Information Technology, the Ministry of Public Security and the State Administration for Market Regulation jointly made public the Administration Provisions on Algorithmic Recommendation of Internet Information Services, which became effective on March 1, 2022. The provisions apply to providers of internet information service leveraging algorithmic recommendation technologies, which include the use of algorithmic technologies such as generation and synthesis, personalized push, sorting and selection, retrieval and filtering, scheduling decision-making, etc. to provide information to users. The provisions set out further obligations on such providers to, among others, protect the interests and rights of the users, especially the interests and rights of minors, elders, and workers. In addition, the provisions state that an algorithm recommendation service provider with public opinion attribute or social mobilization ability shall, within ten working days from the date of provision of services, fill in such information as the service provider's name, service form, application field, algorithm type, algorithm internal assessment report and content to be disclosed via the internet information service algorithm record-filing system to go through record-filing formalities.

On November 25, 2022, the Cyberspace Administration of China, the Ministry of Industry and Information Technology and Ministry of Public Security jointly issued the Administrative Provisions on Deep Synthesis of Internet Information Services successively, which became effective on January 10, 2023. According to the provisions, deep synthesis technology refers to any technology that utilizes deep learning, virtual reality or any other generative or synthetic algorithm to produce text, images, audio, video, virtual scenes, or other network information. The provisions emphasize that the providers of deep synthesis services, as the primary entities responsible for the information security, should not use deep synthesis services to engage in activities prohibited by laws and regulations.

On April 11, 2023, the Cyberspace Administration of China released draft Administrative Measures for Generative Artificial Intelligence Services for public consultation. The deadline for submitting comments is May 10, 2023. These draft measures apply to research and development into, as well as the use of, generative AI that is offered to the public within the territory of China. Providers of generative AI are required to, among others, adopt measures to filter any inappropriate content created by generative AI, optimize algorithms to prevent the generation of such content, apply to the Cyberspace Administration of China for a security assessment before offering a generative AI service to the public at large. Providers shall be responsible for the legitimacy of the pre-training data of the generated AI products and the source of the optimized training data and shall specify and disclose the applicable users, occasions and purposes of their services, and take appropriate measures to prevent users from over-reliance on or addiction to generated content. Besides, providers shall have the obligation to protect the information input by users and the use records. It is not allowed to illegally retain the input information from which the identity of a user can be deduced, draw a portrait based on the information input by a user and the use situation, or provide the information input by a user to others. A provider of generative AI that violates the requirements under these draft measures will be penalized in accordance with regulations, or receive warnings, be ordered to take corrective actions, suspend services, or pay fines, or be held criminally liable.

On July 13, 2023, the Cyberspace Administration of China and six other authorities jointly issued the Interim Measures for the Management of Generative Artificial Intelligence Services, effective on August 15, 2023. Any entity or individual that utilizes generative AI technology to provide texts, pictures, audio, video or other content generation services to the public within the territory of PRC shall assume the responsibility as a content producer for the content generated by generative AI technology. If personal information is involved, these providers are required to take the responsibility as the personal information processors and protect personal information. Those providing generative artificial intelligence services with public opinion attributes or the capacity for social mobilization must apply for a security assessment from the national cyberspace authority and follow algorithm filings procedures. If any illegal generated content is discovered, these providers must timely take measures such as termination of generation and transmission of inappropriate content, prevent the recurrence through model optimization training and other methods, and report to the authorities. These providers shall label pictures, videos, and other AI-generated content in accordance with the Administrative Provisions on Deep Synthesis of Internet Information Services.

In February 2024, the National Technical Committee on Cybersecurity Standardization issued the Basic Security Requirements for Generative Artificial Intelligence Service, which stipulated the basic safety requirements for generative artificial intelligence including requirements for training data security, model security and safety precautions, and provided requirements for safety evaluations. Service providers should conduct safety evaluations before launching or making any material change to the generative artificial intelligence services. Service providers are also required to assess whether these services are suitable for minors.

## Regulations Relating to Cyber Security

The PRC Congress promulgated the PRC Cybersecurity Law, effective in June 2017. Under the Cybersecurity Law, “network operators” are broadly defined as network owners, network administrator, and network service providers are subject to various security protection-related obligations. As a network service provider, our obligations include:

- complying with security protection obligations in accordance with tiered requirements with respect to maintenance of the security of internet systems, which include designing internal security management rules and developing manuals, appointing personnel in charge of internet security, adopting measures to prevent computer viruses and activities that threaten internet security, adopting measures to monitor and record status of network operations, holding Internet security training events, retaining user logs for at least six months, and adopting measures such as data classification, key data back-up, and encryption for the purpose of securing networks from interference, vandalism, or unauthorized visits, and preventing network data from leakage, theft, or tampering; and
- verifying users’ identities before signing agreements or providing services such as network access, domain name registration, landline telephone or mobile phone access, information publishing, or real-time communication services; and formulating internet security emergency response plans, timely handling security risks, initiating emergency response plans, taking appropriate remedial measures, and reporting to governmental authorities;

Under the Cybersecurity Law, network service providers must inform users about and report to the governmental authorities any known security defects or bugs, and must provide constant security maintenance services for their products and services. Network products and service providers may not contain or provide any malware. Network service providers who do not comply with the Cybersecurity Law may be subject to fines, suspension of their businesses, shutdown of their websites, and revocation of their business licenses.

The Provisions on Technological Measures for Internet Security Protection, promulgated by the Ministry of Public Security and became effective in March 2006, require all ICP operators to keep records of certain information about its users (including user registration information, log-in and log-out time, IP address, content and time of posts by users) for at least 60 days and submit the above information as required by laws and regulations. The Decision on Strengthening Network Information Protection which was promulgated by the PRC National People’s Congress in December 2012, states that ICP operators must request identity information from users when ICP operators provide information publication services to the users. If ICP operators come across prohibited information, they must immediately cease the transmission of such information, delete the information, keep records, and report to government authorities.

In addition, the State Secrecy Bureau has issued provisions authorizing the blocking of access to any website it deems to be leaking state secrets or failing to comply with the legislation regarding the protection of state secrets during online information distribution. Specifically, internet companies in mainland China with bulletin boards, chat rooms or similar services must apply for specific approval prior to operating such services.

On August 20, 2021, the Standing Committee of the National Peoples’ Congress promulgated the Personal Information Protection Law, which integrates the scattered rules with respect to personal information rights and privacy protection.

For the further purposes of regulating data processing activities, safeguarding cyber security, promoting data development and utilization, protecting the lawful rights and interests of individuals and organizations, and maintaining national sovereignty, security, and development interests, on June 10, 2021, Standing Committee of the PRC National People's Congress published the Data Security Law of the People's Republic of China, which took effect on September 1, 2021. The Data Security Law requires data processing, which includes the collection, storage, use, processing, transmission, provision, publication of data, to be conducted in a legitimate and proper manner. The Data Security Law provides for cyber security and privacy obligations on entities and individuals carrying out data activities. The Data Security Law also introduces a data classification and hierarchical protection system based on the importance of data in economic and social development, and the degree of harm it may cause to national security, public interests, or legitimate rights and interests of individuals or organizations if such data are tampered with, destroyed, leaked, illegally acquired or illegally used. The appropriate level of protection measures is required to be taken for each respective category of data. For example, a processor of important data is required to designate the personnel and the management body responsible for cyber security, carry out risk assessments of its data processing activities and file the risk assessment reports with the competent authorities. State core data, i.e., data having a bearing on national security, the lifelines of national economy, people's key livelihood and major public interests, shall be subject to stricter management system. Moreover, the Data Security Law provides a national security review procedure for those data activities which affect or may affect national security and imposes export restrictions on certain data and information. In addition, the Data Security Law also provides that any organization or individual within the territory of the PRC shall not provide any foreign judicial body and law enforcement body with any data without the approval of the competent PRC governmental authorities. We may be required to make further adjustments to our business practices to comply with this law, as well as any adjustments that may be required by the Personal Information Protection Law.

On July 6, 2021, certain PRC regulatory authorities issued Opinions on Strictly Cracking Down on Illegal Securities Activities, which, among others, provides for improving laws and regulations on cyber security, cross-border data transmission, and confidential information management. It provided that efforts will be made to revise the regulations on strengthening the confidentiality and file management relating to the offering and listing of securities overseas, to implement the responsibility on information security of overseas listed companies, and to strengthen the standardized management of cross-border information provision mechanisms and procedures. On February 24, 2023, the CSRC and three other authorities issued the Provisions on Strengthening the Confidentiality and Archives Administration of Overseas Securities Issuance and Listing by Domestic Companies, with effect from March 31, 2023.

On December 28, 2021, the Cyberspace Administration of China issued the Measures for Cyber Security Review. The scope of review under the Measures for Cyber Security Review extends to critical information infrastructure operators that intend to purchase internet products and services and internet platform operators engaging in data processing activities, which affect or may affect national security. According to the Measures for Cyber Security Review, internet platform operators who possess personal information of over a million users shall apply to the Cyber Security Review Office for cyber security reviews before listing in a foreign country. If the authorities consider that certain network products and services, data processing activities and listings in foreign countries affect or may affect national security, the authorities may initiate a cyber security review even if the operators do not have an obligation to report for a cyber security review under such circumstances. The Measures for Cyber Security Review also elaborated the factors to be considered when assessing the national security risks of the activities, including among others, risks of core data, important data or a large amount of personal information being stolen, leaked, destroyed, and illegally used or exited the country and risks of critical information infrastructure, core data, important data or a large amount of personal information data being affected, controlled and maliciously used by foreign governments after a foreign listing. However, the Measures for Cyber Security Review remain unclear on whether companies that have been listed on a U.S. stock exchange or whose securities are trading in the United States are required to make applications.

On July 30, 2021, the State Council issued the Regulations on Protection of Critical Information Infrastructure, pursuant to which, critical information infrastructure shall mean the important network facilities or information systems of key industries or fields such as public communication and information service, energy, transportation, water conservation, finance, public services, e-government affairs and national defense science, and important network facilities or information systems which may endanger national security, people's livelihood and public interest once there occur damage, malfunctioning or data leakage to them. The Regulations provide that no individual or organization may carry out any illegal activity of intruding into, interfering with, or sabotaging any critical information infrastructures, or endanger the security of any critical information infrastructures. The Regulations also require that critical information infrastructure operators shall establish a cyber security protection system and accountability system, and that the main responsible person of a critical information infrastructure operator shall take full responsibility for the security protection of the critical information infrastructures operated by it. In addition, administration departments of each important industry and sector shall be responsible for formulating the rule of critical information infrastructure determination applicable to their respective industry or sector, and determine the critical information infrastructure operators in their industry or sector.

On July 12, 2021, the Ministry of Industry and Information Technology and two other authorities jointly issued the Provisions on the Administration of Security Vulnerabilities of Network Products. These provisions state that, no organization or individual may abuse the security vulnerabilities of network products to engage in activities that endanger network security, or to illegally collect, sell, or publish the information on such security vulnerabilities. Anyone who is aware of the aforesaid offenses shall not provide technical support, advertising, payment settlement and other assistance to the offenders. According to these provisions, network product providers, network operators, and platforms collecting network product security vulnerabilities shall establish and improve channels for receiving network product security vulnerability information and keep such channels available, and retain network product security vulnerability information reception logs for at least six months. The Provisions also bans provision of undisclosed vulnerabilities to overseas organizations or individuals other than to the product providers.

On August 20, 2021, the Standing Committee of the National People's Congress of China promulgated the Personal Information Protection Law, which integrates the scattered rules with respect to personal information rights and privacy protection and took effect on November 1, 2021. The Personal Information Protection Law requires, among others, that (i) the processing of personal information should have a clear and reasonable purpose which should be directly related to the processing purpose and should be conducted in a method that has the minimum impact on personal rights and interests, and (ii) the collection of personal information should be limited to the minimum scope as necessary to achieve the processing purpose and avoid the excessive collection of personal information. Personal information processors shall adopt necessary measures to safeguard the security of the personal information they handle. The offending entities could be ordered to correct, or to suspend or terminate the provision of services, and face confiscation of illegal income, fines or other penalties.



On November 14, 2021, the Cyberspace Administration of China published a discussion draft of the Administrative Measures for Internet Data Security, which provides that data processors conducting the following activities shall apply for cybersecurity review: (i) merger, reorganization or separation of Internet platform operators that have acquired a large number of data resources related to national security, economic development or public interests affects or may affect national security; (ii) listing abroad of data processors processing over one million users' personal information; (iii) listing in Hong Kong which affects or may affect national security; (iv) other data processing activities that affect or may affect national security. This draft also provided that operators of large Internet platforms that set up headquarters, operation centers or R&D centers overseas shall report to the national cyberspace administration and competent authorities. In addition, the draft administrative measures require data processors processing over one million users' personal information to comply with the regulations on important data processors, including, among others, appointing a person in charge of data security and establishing a data security management organization, filing with the competent authority within fifteen working days after identifying its important data, formulating data security training plans and organizing data security education and training for all staff every year, and that the education and training time of data security related technical and management personnel shall not be less than 20 hours per year. The draft administrative measures also stated that data processors processing important data or going public overseas shall conduct an annual data security assessment by themselves or entrust a data security service institution to do so, and submit the data security assessment report of the previous year to the local branch of the Cyberspace Administration of China before January 31 of each year. Further, the draft administrative measures required internet platform operators to establish platform rules, privacy policies and algorithm strategies related to data, and solicit public comments on their official websites and personal information protection related sections for no less than 30 working days when they formulate platform rules or privacy policies or makes any amendments that may have a significant impact on users' rights and interests. Further, platform rules and privacy policies formulated by operators of large Internet platforms with more than 100 million daily active users, or amendments to such rules or policies by operators of large Internet platforms with more than 100 million daily active users that may have significant impacts on users' rights and interests shall be evaluated by a third-party organization designated by the Cyberspace Administration of China and reported to local branch of the Cyberspace Administration of China for approval. The Cyberspace Administration of China solicited comments on this draft, but there is no timetable as to when it will be enacted. The draft administrative measures remain unclear on whether the requirements will be applicable to companies that have been listed on a U.S. stock exchange or whose securities are trading in the United States. We cannot predict the impact of the draft administrative measures, if any, at this stage, and we will closely monitor and assess any development in the rule-making process. If the enacted versions of the draft administrative measures mandate clearance of cyber security review and other specific actions to be completed by mainland China-based companies that have been listed on a U.S. stock exchange or whose securities are trading in the United States, we face uncertainties as to whether such clearance can be timely obtained, or at all. If a final version of the draft administrative measures is adopted, we may be subject to review when conducting data processing activities and annual cyber security assessment and may face challenges in addressing its requirements and make necessary changes to our internal policies and practices in data processing.

The PRC government authorities further enhanced the supervision and regulation of cross-border data transmission. On July 7, 2022, the Cyberspace Administration of China promulgated the Measures for the Security Assessment of Cross-border Data Transfer, which became effective on September 1, 2022. In accordance with these measures, data processors will be subject to security assessment conducted by the Cyberspace Administration of China prior to any cross-border transfer of data if the transfer involves (i) important data; (ii) personal information transferred overseas by operators of critical information infrastructure or a data processor that has processed personal data of more than one million persons; (iii) personal information transferred overseas by a data processor which has already provided personal data of 100,000 persons or sensitive personal data of 10,000 persons overseas since January 1 of the preceding year; or (iv) other circumstances as requested by the Cyberspace Administration of China. Furthermore, data processors shall conduct internal assessment on the risks of cross-border data transfer prior to their applying for the security assessment and focus on assessment of the following significant matters, including, among others: (i) the legality and necessity of the purpose, scope and method of cross-border data transfer; (ii) the scale, scope, type and sensitivity of data transferred overseas, and risks to the national security, public interests or legitimate rights of individuals or organizations caused by such cross-border data transfer; (iii) the responsibilities and obligations that the overseas recipient of such data promises to undertake, and whether such overseas recipient's management and technical measures and capabilities for performing its responsibilities and obligations can guarantee the security of cross-border data transfer; (iv) the risks that the data transferred overseas may be falsified, destroyed, divulged, lost, transferred, illegally obtained or illegally used during and after the cross-border transfer, and whether the channel for the maintenance of personal information rights and interests is smooth; (v) whether contracts or other legally binding documents entered into with the overseas recipient have fully stipulated the responsibilities and obligations to protect data security. In addition, any cross-border data transfer activities conducted in violation of the Measures for the Security Assessment of Cross-border Data Transfer before the effectiveness of such measures are required to be rectified within six months of the effectiveness date thereof.

On October 21, 2019, the Supreme People's Court and the Supreme People's Procuratorate of the PRC jointly issued the Interpretations on Certain Issues Regarding the Applicable of Law in the Handling of Criminal Case Involving Illegal Use of Information Networks and Assisting Committing Internet Crimes, which came into effect on November 1, 2019, and further clarifies the meaning of Internet service provider and the severe situations of the crimes.

### **Regulations Relating to Foreign Investment**

***Negative List and Encouraged Industry Guidelines Related to Foreign Investment.*** Investment activities in mainland China by foreign investors are principally governed by the Special Administrative Measures (Negative List) for Access to Foreign Investment (2021 Revision), which was promulgated by the Ministry of Commerce of the PRC, and the National Development and Reform Commission, as amended from time to time, and the Catalogue of Encouraged Industries for Foreign Investment (2022 Revision), or Encouraged Industry Catalogue, issued by the Ministry of Commerce and the National Development and Reform Commission.

If foreign investment falls into industries specified in the Special Administrative Measures (Negative List) for Access to Foreign Investment (2021 Revision), special administrative measures shall apply, such as the percentage of foreign invested equity interests and background and quality of senior management. According to this negative list, the proportion of foreign investments in entities engaged in value-added telecommunications business shall not exceed 50%, except for e-commerce, domestic multi-party communication, store-and-forward service, and call centers service. The online transmission of audio-visual programs business, online publishing services and online cultural business (except for music) remain as prohibited industries for foreign investment.

***Foreign Investment in Telecommunication Business.*** Regulations for Administration of Foreign-Invested Telecommunications Enterprises promulgated by the PRC State Council in 2001 and most recently amended on March 29, 2022, effective on May 1, 2022, requires that in general, the foreign party to a foreign-invested telecommunications enterprise engaging in value-added telecommunications services may hold up to 50% of the equity of the foreign-invested telecommunications enterprise, of which the geographical area it may conduct telecommunications services is provided by the Ministry of Industry and Information Technology in accordance with provisions as mentioned above. According to the amended regulations, the previous requirement on the primary foreign investor's experience and good track record has been canceled. However, this modification is relatively new, uncertainties still exist in relation to its interpretation and implementation. A foreign investor is not allowed to hold more than 50% of the total equity interest in value-added telecommunications service business, except for e-commerce, domestic multi-party communication, store-and-forward service, and call centers service in mainland China. The Ministry of Industry and Information Technology issued an Announcement on Issues concerning the Provision of Telecommunication Services in Mainland China by Service Providers from Hong Kong and Macau, allowing investors from Hong Kong and Macau to hold more than 50% of the equity in foreign-invested telecommunications enterprises engaging in certain specified categories of value-added telecommunications services.

In 2006, the Ministry of Information Industry, the predecessor of the Ministry of Industry and Information Technology, issued the Circular on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business, pursuant to which, a PRC company that holds a license for providing internet information services is prohibited from leasing, transferring or selling the license to foreign investors in any form, and from providing any assistance, including providing resources, sites or facilities, to foreign investors to conduct value-added telecommunications businesses illegally in mainland China. Furthermore, the trademarks and domain names that are used in the provision of internet content services must be owned by the ICP operator or its shareholders. In addition, an ICP operator shall have appropriate facilities for its approved business operations and to maintain such facilities in the regions covered by its license.

In view of these restrictions on foreign direct investment in the value-added telecommunications sector, we established PRC domestic companies to engage in value-added telecommunications services through a series of contractual agreements with the VIEs and their shareholders.

**Foreign Investment in Online Games.** In September 2009, the General Administration of Press and Publication (the predecessor of the State Administration of Radio and Television), together with the National Copyright Administration and the National Office of Combating Pornography and Illegal Publications, jointly issued a Notice on Further Strengthening on the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games. This notice states that foreign investors are not permitted to invest in online game operating businesses in mainland China via wholly foreign-owned entities, Chinese-foreign equity joint ventures or cooperative joint ventures or to exercise control over or participate in the operation of domestic online game businesses through indirect means, such as other joint venture companies or contractual or technical arrangements. In view of these restrictions on foreign direct investment in the online games sector, we established PRC domestic companies to engage in the provision of online games mobile apps through a series of contractual agreements with the VIEs and their shareholders.

Due to a lack of interpretative materials from the PRC governmental authorities, there are uncertainties regarding whether PRC governmental authorities would consider our corporate structure and contractual arrangements to constitute foreign ownership of a telecommunications business or an online games business. In order to comply with PRC regulatory requirements, we operate a portion of our business through the VIEs, with which we have contractual relationships but in which we do not have an actual ownership interest. If our current ownership structure is found to be in violation of current or future PRC laws, rules or regulations regarding the legality of foreign investment in the internet sector in mainland China, we could be subject to severe penalties.

### **Regulations Relating to Telecommunications Services**

In 2000, the State Council promulgated the Telecommunications Regulations, as most recently amended in February 2016, which set out the general framework for regulating telecommunication services by PRC companies. The Telecommunications Regulations differ “basic telecommunications services” from “value-added telecommunications services.” The Catalogue of Telecommunications Business, most recently updated in June 2019, categorizes information services, internet data centers and internet access as value-added telecommunications services.

In 2000, the State Council issued the Measures for the Administration of Internet Information Services, as most recently amended in January 2011. These measures define “internet information services” as the services of providing internet information to online users, which is further divided into “commercial internet information services” and “non-commercial internet information services.” A commercial internet information services operator must obtain a value-added telecommunications services license for internet information services from the Ministry of Industry and Information Technology or its local branch at the provincial or municipal level in accordance with the Telecommunications Regulations before providing any commercial internet information services in mainland China. Our business includes providing VoIP services and other value-added telecommunications services such as internet information service.

The measures further stipulate that entities providing online information services regarding news, publishing, education, medicine, health, pharmaceuticals and medical equipment must procure the consent of the national authorities responsible for such areas prior to applying for an operating license from the Ministry of Industry and Information Technology or its local branch at the provincial or municipal level. Moreover, ICP operators must display their operating license numbers in conspicuous locations on their home pages. ICP operators are required to police their internet platforms and remove certain prohibited content. Many of these requirements mirror internet content restrictions that have been announced previously by PRC ministries, such as the Ministry of Industry and Information Technology, and the Ministry of Culture and Tourism of the PRC, formerly the Ministry of Culture.

The Measures on the Administration of Telecommunications Business Operating Permit, promulgated by the Ministry of Industry and Information Technology in 2009 and most recently amended in July 2017, sets forth detailed activities that an enterprise are permitted to conduct under their licenses. A commercial telecommunication service operator must first obtain a value-added telecommunications services license from the Ministry of Industry and Information Technology, or its provincial level authorities if providing mere inter-provincial services. A licensed telecommunication services operator must conduct its business, whether basic or value-added, in accordance with the specifications in its Telecommunications Services Operating License.

The Cyberspace Administration of China promulgated the Administrative Provisions on Mobile Internet Applications Information Services on June 14, 2022 and became effective on August 1, 2022. Under these provisions, mobile application providers are prohibited from engaging in any activity that may endanger national security, disturb the social order, or infringe the legal rights of third parties, and may not produce, copy, issue or disseminate through internet mobile applications any content prohibited by laws and regulations. These provisions also require application providers to obtain the qualifications required by laws and regulations for providing services through such applications.

We currently hold seven Value-added Telecommunications Services Operating Licenses.

### **Regulations Relating to Internet Publication Services**

The State Administration of Radio and Television, formerly known as the State Administration of Press, Publication, Radio, Film and Television, as integrated from the State Administration of Radio, Film and Television, and the General Administration of Press and Publication, in March 2018 as a result of institutional reform, is the government agency responsible for regulating publication activities in mainland China. In June 2002, the Ministry of Industry and Information Technology and the General Administration of Press and Publication jointly promulgated the Interim Administrative Measures on Internet Publication, which require internet publishers to obtain a license from the General Administration of Press and Publication to conduct internet publication activities.

In February 2016, the State Administration of Press, Publication, Radio, Film and Television and the Ministry of Industry and Information Technology jointly issued the Administrative Measures for Internet Publication Services, which took effect in March 2016. The Administrative Measures for Internet Publication Services further strengthened and expanded the supervision and management on the internet publication services. Pursuant to the Administrative Measures for Internet Publication Services, entities engaging in the internet publication service are required to obtain an internet publication service license from the State Administration of Radio and Television. Internet Publication Services refer to the activities of providing internet publications to the public through information networks, and the internet publications refer to the digitalized works with the publishing features such as editing, producing and processing, including e-books and online games. In the event of failure to obtain the licenses and approvals, an operator may face heavy penalties, such as being ordered by the regulatory authority to shut down services and delete all internet publications. The regulatory authority may also confiscate all of such operator's illegal income as well as major equipment and specialized tools used in illegal publishing activities. If the illegal income exceeds RMB10,000, such operator may face a fine of five to ten times of such illegal income; and if the illegal income is less than RMB10,000, such operator may face a fine of less than RMB50,000. Such operator may also bear civil liability if its operation has infringed on other persons' legal rights and interests.

In May 2016, the State Administration of Press, Publication, Radio, Film and Television issued a Notice on Administration of Mobile Game Publishing Services, effective in July 2016, which provides that the content of mobile games is subject to its review, and that mobile game publishers and operators must apply for publishing and authorization codes for the games. Under this notice, significant upgrades and expansion packs for mobile games that have previously been approved for publishing could be regarded as new works, and the operators will be required to obtain approval for such upgrades and expansion packs before they are released. In the event of any failure to meet these license and approval requirements, an operator may face heavy penalties, such as being ordered to stop operation, or having its business license revoked. As of the date of this annual report, we have not obtained the approval for our internet publication service license and publication codes for those domestic online games we operate. We are applying for publication codes for certain future online games.

### **Regulations Relating to Internet Audio-Visual Program Services**

The State Administration of Radio and Television and the Ministry of Industry and Information Technology jointly issued the Administrative Provisions for the Internet Audio-Video Program Service in 2007 which was amended in August 2015. The provisions define “internet audio-visual programs services” as the production, edition and integration of audio-video programs, the supply of audio-video programs to the public via the internet, and providing uploading and audio-video programs transmission services to a third party. Entities engaging in internet audio-visual programs services must obtain internet audio-visual program transmission licenses, which will only be issued to state-owned or state-controlled entities unless the license applicants have obtained internet audio-visual program transmission licenses prior to the promulgation of the provisions in accordance with the then-in-effect laws and regulations. According to the Categories of the Internet Audio-Video Program Services promulgated by the State Administration of Radio and Television in March 2017, “aggregation of internet audio-visual programs,” meaning “editing and arranging the internet audio-visual programs on the same website and providing searching and watching services to public users,” falls into the definition of the aforementioned “internet audio-visual programs services.” As of the date of this annual report, we have not obtained the internet audio-visual program transmission license for our business.

### **Regulations Relating to Online Cultural Products**

In 2011 and as amended in 2017, the Ministry of Culture and Tourism issued the Provisional Regulations for the Administration of Online Culture, which applies to entities engaging in activities related to “online cultural products,” including the cultural products that are produced specially for internet use, such as online music and entertainment, online games, online plays, online performances, online art works and Web animations, and those cultural products that, through technical means, produce or reproduce music, entertainment, games, plays and other art works for internet dissemination. Further, commercial entities are required to apply to the local branch of the Ministry of Culture and Tourism for an Online Culture Operating Permit if they engage in any of the following types of activities:

- the production, duplication, importation, release or broadcasting of online cultural products;
- the dissemination of online cultural products on the internet or transmission thereof via internet or mobile phone networks to users’ terminals such as computers, fixed-line or mobile phones, television sets, gaming consoles and internet surfing service sites such as internet cafés for the purpose of browsing, using or downloading such products; or
- the exhibition or holding of contests related to online cultural products.

The Ministry of Culture and Tourism issued a Notice on Strengthening the Administration of Online Performance in July 2016, and the Measures of Administration of Online Performance Operating Activities, effective in January 2017. The notice and measures both stipulate that online performance service providers must obtain Online Culture Operating Permits and that online performances must not contain any content that is horrific, cruel, violent, vulgar or humiliating in nature, mocking persons with disabilities, including photographs or video clips that infringing on third parties’ privacy or other rights, featuring animal abuse, or presenting characters or other features of online games that have not been registered and approved for publication by applicable PRC governmental authorities. A violator of these regulations may face an order of correction from competent authorities, or be subject to confiscation of illegal proceeds or a fine. If the violation is severe, competent authorities may order the violator to cease its operation for rectification, revoke the violator’s Online Culture Operating Permit, or impose applicable criminal liability.

We currently hold two Online Culture Operating Permits.

### **Regulations Related to Online Games**

#### ***Regulatory Authorities and Restriction on Foreign Investment***

The establishment, operation, and management of companies in China are governed by the PRC Company Law, as last amended on December 29, 2023 and effective on July 1, 2024. According to the PRC Company Law, a company established in the PRC may take the form of a limited liability company or a joint stock company with limited liability. Each company is an independent legal entity with property rights. Foreign-invested companies established in PRC are also subject to the PRC Company Law. Shareholders of a limited liability company must fully pay in their subscribed registered capital within five years from the date of establishment of this company. Companies established before July 1, 2024 shall gradually adjust their capital contribution to meet this new requirement.

In 2008, the General Office of the State Council issued a circular, pursuant to which, the General Administration of Press and Publication is responsible for the examination and approval of online games prior to the online publication, while the Ministry of Culture is responsible for regulating the online game market. In 2009, the General Administration of Press and Publication, the National Copyright Administration and the National Office of Combating Pornography and Illegal Publications jointly published the Notice Regarding the Consistent Implementation of the “Stipulations on ‘Three Provisions’ of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Internet Games and the Examination and Approval of Imported Internet Games,” which expressly requires that all online games need to be screened by the General Administration of Press and Publication through the pre-approvals before they can be operated online, and any updated online game versions or any change to the online games shall be subject to further pre-approvals before they can be operated online.

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

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

#### ***Online Game Examination and Publishing***

Pursuant to the Administrative Measures for Internet Publication Services jointly promulgated by the State Administration of Press, Publication, Radio, Film and Television and the Ministry of Industry and Information Technology in February 2016, online publications such as games provided to the public through information networks must be approved by the State Administration of Press, Publication, Radio, Film and Television and the service operator must obtain an internet publication service license. An online publishing service provider shall first file an application with the competent provincial-level counterpart of the State Administration of Press, Publication, Radio, Film and Television in the place where it is located and the application, if approved, shall be submitted to the State Administration of Press, Publication, Radio, Film and Television for approval. For the publishing of online games authorized by foreign copyright owners, the online publishing service provider shall obtain legal authorization for the copyright and complete the approval formalities.

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

The Central Committee of the Communist Party of China issued the Plan for Deepening the Institutional Reform of the Party and State and the National People's Congress adopted the Institutional Reform Plan of the State Council in March 2018. According to these plans, the State Administration of Press, Publication, Radio, Film and Television was reformed and now known as the State Administration of Radio and Television and the National Administration of Press and Publication. Concurrently with the implementation of this reformation, the assessment and pre-approval on domestic and foreign developed online games had been suspended during April to December 2018 and had resumed since December 2018. After this reorganization, companies need to apply with the National Administration of Press and Publication for the approvals publishing the online games. As of the date of this annual report, we have not obtained the approval for our internet publication service license and publication codes for those domestic online games we operate. We are applying for publication codes for certain future online games.

### ***Online Game Operation***

In June 2010, the Ministry of Culture promulgated the Interim Measures on Administration of Online Games, as amended on December 15, 2017, which governed the research, development and operation of online games and the issuance and trading services of virtual currency. All operators of online games, issuers of virtual currency and providers of virtual currency trading services are required to obtain Online Culture Operation Permits. An Online Culture Operation Permit is valid for three years.

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

On July 23, 2019, the Ministry of Culture and Tourism announced the abolishment of the Interim Measures on Administration of Online Games. After the abolishment, the game operators are no longer required to apply to the Ministry of Culture and Tourism for examination of imported online games or go through filing procedures for domestic online games.

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

In 2007, the General Administration of Press and Publication and several other government agencies issued a circular requiring the implementation of an anti-fatigue system and a real-name registration system by all PRC online game operators to curb addictive online game playing by minors. Under the anti-fatigue system, three hours or less of continuous playing by minors, defined as game players under 18 years of age, is considered to be "healthy," three to five hours to be "fatiguing," and five hours or more to be "unhealthy." Game operators are required to reduce the value of in-game benefits to a minor player by half if the minor has reached the "fatiguing" level, and to zero once reaching the "unhealthy" level.

To identify whether a game player is a minor and thus subject to the anti-fatigue system, a real-name registration system must be adopted to require online game players to register their real identity information before playing online games. The online game operators are also required to submit the identity information of game players to the public security authority for verification. In 2011, the General Administration of Press and Publication, 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 to strengthen the implementation of the anti-fatigue and real-name registration system. The main purpose of this 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. This notice also imposes stringent penalties on online game operators that do not implement the required anti-fatigue and real-name registration systems properly and effectively, including terminating their online game operations.

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

On June 14, 2022, the Cyberspace Administration of China issued the Administrative Provisions on Mobile Internet Applications Information Services, which became effective on August 1, 2022. Under these provisions, the mobile applications information service providers shall satisfy the qualifications required by laws and regulations, strictly carry out the information security management responsibilities and fulfill their obligations in various aspects relating to the real-name system, protection of users' information and the examination and management of information content. The app store service providers shall file with the local cyberspace administration authorities within 30 days after its app store services being launched, and such app store service providers are responsible for overseeing app information service providers operated in their stores.

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

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

On October 17, 2020, the Standing Committee of the National People's Congress issued the Law of the PRC on the Protection of Minors (2020 Revision), which took effect on June 1, 2021. The Law of the PRC on the Protection of Minors (2020 Revision) added a new section entitled "Internet Protections," which stipulates a series of provisions to further protect minors' interests on the internet, including, among others, (i) online product and service providers are prohibited from providing minors with products and services that would induce minors to indulge; (ii) online service providers for services, such as online games, live streaming, audio-visual, and social networking, are required to establish special management systems of user duration, access authority and consumption for minors; (iii) online games service providers must request minors to register and log into online games with their valid identity information; (iv) online games service providers shall categorize games according to the rules and standards, notify users about the appropriate ages for the players of the games, and take technical measures to keep minors from accessing inappropriate online games functions, and (v) online games service providers may not provide online games services to minors from 10:00 p.m. to 8:00 a.m. the next day.

In addition, pursuant to the Notice of on Further Strengthening Regulation to Effectively Prevent Online Gaming Addictions among Minors, which became effective on September 1, 2021, the National Press and Publication Administration of China limits online gaming time for minors to an hour per day from 8 p.m. to 9 p.m. on Friday, Saturday, Sunday and legal holidays in mainland China starting from September 1, 2021 and all online games are required to be connected to the online game anti-fatigue compliance system and a real-name registration system of the National Press and Publication Administration of China.

On October 16, 2023, the Standing Committee of the National People's Congress issued the Regulations on the Protection of Minors in Cyberspace, effective on January 1, 2024. These regulations set out various requirements based on the nature of products or services and the data processing behavior of providers of network products and services, processors of personal data, and manufacturers and sellers of intelligent terminal products. Service providers must comply with the requirements for the protection of minors on the network at all stages of the design, research and development, and operation of their network services and products.

On December 22, 2023, the National Administration of Press and Publication published the draft Measures for the Administration of Online Games that provided detailed regulations for the protection of minors in the operations of online games. Under these draft measures, game providers are required to implement measures to limit the time minors spend on online games, restrict minors' access to potentially addictive and inappropriate content, and enforce limitations on spending for different age groups. These draft measures prohibit certain services from being provided to minors, such as account rental and sale, in-game currency and virtual item trading, game boosting or game levelling services, and probability-based luck draw features. The providers are required to verify the minors' identities and ages and provide reminders to protect minors' physical and psychological health. The classification of game products based on age stages and prominent reminders during downloads, registrations, and login screens are also mandated. As of the date of this annual report, these draft measures have not been formally adopted.



## Regulations Relating to Online Advertising Services

The PRC Congress amended the Advertising Law effective in April 2021. The amended Advertising Law stipulates the potential legal liability of providers of advertising services, and includes provisions intended to strengthen identification of false advertising and the power of regulatory authorities. In July 2016, the State Administration of Industry and Commerce issued the Interim Measures of the Administration of Online Advertising. The Advertising Law and the interim measures both provide that advertisements posted or published through the internet shall not affect users' normal usage of network, and advertisements published in the form of pop-up windows on the internet must display an outstanding "close" sign with a button to close the pop-up windows. These interim measures provide that all online advertisements must be marked as "Advertisement" so that viewers can easily identify them as such. The Advertising Law and the interim measures will require us to conduct more stringent examination and monitoring of our advertisers and the content of their advertisements.

Advertisements shall not hinder public order, violate social morality or contain illegal contents, including, but not limited to, obscenity, pornography, gambling, superstition, terror and violence contents. Otherwise, the administration of market regulation may (i) order to stop publishing of the advertisement and; (ii) confiscate the advertising fees; (iii) impose a penalty ranging from RMB200,000 to RMB1,000,000; or (iv) in serious cases, cancel the business license and cancel the registration certificate for publishing advertisements.

According to the Advertising Law, advertisements shall not have any false or misleading content, or defraud or mislead consumers. Furthermore, an advertisement will be deemed as a "false advertisement" if any of the following situations exist: (i) the advertised product or service does not exist; (ii) there is any inconsistency that has a material impact on the decision to purchase in what is included in the advertisement with the actual circumstances with respect to the product's performance, function, place of production, usage, quality, specification, ingredient, price, producer, term of validity, sales condition and honors received, among others, or the service's content, provider, form, quality, price, sales condition, and honors received, among others, or any commitments, among others, made on the product or service; (iii) using fabricated, forged or unverifiable scientific research results, statistical data, investigation results, excerpts, quotations or other information as supporting material; (iv) effect or results of using the good or receiving the service are fabricated; or (v) other circumstances where consumers are defrauded or misled by any false or misleading content.

Where there is a false advertisement, the administration of market regulation may (i) request the discontinuation of publishing the target advertisement and the elimination of any adverse effects caused by such false advertisement; (ii) impose fines calculated based on advertisement expenses, if the advertising expense is incalculable or evidently low, the fines should be RMB200,000 to RMB1,000,000, and if the advertiser has published false advertisements more than three times in the past two years or in other serious cases, the fines should be five to ten times of the advertising expense and where the advertising expense is incalculable or evidently low, the fines should be between RMB1,000,000 to RMB2,000,000; and (iii) cancel the advertiser's business license. The advertisement examination authority may revoke advertisements approvals and reject advertisement examination requests from such advertisers for one year.

The relevant advertisers, advertisement operators and advertisement publishers may also face criminal liabilities. According to the Criminal Law, where an advertiser, advertisement operator or advertisement publisher uses false advertising for its products or services and when the circumstances are serious, the offender may face imprisonment of not more than two years, criminal detention and fines. According to the Provisions of the Supreme People's Procuratorate and the Ministry of Public Security on Criteria for Docketing and Prosecution of Criminal Cases under the Jurisdiction of Public Security Authorities (II), where an advertiser, advertisement operator or advertisement publisher uses false advertising for its products or services, the offender may be prosecuted if, among other serious violation circumstances, (i) the amount of illegal gains exceeds RMB100,000, (ii) causing direct economic loss of over RMB50,000 to a single consumer, or accumulatively direct loss of over RMB200,000 to several consumers, or (iii) the offender has received administrative punishment more than two times within two years for conducting false advertising.

## **Regulations on Unfair Competition**

On April 23, 2019, the Standing Committee of the National People's Congress promulgated the amended Anti-Unfair Competition Law of the People's Republic of China, which became effective on April 23, 2019.

Pursuant to the Anti-Unfair Competition Law, a business operator shall not conduct any false or misleading commercial publicity in respect of the performance, functions, quality, sales, user reviews, and honors received of its commodities, in order to defraud or mislead consumers. A business operator publishing any false advertisements in violation of this provision shall be punished in accordance with the PRC Advertising Law.

The Anti-Unfair Competition Law also stipulated that a business operator engaging in production or distribution activities online shall abide by the provisions of the Anti-Unfair Competition Law. No business operator may, by technical means to affect users' options, among others, commit the acts of interfering with or sabotaging the normal operation of online products or services legally provided by another business operator.

In addition, according to the Anti-Unfair Competition Law, a business operator is prohibited from any of the following unfair activities: (i) committing act of confusion to mislead a person into believing that a commodity is one of another person or has a particular connection with another person; (ii) seeking transaction opportunities or competitive edges by bribing entities or individuals with property or by any other means; (iii) infringing on trade secrets; (iv) premium campaign violating the provision of the Anti-Unfair Competition Law; and (v) fabricating or disseminating false or misleading information to damage the goodwill or product reputation of a competitor.

## **Regulations Relating to Intellectual Property Protection**

Mainland China has adopted comprehensive legislation governing intellectual property rights, including copyrights, patents and trademarks.

### ***Copyright***

Under the PRC Copyright Law promulgated by the National People's Congress in 1990 and most recently amended in 2020, copyright protection extends to internet activities, products disseminated over the internet and software products. In addition, there is a voluntary registration system administered by the China Copyright Protection Center, and requires registration of any pledge of a copyright. Its implementing regulation, Computer Software Copyright Registration Procedures, was promulgated in 2011 and most recently amended in January 2013, specifies detailed procedures and requirements regarding the registration of software copyrights.

To address the problem of copyright infringement related to content posted or transmitted over the internet, the PRC National Copyrights Administration and the Ministry of Industry and Information Technology jointly promulgated the Measures for Administrative Protection of Copyright Related to Internet in 2005. Upon receipt of an infringement notice from a legitimate copyright holder, an ICP operator must take remedial actions immediately by removing or disabling access to the infringing content. If an ICP operator knowingly transmits infringing content or fails to take remedial actions after receipt of a notice of infringement harming public interest, the ICP operator could be subject to administrative penalties, including an order to cease infringing activities, confiscation by the authorities of all income derived from the infringement activities, or payment of fines.

The Provisions of the Supreme People's Court on Certain Issues Related to the Application of Law in the Trial of Civil Cases Involving Disputes on Infringement of the Information Network Dissemination Rights provides that disseminating works, performances or audio-video products by internet users or internet service providers via the internet without the consents of the copyright owners shall be deemed to have infringed the right of dissemination of the copyright owner. Under the Regulations on the Protection of the Right to Network Dissemination of Information, promulgated by the State Council in 2006 and amended in 2013, an owner of the network dissemination rights with respect to written works or audio or video recordings who believes that information storage, search or link services provided by an internet service provider infringe his or her rights may require that the internet service provider delete, or disconnect the links to, such works or recordings. As of December 31, 2023, we have registered 237 software copyrights in mainland China.

### ***Patent Law***

Under the Patent Law promulgated by PRC Congress in 1984 and most recently amended in 2020, and its implementation regulations issued in 2010, the State Intellectual Property Office is responsible for administering patents in mainland China. The Chinese patent system adopts a “first to file” principle, which means that where more than one person files a patent application for the same invention, a patent will be granted to the person who filed the application first. To be patentable, invention or utility models must meet all three conditions: novelty, inventiveness and practical applicability. A patent is valid for 20 years in the case of an invention and 10 years in the case of utility models and designs. A third-party user must obtain consent or proper license from the patent owner to use the patent. Otherwise, third-party use constitutes an infringement of patent rights. As of December 31, 2023, we had 39 patents in mainland China.

### ***Trademark Law***

Under the Trademark Law promulgated by PRC Congress in 1982 and most recently amended in 2019, and its implementation regulations issued in 2002 and amended in April 2014, the Trademark Office of the Administration for Industry and Commerce is responsible for the registration and administration of trademarks. The Administration for Industry and Commerce under the State Council has established a Trademark Review and Adjudication Board for resolving trademark disputes. As with patents, mainland China has adopted a “first-to-file” principle for trademark registration. If two or more applicants apply for registration of identical or similar trademarks for the same or similar commodities, the application that was filed first will receive preliminary approval and will be publicly announced. For applications filed on the same day, the trademark that was first used will receive preliminary approval and will be publicly announced. Registered trademarks are valid for ten years from the date the registration is approved. A registrant may apply to renew a registration within twelve months before the expiration date of the registration. If the registrant fails to apply in a timely manner, a grace period of six additional months may be granted. If the registrant fails to apply before the grace period expires, the registered trademark shall be deregistered. Renewed registrations are valid for ten years. As of December 31, 2023, we had 279 trademarks in mainland China.

### ***Domain Name***

Domain names are protected in mainland China under the Administrative Measures on the Internet Domain Names promulgated by the Ministry of Industry and Information Technology, which became effective on November 1, 2017. The Ministry of Industry and Information Technology is the primary regulatory authority responsible for the administration of the PRC internet domain names. The registration of domain names in mainland China has adopted a “first-to-file” principle. A domain name applicant will become the domain name holder upon the completion of its application procedure.

As of December 31, 2023, we had registered approximately 100 domain names, including “cootek.com,” “chubao.cn” and “touchpal.com.”

### ***Internet Infringement***

Under the PRC Civil Code promulgated by PRC Congress and became effective on January 1, 2021, an internet user or an internet service provider that infringes upon the civil rights or interests of others through using the internet assumes tort liability. If an internet user infringes upon the civil rights or interests of another through internet, the victim has the right to notify and request the facilitating internet service provider to take necessary measures including deletion, blocking or disconnection of any relevant internet link. If, the internet service provider fails to take necessary measures upon notification in a timely manner to stop the infringement, such internet service provider shall be jointly and severally liable for any additional harm caused by its failure to act. According to the PRC Civil Code, civil rights and interests include the personal rights and rights of property, such as the right to life, right to health, right to name, right to reputation, right to honor, right of portraiture, right of privacy, right of marital autonomy, right of guardianship, right to ownership, right to usufruct, right to security interests, copyright, patent right, exclusive right to use trademarks, right to discovery, right to equity interests and right of heritage, among others.

### **Regulations Relating to User Protection**

The Measures on the Complaint Settlement of the Telecommunication Services Users, issued by the Ministry of Industry and Information Technology in May 2016, requires telecommunication services providers to respond to their users within fifteen days upon the receipt of any complaint delivered by such users, the failure of which will give the complaining users the right to file a complaint against the service providers with the provincial branch offices of the Ministry of Industry and Information Technology.

### **Regulations Relating to M&A and Overseas Listing**

In 2006, six PRC regulatory agencies, including the Ministry of Commerce, the State Assets Supervision and Administration Commission, the State Administration of Taxation, the State Administration of Industry and Commerce, the CSRC and the SAFE, jointly issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, as amended in 2009. The regulations require an offshore special purpose vehicle, formed for purposes of the overseas listing of equity interests in PRC companies through acquisitions of PRC domestic companies and controlled directly or indirectly by PRC companies or individuals, to obtain the approval of the CSRC prior to any listing or trading of such special purpose vehicle's securities on any overseas stock exchange. In 2006, the CSRC published on its official Website procedures for obtaining its approval of overseas listings by special purpose vehicles, which requires the filing of a number of documents with the CSRC. The application of this PRC regulation remains unclear, with no consensus currently existing among leading PRC law firms regarding the scope of the applicability of the CSRC approval requirements.

The Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors also establish procedures and requirements that could make some acquisitions of Chinese companies by foreign investors more time-consuming and complex, including requirements in some instances that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a Chinese domestic enterprise.

In February 2011, the General Office of the State Council promulgated a Notice on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, which established a security review system for mergers and acquisitions of domestic enterprises by foreign investors. Under this notice, a security review is required for mergers and acquisitions by foreign investors having "national defense and security" concerns and mergers and acquisitions by which foreign investors may acquire "de facto control" of domestic enterprises with "national security" concerns. In August 2011, the Ministry of Commerce promulgated the Rules on Implementation of Security Review System. These rules which came into effect on September 1, 2011 provide that the Ministry of Commerce will look into the substance and actual impact of a transaction and prohibit foreign investors from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions. In addition, on December 19, 2020, the National Development and Reform Commission and the Ministry of Commerce promulgated the Measures for Security Review of Foreign Investment, which took effect on January 18, 2021. Under these measures, investment in certain key areas which results in acquiring the actual control of the assets is required to obtain approval from designated governmental authorities in advance.

Based on our understanding of the current PRC laws and regulations, as of the date of this annual report, we believe that we will not be required to submit an application to the CSRC for the approval of our historical listing and trading of the ADSs on any designated stock exchange or market. However, there remains some uncertainty as to how the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors will be interpreted or implemented in the context of an overseas offering, and its opinions summarized above are subject to any new laws, rules and regulations or detailed implementations and interpretations in any form relating to these regulations.

On July 6, 2021, the PRC government authorities issued Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law. These opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by mainland China-based companies and proposed to take effective measures, such as promoting the construction of regulatory systems to deal with the risks and incidents faced by mainland China-based overseas-listed companies.

On December 27, 2021, the National Development and Reform Commission and the Ministry of Culture jointly issued the Special Administrative Measures (Negative List) for Foreign Investment Access (2021 Version), which became effective on January 1, 2022. Pursuant to these measures, if a PRC domestic company engaging in the prohibited business stipulated in this negative list seeks an overseas offering and listing, it shall obtain the approval from the competent governmental authorities. Besides, according to the further explanation of the National Development and Reform Commission, the foreign investors of the direct overseas offering and listing company shall not be involved in the company's operation and management, and their shareholding percentage shall be subject, *mutatis mutandis*, to the regulations on the domestic securities investments by foreign investors.

On February 17, 2023, the CSRC issued the Trial Administrative Measures of Overseas Securities Offerings and Listings by Domestic Companies and five supporting guidelines, effective March 31, 2023. Any future securities offerings and listings outside of mainland China by our company, including, but not limited to, listings, follow on offerings, issuance of convertible notes, exchangeable notes or preferred shares, and other equivalent offering activities, either directly or indirectly, will be subject to the filing requirements with CSRC under these trial measures, and we cannot assure you that we will be able to comply with such filing requirements in a timely manner, or at all. Under these trial measures, required filings include (i) a filing report, (ii) regulatory opinions, filing or approval documents issued by the competent authorities of the industry concerned (if applicable), (iii) opinions on the security assessment and review issued by the competent department of the State Council (if applicable), (iv) legal opinions and undertakings issued by PRC counsel, and (v) the listing documents. Failure to complete filing or other procedures may lead to sanctions by the CSRC or other PRC regulatory authorities, which may include fines and penalties. See also "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—The approval of, report and filings with the CSRC or other PRC government authorities may be required in connection with our future offshore offerings and listings under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval or complete such filing and report process."

Five supporting guidelines provide that the examination and determination of an indirect offering and listing will be conducted on a substance-over-form basis, and an offering and listing shall be deemed as a PRC company's indirect overseas offering and listing if the issuer meets both of the following conditions: (i) any of the operating income, gross profit, total assets, or net assets of the PRC companies in the most recent fiscal year was more than 50% of the line item in the issuer's audited consolidated financial statement for that year; and (ii) senior management personnel responsible for business operations and management are mostly PRC citizens or are ordinarily resident in the PRC, or the principal place of business is in the PRC or carried out in the PRC. In all such cases, the issuer or its designated principal operating PRC entity, as the case may be, shall file with the CSRC for its initial public offering, follow-on offering and other equivalent offering activities. Particularly, the issuer shall submit a filing with respect to its initial public offering and listing within three business days after its initial filing of the listing application, and submit a filing with respect to its follow-on offering within three business days after the completion of the follow-on offering. The issuer shall also submit a report with respect to the following material events within three business days after the occurrence and announcement of such event: (i) change of control rights; (ii) being investigated or punished by overseas securities regulatory authorities or the competent authorities; (iii) change of listing status or listing board; and (iv) voluntary or mandatory termination of the listing. The guidance rules specify that "control relationship" or "control right" under the trial measures refer to the actual control of the company by means of equity, voting rights, trusts, agreements and other arrangements, either individually or jointly, directly or indirectly. Therefore, the trial measures are interpreted to apply to PRC companies that use a variable interest entity structure. The trial measures also identify certain circumstances that will preclude issuers from pursuing overseas offerings and listings, including (i) explicit prohibition from financing through listing by laws, administrative regulations, or national provisions; (ii) recognition by the competent department of the State Council that the issuer's overseas offering and listing may harm national security; (iii) commission of criminal offenses, such as embezzlement, bribery, misappropriation of property, or disruption of market orders by the domestic companies, its controlling shareholder, or the actual controller within the past three years; (iv) ongoing investigation by law enforcement agencies for suspected criminal or significant illegal and irregular activities without any clear conclusion yet; and (v) material ownership disputes over shares held by the controlling shareholder or by other shareholders that are controlled by controlling shareholder and/or actual controller. Additionally, the trial measures include certain compliance requirements for issuers, such as compliance with national security laws, regulations and provisions on foreign investment, cyber security and data security, and address that security review procedures, if involved, shall be carried out in accordance with the laws prior to submitting the application for overseas offering and listing.

According to these trial measures, the issuer or its affiliated domestic company, as the case may be, shall file with the CSRC (i) with respect to its initial public offering and listing within three business days, after its initial filing of the listing application to the regulator in the place of the intended listing, (ii) with respect to its follow-on offering within three business days after completion of the follow-on offering, (iii) with respect to its follow-on offering for purpose of acquiring specific assets, within three business days after the first public announcement of the transaction, and (iv) with respect to listing by means of reverse takeover, share swap, acquisition and similar transactions, within three business days after its initial filing of the listing application or the first public announcement of the transaction, as case may be. The CSRC also requires the PRC domestic companies to submit regulatory opinions, assessment opinions or approvals issued by the authorities as filing materials if applicable. These trial measures also require subsequent report to the CSRC on material events, such as material change in principal business and change of control.

Non-compliance with these trial measures may result in a warning on the domestic companies or a fine of RMB1 million to RMB10 million on them. The directly responsible person in charge and other directly responsible persons shall be given a warning and a fine of RMB500,000 to RMB5 million. The controlling shareholder or actual controller of domestic companies who organizes or instigates the illegal act under these trial measures shall be given a fine of RMB1 million to RMB10 million. According to the Circular of the People's Republic of China on Administrative Arrangements for Filing of Overseas Issuance and Listing of Domestic Enterprises released on February 17, 2023, companies that have completed overseas issuance and listing before September 30, 2023 are not required to file immediately, and should file as required if subsequent filing matters such as refinancing are involved.

On February 24, 2023, the CSRC and three other authorities issued the Provisions on Strengthening the Confidentiality and Archives Administration of Overseas Securities Issuance and Listing by Domestic Companies, with effect from March 31, 2023. These provisions set out rules, requirements and procedures relating to provision of documents, materials and accounting archives for securities companies, securities service providers, overseas regulators and other entities and individuals in connection with overseas offering and listing, including, without limitation, to, domestic companies that carry out overseas offering and listing (either directly or indirectly) and the securities companies and securities service providers (either incorporated domestically or overseas) that undertake the businesses shall not leak any state secret and working secret of government agencies, or harm national security and public interest, and a domestic company shall first obtain approval from competent authorities according to law, and file with the secrecy administrative department at the same level, if it plans to, either directly or through its overseas listed entity, publicly disclose or provide any documents and materials that contain state secrets or working secrets of government agencies. The working papers formed within mainland China by the securities companies and securities service agencies that provide corresponding services for the overseas issuance and listing of domestic enterprises shall be stored within mainland China. Where the overseas securities regulator and the competent authorities request to conduct inspection or investigation to collect evidence from a domestic enterprise and the domestic securities companies and securities service agencies providing the corresponding services in respect of the overseas issuance and listing activities of the domestic enterprise, the inspection or investigation shall be carried out under the cross-border regulatory cooperation mechanism, and the CSRC or the authorities shall provide the requisite assistance pursuant to the bilateral and multilateral cooperation mechanism. Any domestic enterprises, securities companies and securities service agencies must seek the consent of the CSRC or administrative authorities before cooperating with overseas securities regulators or securities authorities in inspections or investigations, or providing documents and materials for such cooperation.

#### **Regulations Relating to Foreign Currency Exchange and Dividend Distribution**

The principal regulations governing foreign currency exchange in mainland China are the Foreign Exchange Administration Regulations, which were promulgated by the State Council in 1996 and most recently amended in 2008. Under these regulations, the RMB is freely convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside of the PRC, unless the prior approval of the SAFE is obtained and prior registration with the SAFE is made. Dividends paid by a PRC subsidiary to its overseas shareholder are deemed income of the shareholder and are taxable in mainland China. Pursuant to the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange promulgated by the PBOC in 1996, foreign-invested enterprises in mainland China may purchase or remit foreign currency, subject to a cap approved by the SAFE, for settlement of current account transactions without the approval of the SAFE. Foreign currency transactions under the capital account are still subject to limitations and require approvals from, or registration with, the SAFE and other PRC governmental authorities.

In July 2014, the SAFE promulgated the Circular on Issues Concerning Foreign Exchange Administration over the Overseas Investment and Financing and Roundtrip Investment by Domestic Residents Via Special Purpose Vehicles, or SAFE Circular 37. SAFE Circular 37 requires PRC residents, including PRC institutions and individuals, to register with the local SAFE office in connection with their direct establishment or indirect control of an offshore entity, referred to in SAFE Circular 37 as a “special purpose vehicle” for the purpose of holding domestic or offshore assets or interests. PRC residents must also file amendments to their registrations in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. Under these regulations, PRC residents’ failure to comply with such regulations may result in restrictions being imposed on the foreign exchange activities of the PRC entity, including the payment of dividends and other distributions to its offshore parent, as well as restrictions on capital inflows from the offshore entity to the PRC entity, including restrictions on the ability to contribute additional capital to the PRC entity. Further, failure to comply with the various SAFE registration requirements could result in liability under PRC laws for evasion of foreign exchange regulations.

Under SAFE Circular 37, if a non-listed special purpose vehicle uses its own equity to grant equity incentives to any directors, supervisors, senior management or any other employees directly employed by a domestic enterprise which is directly or indirectly controlled by such special purpose vehicle, or with which such an employee has established an employment relationship, related PRC residents and individuals may, prior to exercising their rights, apply to the SAFE for foreign exchange registration formalities for such special purpose vehicle. However, in practice, different local SAFE offices may have different views and procedures on the interpretation and implementation of the SAFE regulations, and since SAFE Circular 37 was the first regulation to regulate the foreign exchange registration of a non-listed special purpose vehicle’s equity incentives granted to PRC residents, there remains uncertainty with respect to its implementation.

In February 2015, SAFE promulgated the Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment, as amended in December 2019, which amended SAFE Circular 37 by requiring PRC residents or entities to register the incorporation or control of an offshore entity for purposes of offshore investment or offshore financing with qualified banks rather than SAFE or its local branches.

Under the Administration Measures on Individual Foreign Exchange Control issued by PBOC in 2006, and related Implementation Rules issued by the SAFE in 2007 as amended in 2016, all foreign exchange transactions involving an employee share incentive plan, share option plan, or similar plan participated in by onshore individuals shall obtain approval from the SAFE or its local office.

The principal regulations governing distribution of dividends of foreign holding companies include the Foreign Investment Law promulgated in 2019, the Regulation on Implementing the Foreign Investment promulgated in 2019, and the Company Law as recently amended in 2023. Under these regulations, wholly foreign-owned enterprises in mainland China may pay dividends only out of their accumulated profits, if any, as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise in mainland China is required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves until its cumulative total reserve funds reaches 50% of its registered capital. At the discretion of the board of directors of the wholly foreign-owned enterprise, it may allocate a portion of its after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds, however, may not be distributed as cash dividends.

Furthermore, under the Enterprise Income Tax Law, which became effective in January, 2008 and latest amended in December 2018, the maximum tax rate for the withholding tax imposed on dividend payments from PRC foreign invested companies to their overseas investors that are not regarded as “resident” for tax purposes is 20%. The rate was reduced to 10% under the Implementing Regulations for the PRC Enterprise Income Tax Law issued by the State Council. However, a lower withholding tax rate of 5% might be applied if there is a tax treaty between mainland China and the jurisdiction of the foreign holding companies, such as is the case with Hong Kong, and certain requirements specified by PRC tax authorities are satisfied.

### **Regulations Relating to Employee Share Option Plans**

Pursuant to the Notice of Issues Related to the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Listed Company issued by the SAFE in February 2012, employees, directors, supervisors, and other senior management participating in any share incentive plan of an overseas publicly listed company who are PRC citizens or non-PRC citizens residing in mainland China for a continuous period of not less than one year, subject to a few exceptions, are required to register with SAFE through a domestic qualified agent, which may be a PRC subsidiary of such overseas listed company, and complete certain other procedures.

In addition, the State Administration of Taxation has issued certain circulars concerning employee share options and restricted shares. Under these circulars, employees working in mainland China who exercise share options or are granted restricted shares will be subject to PRC individual income tax. The PRC subsidiaries of an overseas listed company are obligated to file documents related to employee share options and restricted shares with tax authorities and to withhold individual income taxes of employees who exercise their share option or purchase restricted shares. If the employees fail to pay or the PRC subsidiaries fail to withhold income tax in accordance with laws and regulations, the PRC subsidiaries may face sanctions imposed by the tax authorities or other PRC governmental authorities.

### **Regulations Relating to Employment and Social Insurance**

The PRC Labor Contract Law promulgated by PRC Congress in 2007 and amended in December 2012, and its implementation rules issued by the State Council in 2008, require employers to provide written contracts to their employees, restrict the use of temporary workers and aim to give employees long-term job security. Violations of the PRC Labor Law and the PRC Labor Contract Law may result in fines and other administrative sanctions, and serious violations may result in criminal liabilities.

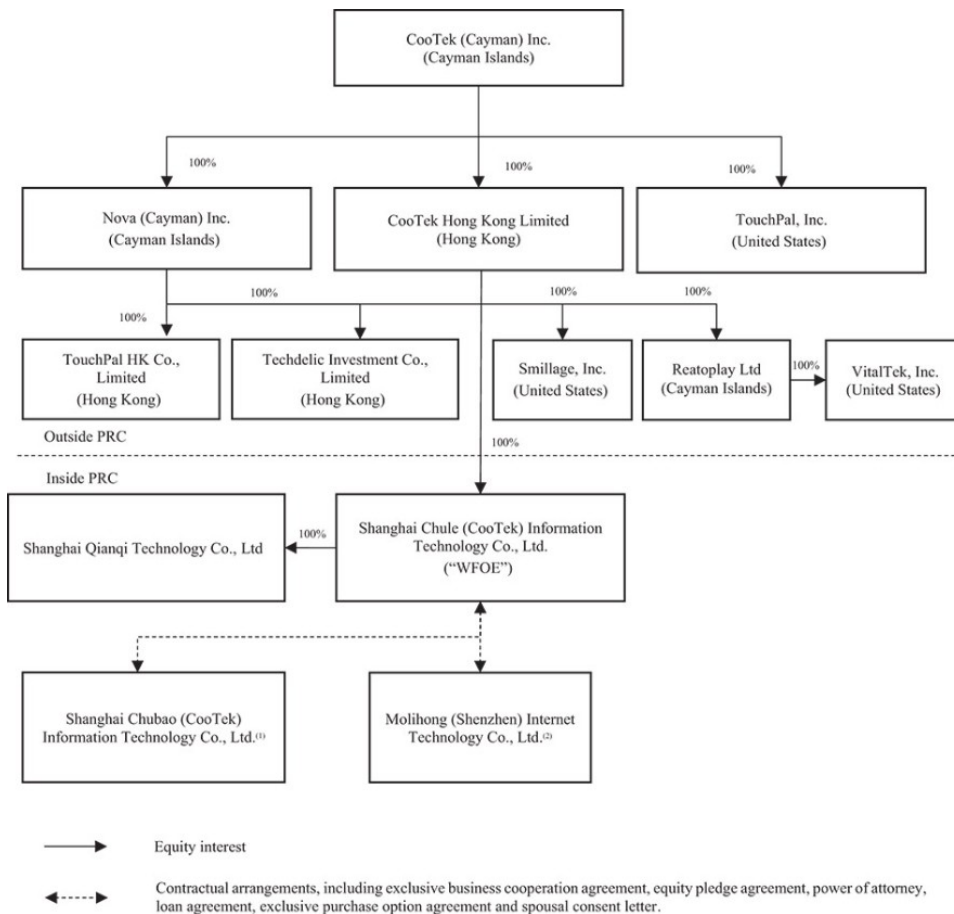
Pursuant to the PRC Labor Contract Law, employment contracts lawfully concluded prior to the implementation of the PRC Labor Contract Law and continuing as of the date of its implementation shall continue to be performed. Where an employment relationship was established prior to the implementation of the PRC Labor Contract Law but no written employment contract was concluded, a contract must be concluded within one month after its implementation.

The PRC governmental authorities have passed a variety of laws and regulations regarding social insurance and housing funds from time to time, including, among others, the PRC Social Insurance Law, the Regulation of Insurance for Labor Injury, the Regulations of Insurance for Unemployment, and Interim Measures for Enterprise Employees' Maternity Insurance. Pursuant to these laws and regulations, PRC companies must make contributions at specified levels for their employees to the local social insurance and housing fund authorities. Failure to comply with such laws and regulations may result in various fines and legal sanctions and supplemental contributions to the local social insurance and housing fund regulatory authorities.



**C. Organizational Structure**

The following diagram illustrates our corporate structure, including our significant subsidiaries and other entities that are material to our business, as of the date of this annual report:



**Notes:**

(1) Karl Kan Zhang, Susan Qiaoling Li, Michael Jialiang Wang, Jim Jian Wang and Haiyan Zhu are the beneficial owners of CooTek (Cayman) Inc., and each holds 25.0%, 21.94%, 21.94%, 13.12% and 18.0% of the equity interests in Shanghai Chubao, respectively. Karl Kan Zhang and Susan Qiaoling Li are our co-founders, directors and executive officers. Michael Jialiang Wang is our consultant and one of our directors. Jim Jian Wang is a former director of our company. Haiyan Zhu is one of our early investors.

(2) Karl Kan Zhang and an employee of our company hold 99% and 1% of the equity interests in Molihong, respectively.

The following is a summary of our contractual arrangements with respect to Shanghai Chubao and Molihong.

***Agreements that provide us effective control over Shanghai Chubao***

***Loan Agreement.*** On August 6, 2012, the WFOE and each shareholder of Shanghai Chubao entered into loan agreement. Pursuant to such agreements, the WFOE will provide loan to the shareholders of Shanghai Chubao solely for the purpose of capital contribution. The shareholders of Shanghai Chubao should pledge their equity interests in Shanghai Chubao and enter into an equity pledge agreement to secure such loan and other obligations. The shareholders can only repay the loans by the sale of all their equity interest in Shanghai Chubao to WFOE or its designated person. Each loan agreement will remain effective for 10 years, and will be automatically renewed by three years upon the option of the WFOE.

***Equity Pledge Agreement.*** On August 6, 2012, the WFOE and Shanghai Chubao and each of its shareholders entered into an equity pledge agreement, which was subsequently amended and restated on October 30, 2012. Pursuant to the amended and restated equity pledge agreement, each shareholder of Shanghai Chubao shall pledge 100% equity interests in Shanghai Chubao to the WFOE to guarantee their and Shanghai Chubao's performance of their obligations under the contractual arrangements including the exclusive business cooperation agreement, exclusive purchase option agreement and the power of attorney. In the event of a breach by Shanghai Chubao or its shareholders of their contractual obligations under these agreements, the WFOE, as pledgee, will have the right to dispose of the pledged equity interests in Shanghai Chubao. The shareholders of Shanghai Chubao also undertakes that, during the term of the equity pledge agreements, they will not dispose of the pledged equity interests or create or allow any encumbrance on the pledged equity interests. During the term of the equity pledge agreements, our WFOE has the right to receive all of the dividends and profits distributed on the pledged equity interests. We have completed the registration of the equity pledges with the office of the administration for industry and commerce in accordance with the PRC Property Rights Law.

***Power of Attorney.*** On October 30, 2012, each shareholder of Shanghai Chubao granted irrevocable and exclusive power of attorney to the WFOE as his/her attorney-in-fact to exercise all shareholder rights, including, but not limited to, attend shareholders meeting of Shanghai Chubao, voting on their behalf on all matters of Shanghai Chubao, disposing of all or part of the shareholder's equity interest in Shanghai Chubao, and electing, appointing or removing legal representative, directors, supervisors and executive officers of Shanghai Chubao. Each power of attorney will remain in force for so long as the shareholder remains a shareholder of Shanghai Chubao. Each shareholder has waived all the rights which have been authorized to our WFOE under each power of attorney.

***Spouse Consent Letters.*** Pursuant to the spouse consent letters dated October 30, 2012, each spouse of the shareholders of Shanghai Chubao, if any, confirmed that his/her spouse can perform the obligations under the contractual arrangements and has sole discretion to amend and terminate the contractual arrangements. Each spouse agreed that the equity interest in Shanghai Chubao held by and registered in the name of his/her spouse will be disposed of pursuant to the amended and restated equity pledge agreement, the amended and restated exclusive option agreement and the power of attorney. In addition, in the event that each spouse obtains any equity interest in Shanghai Chubao held by his/her spouse for any reason, he/she agreed to be bound by the contractual arrangements.

***Agreement that allows us to receive economic benefits from Shanghai Chubao***

***Exclusive Business Cooperation Agreement.*** On August 6, 2012, our WFOE and Shanghai Chubao entered into an exclusive business cooperation agreement. Under such agreement, our WFOE has the exclusive right to provide Shanghai Chubao with operational support and technology and consulting services. The WFOE owns the exclusive intellectual property rights created as a result of the performance of this agreement. Shanghai Chubao agrees to pay our WFOE a monthly service fee, at an amount equal to 100% of Shanghai Chubao's monthly net income or an amount otherwise agreed by the WFOE. This agreement will remain effective unless terminated unilaterally by the WFOE or otherwise as required by applicable PRC laws and regulations.

**Agreement that provides us with the option to purchase the equity interest in Shanghai Chubao**

**Exclusive Purchase Option Agreement.** On August 6, 2012, the WFOE and each shareholder of Shanghai Chubao entered into an exclusive purchase option agreement, which was subsequently amended and restated on October 30, 2012. Pursuant to the amended and restated exclusive purchase option agreement, each shareholder of Shanghai Chubao irrevocably grants our WFOE an exclusive option to purchase, or have its designated person to purchase, at its discretion, to the extent permitted under PRC law, all or part of the shareholder's equity interests in Shanghai Chubao. In addition, the purchase price should be the amount of registered capital, which may be subject to fair value adjustments if required by the PRC laws. Without the prior written consent of the WFOE, the shareholders of Shanghai Chubao may not amend its articles of association, increase or decrease the registered capital, dispose of its assets or business, create any encumbrance on its assets or business, incur any debts or guarantee liabilities, enter into any material contracts, merger with or acquire any other persons or make any investments, provide any loans for any third parties or distribute dividends to the shareholders. Each shareholder of Shanghai Chubao agrees that, without the prior written consent of the WFOE, he/she will not dispose of his/her equity interests in Shanghai Chubao or create or allow any encumbrance on the equity interests. Each exclusive purchase option agreement will remain effective unless the agreement is required to be terminated by applicable PRC laws and regulations.

The WFOE, Molihong and its shareholders have entered into contractual arrangements which contain agreements and terms substantially similar to our contractual arrangements with Shanghai Chubao and its shareholders described above. The registration of the equity pledges over the equity interests of Molihong have been completed with the office of the administration for industry and commerce in accordance with the PRC Property Rights Law.

In the opinion of JunHe LLP, our PRC legal counsel:

- the ownership structure of the WFOE and the VIEs is not in violation of PRC laws or regulations currently in effect; and
- the contractual arrangements among the WFOE, the VIEs and their respective shareholders governed by PRC law are valid and binding, and do not result in any violation of PRC laws or regulations currently in effect.

However, we have been further advised by our PRC legal counsel that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules, and there can be no assurance that the PRC regulatory authorities will ultimately take a view that is consistent with the opinion stated above. Accordingly, the PRC regulatory authorities may in the future take a view that is contrary to or otherwise different from the above opinion of our PRC legal counsel. If the PRC government finds that the agreements that establish the structure for operating our mobile internet business do not comply with PRC government restrictions on foreign investment in our businesses, we could be subject to severe penalties including being prohibited from continuing operations. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—If the PRC government determines that the contractual arrangements constituting part of the VIE structure do not comply with PRC regulations on foreign investment in internet and other related businesses, or if these regulations or their interpretation change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations,” and “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us.”

**D. Property, Plants and Equipment**

Our headquarters are located in Shanghai, China, where we currently lease and occupy approximately 1,679 square meters of office space. As of December 31, 2023, we also lease offices in Beijing and Wuhan, with an aggregate area of approximately 168 square meters of office space.

Below is a summary of the term of each of our current leases and we plan to renew most of them when they expire:

<u>Leased properties</u>	<u>Term</u>	<u>Area (square meters)</u>
Shanghai	3 years	1,679
Beijing	1 year	107
Wuhan	1 year	61
<b>Total</b>		<b>1,847</b>

**ITEM 4A. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

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

**A. Operating Results**

**Overview**

We operate a global portfolio of mobile applications with a large and diverse user base. Our portfolio mainly includes online literature and casual games which we operate in China and oversea markets. We leverage our ability to derive sophisticated user insights to deliver targeted advertisements that are relevant to users across our various mobile applications.

We generate revenues primarily from mobile advertising. Most of our advertisers are represented by third-party advertising exchanges and agencies. We also generate revenues through in-app purchases from users of our applications and license fees for our intellectual properties.

We have implemented a balanced development approach between growth and profitability. We are continually restructuring our portfolio products by focusing our resources on more profitable businesses, such as pan-entertainment mobile applications, reducing investment of resources on non-performing or under-performing products and improving operation efficiency. We recorded a net loss of US\$13.9 million in 2021, a net income of US\$0.5 million in 2022, and a net loss of US\$2.6 million in 2023.

In recent years, we experienced a downturn in domestic internet advertisement industry. Due to the economic restructure and the impact of COVID-19 pandemic in China and global markets, it is our observation that advertisers’ budgets shrank and tended to be concentrated to the top digital advertising platforms. To counter the challenging macro environment, we suspended and terminated the operations of several non-performing and under-performing utility mobile apps and mobile games in China and global markets, which led to the decreases in MAUs and DAUs from 2020 to 2023, which in turn negatively impacted our revenues during the same periods. We implemented cost control initiatives, which led to a significant reduction in our sales and marketing expenses, decreasing from US\$200.2 million in 2021 to US\$44.4 million in 2022, and further down to US\$17.7 million in 2023.

In terms of our global strategy, we intend to maintain our global presence by increasing our portfolio products in overseas markets. The proportion of total net revenues from our pan-entertainment mobile applications operated in overseas market increased from 14% in 2021 to 62% in 2023, constituting an important source of our revenues. Since different countries and regions are in different industry cycles, we believe this strategy will help improve our resilience against industry headwind.

To further diversify our monetization, we combine in-app advertising with in-app purchases to generate revenues from our mobile applications. We believe this strategy will allow us to balance monetization with user experience and improve our resilience to the volatility of advertising market. Our in-app purchase revenues as a percentage of our total net revenue increased from 1.0% in 2021 to 4.9% in 2022, and further to 20.2% in 2023.

We also diversify our revenue by out-licensing our original novels on Fengdu Literature Platform to produce audiobooks, short videos, etc. Our other revenues as a percentage of our total net revenue increased from 0.8% in 2021 to 3.9% in 2022, and further to 8.4% in 2023.

We will continue to implement these development approach and monetization strategies. Although such efforts led to declines in the DAUs, MAUs and revenues in the past three fiscal years and we are unable to predict whether such trend will continue into future periods as of the date of this annual report, we believe that these efforts will, in the long term, lead to sustainable growth in our operating metrics and revenues. However, the future trend in its DAUs, MAUs and revenues will depend on a variety of factors, many of which are beyond our control and subject to significant uncertainties. These factors include market acceptance of our products, effectiveness of our monetization strategy, market competition, macroeconomic and regulatory environment, and customers’ discretionary spending on advertising. Advertising is particularly sensitive to changes in economic conditions, advertising trends and other external events beyond our control.

**Key Factors Affecting Our Results of Operations**

While our business is influenced by general factors affecting our industry, our results of operations are more directly affected by company specific factors, including the following major factors:

***Our ability to maintain our user base***

Our business depends on our ability to maintain our global user base. As our revenues are primarily derived from our advertising services, the number of users and the frequency with which they use our products and services directly affect the number of advertisements we are able to show and the value of those advertisements.

The following table sets forth the average DAUs and MAUs of our portfolio products for periods indicated:

	For the Months Ended December 31,				
	2019	2020	2021 (in millions)	2022	2023
<b>Pan-entertainment Mobile Applications</b>					
average DAUs	6.1	19.7	16.0	5.2	1.9
MAUs	29.7	67.0	58.0	19.6	5.0
<b>Utility Mobile Applications</b>					
average DAUs	18.6	8.1	2.4	1.0	0.1
MAUs	44.9	18.8	4.6	1.8	0.1

We have implemented a balanced development approach between growth and profitability by continuous transition of the strategy in relation to the acquisition of new users and the retention of existing users. As a part of this execution plan, we suspended and terminated the operations of several non-performing and under-performing scenario-based mobile apps, and reduced sales and marketing expenses to acquire new users. As a result, MAUs and DAUs decreased from 2021 to 2023.

Although the restructuring efforts led to declines in the DAUs and MAUs from time to time and we are unable to predict whether such trend will continue into future periods as of the date of this annual report, we believe that these efforts will, in the long term, lead to sustainable growth in our user base. Our efforts to improve operational efficiency have resulted in a decrease in the percentage of sales and marketing expenses of the total net revenues from 73.6% in 2021 to 55.3% in 2023. We achieved this by controlling expenses related to non-performing or under-performing products in our sales and marketing operations. We also plan to develop and offer innovative and diversified products and services to meet the interests and demands of our mobile internet users and to further improve our users’ experience with our products to achieve a sustained high level of user satisfaction, which we believe is the most cost-effective way to attract, engage and retain our users as a long-term strategy.

Our ability to enlarge our user base is dependent on a range of factors, including our improved relevance of the content we deliver with our technology, continuous innovation of and improvements in user experience with our products and services, effective user acquisition through online distribution platforms and third-party platforms, all of which are guided and driven by our in-depth user insights, as well as many factors beyond our control and subject to significant uncertainties, including market acceptance of our products, market competition, and macroeconomic and regulatory environment. See also “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—If we fail to maintain or expand our active user base, our business, financial condition and operating results may be materially and adversely affected,” and “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—We have international operations and plan to continue maintaining our global presence. We may face challenges and risks presented by our global operations, which may have a material and adverse impact on our business and operating results.”

### ***Effectiveness of monetization***

We monetize our user base primarily through in-app advertising, combined with in-app purchases. Our advertising revenues decreased from US\$267.3 million in 2021 to US\$76.5 million in 2022, and further to US\$22.8 million in 2023, along with the decreases of DAUs and MAUs. However, our in-app purchase revenues increased from US\$2.8 million in 2021 to US\$4.1 million in 2022, and further to US\$6.5 million in 2023.

The effectiveness of our monetization and our results of operations are affected by a number of factors, including the number of our available advertising spaces, our ability to attract and retain advertising customers, our ability to deliver targeted advertisements to our users, our pricing strategy and perceived value of our in-app purchase offerings, and the quality and attractiveness of the special features or tools, and extra content in our portfolio products.

#### *Our available advertising spaces*

Our available advertising spaces represent the number, size and prominence of advertisements we can display, which in turn affect our revenues and results of operations. As we have continued to launch new products, and grow our user base, the number of our available advertising spaces increased rapidly in recent years. We plan to continue to invest in the development of innovative products catering to users' interests in and demands for content relevant to users in order to create more advertising spaces.

#### *Our ability to attract and retain advertising customers*

We attract our advertisers primarily through our network of advertising exchanges and agencies, and to a lesser extent, direct contractual arrangements with individual advertisers. Our revenues and results of operations depend largely on our ability to engage, directly or indirectly, more advertisers with our advertising services. We generate advertising revenue primarily from performance-based advertisements and we also offer brand advertising arrangements. In 2023, our top two advertising customers, which are advertising exchanges, contributed 26.6% of our total revenues. Our business may be materially and adversely affected if our cooperation with these two advertising customers is impaired or terminated. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—We depend on certain third-party advertising exchanges and agencies for a large portion of our mobile advertising revenues." We plan to maximize the value of our services to the advertisers by improving our targeting capability, increasing our user base while maintaining quality business relationship with third-party advertising exchanges.

#### *Our ability to deliver targeted advertisements*

We help advertisers reach their desired audiences and our advertising exchange customers charge them advertising fees based primarily on valid clicks, conversions or other measurable actions of the audience. Our ability to deliver advertisements that are relevant to our users across our various mobile applications is critical to maintaining high click-through rates or conversion rates, which in turn directly impacts the value of our advertising services. We strive to deepen our understanding of our users' content interests and demands in order to improve our targeted delivery of advertising services, which will ultimately increase the effectiveness of the monetization of our use base and advertising spaces.

#### *Our ability to diversify our revenue source*

We have been exploring various ways of monetization to diversify our revenue source. In addition to in-app advertisements, we introduced in-app purchases in mobile games allowing users to purchase additional features or tools and in online literature products allowing users to unlock new chapter or extra content. Our in-app purchase revenues increased from US\$2.8 million in 2021 to US\$4.1 million in 2022, and further to US\$6.5 million in 2023. We explored IP-based monetization by out-licensing our original novels on Fengdu Literature Platform to produce audiobooks, short videos, etc. Our other revenue contributed 0.8%, 3.9% and 8.4% of our total net revenues in 2021, 2022 and 2023, respectively.

**Effective investment in technology and talent**

To maintain our advanced technological capabilities and in order to be able to keep up with any future technological developments, we have continued to make significant investments in enhancing our technology infrastructure and in acquiring and retaining talent with technological expertise. Our investment in technology and talent has effectively met our needs for technology upgrades and increases in product development capacity along with the growth of our business. As of December 31, 2023, we had 106 full-time employees, of which 52 were software engineers and product designers. Our research and development expenses decreased by 54.9% from US\$34.4 million in 2021 to US\$15.5 million in 2022, and further decreased by 53.5% to US\$7.2 million in 2023.

**Ability to manage costs and expenses**

Our results of operations depend on our ability to manage our costs and expenses. Except for user acquisition costs, we spend primarily on staff costs, content costs, server and bandwidth costs, and payment processing fees paid to digital distribution platform such as Apple App Store and Google Play. In the short term, we plan to continue to implement our cost-control initiatives so as to improve our cost and expense efficiency. Specifically, we plan to maintain and further improve our economic efficiency of user acquisition cost for our existing products as a result of the economies of scale and our accumulated knowledge and experience related to user growth. The user acquisition costs for our new products may currently be higher than our existing products, and we plan to keep improving our economic efficiency of user acquisition cost for our new products.

**Key Components of Results of Operations**

Net Revenues. The following table sets forth the components of our net revenues, both in absolute amount and as a percentage of our total net revenues, for the periods presented:

	For the Years Ended December 31,					
	2021		2022		2023	
	US\$	%	US\$	%	US\$	%
<b>Net Revenues:</b>						
Advertising revenue	267,266,716	98.2	76,545,411	91.2	22,822,094	71.4
In-app purchase revenue	2,847,715	1.0	4,110,704	4.9	6,470,995	20.2
Other revenue	2,031,390	0.8	3,270,499	3.9	2,683,179	8.4
<b>Total net revenues</b>	<b>272,145,821</b>	<b>100.0</b>	<b>83,926,614</b>	<b>100.0</b>	<b>31,976,268</b>	<b>100.0</b>

**Advertising Revenue**

We generate advertising revenue primarily from delivering advertisements through our products. Based on our in-depth user insights, we target users who are likely to have interests and demands for the advertised products and services. We generally enter into arrangements with advertising exchanges and agencies that purchase advertising services and spaces from us on behalf of the end advertisers, and we also enter into advertising arrangements with individual advertisers directly. Our advertising revenue is primarily generated from performance-based advertisements, and we also offer brand advertising arrangements. For performance-based advertisements, we are paid by our advertising exchange customers based on the effective price per impression, which is impacted by the number of valid clicks, conversions or other measurable actions of our users in relation to the advertisements.

Revenue from our advertising services accounted for 98.2%, 91.2% and 71.4% of our total net revenues in 2021, 2022 and 2023, respectively. We estimate that, of our total advertising revenue, online literature and mobile games aggregately contributed approximately 91.4%, 97.0% and 95.9% in 2021, 2022 and 2023, respectively. From time to time, we provide sales rebates to certain advertising agencies to incentivize their referral of more brand advertising arrangements to us. Our advertising revenue is presented net of sales rebates to these advertising agencies.

### *In-app Purchase Revenue*

We provide our users with the option to make in-app purchases that enhance or enrich their game playing or online reading experience. We generate in-app purchase revenue primarily through the sale of in-app virtual currency in our mobile games and online literature products, and subscription fees charged to users who subscribe to our membership packages for our online literature products. We offer virtual currency that customers can use to acquire virtual items in mobile games or unlock extra content in our online literature products. Additionally, we offer membership packages for our online literature products, charging users subscription fees based on weekly, monthly, quarterly, and annual plan, and provide subscribers with an ad-free online reading experience, more access to the online content, among other benefits, within the selected plan's duration.

Payments from users for the in-app purchases are made at a fixed price and collected by digital distribution platforms such as Google Play and Apple App Store, who will then pay the funds to us after deducting the payment processing fees. We are primarily responsible for providing the service and virtual items, maintaining control over the content and operation of applications, and have the discretion to set the pricing for the in-app purchases.

Revenue from our in-app purchase services accounted for 1.0%, 4.9% and 20.2% of our total net revenues in 2021, 2022 and 2023, respectively. We expect that the in-app purchase services will contribute to a significant portion of our revenue in the future.

### *Other Revenue*

We generate other revenue from out-licensing of our TouchPal Smart Input to certain device manufacturers for pre-installation and out-licensing of online literature works. Attributable to our efforts of diversifying our revenue sources, other revenues contributed 0.8%, 3.9% and 8.4% of our total net revenues in 2021, 2022 and 2023, respectively.

### *Cost of revenues*

The following table sets forth our cost of revenues and gross profit, both in absolute amount and as a percentage of our total net revenues, for the periods presented.

	For the Years Ended December 31,					
	2021		2022		2023	
	US\$	%	US\$	%	US\$	%
Cost of revenues	32,825,888	12.1	13,070,923	15.6	6,035,768	18.9
Gross profit	239,319,933	87.9	70,855,691	84.4	25,940,500	81.1

Our cost of revenues consists primarily of payment processing fees paid to digital distribution platforms such as Apple App Store and Google Play, content costs, bandwidth costs and staff costs. Content costs are the fees we pay to our signed authors and third-party content providers for the publishing and licensing of online literature works. Bandwidth costs are the fees we pay to telecommunications carriers and other service providers for telecommunications and other content delivery-related services. Staff costs consist of salaries and benefits for our employees involved in the operation and maintenance of our network and mobile applications. Our other costs of revenues include hardware, server and internet equipment depreciation expenses and internet data center service fees. As a percentage of total net revenues, our cost of revenue accounted for 18.9% in 2023, compared with 12.1% and 15.6% in 2021 and 2022, respectively. In the foreseeable future, we expect the absolute amount of our total cost of revenues to increase in line with the growth of our in-app purchase revenue. We will continue to implement our cost-control initiatives on bandwidth costs.



**Operating Expenses**

The following table sets forth the components of our operating expenses, both in absolute amount and as a percentage of our total net revenues, for the periods presented.

	For the Years Ended December 31,					
	2021		2022		2023	
	US	%	US\$	%	US\$	%
<b>Operating expenses:</b>						
Sales and marketing expenses	200,235,468	73.6	44,378,533	52.9	17,674,610	55.3
Research and development expenses	34,433,316	12.7	15,523,180	18.5	7,210,687	22.6
General and administrative expenses	17,815,839	6.5	11,907,809	14.2	4,384,720	13.7
Other operating (income) loss, net	(4,453,462)	(1.6)	(2,441,559)	(2.9)	(793,685)	(2.5)
Total operating expenses	<u>248,031,161</u>	<u>91.1</u>	<u>69,367,963</u>	<u>82.7</u>	<u>28,476,332</u>	<u>89.1</u>

*Sales and Marketing Expenses*

Our sales and marketing expenses consist primarily of advertising and promotion expenses, expenses incurred for the user incentive programs, salaries and benefits of sales and marketing personnel and fees paid to mobile device manufacturers to pre-install our smart input products. Our user acquisition costs represent expenses for acquiring new users of our products, including expenses on targeted campaigns to acquire users. As a percentage of total net revenues, our sales and marketing expenses accounted for 55.3% in 2023, compared with 73.6% and 52.9% in 2021 and 2022, respectively. We expect our sales and marketing expenses to increase in the foreseeable future as we plan to acquire new users and enlarge our user base to grow our overseas business.

*Research and Development Expenses*

Research and development expenses consist primarily of salaries and benefits, including share-based compensation, for our technology and product development personnel, and depreciation and other expenses associated with the use of facilities for research and development purposes. As a percentage of total net revenues, research and development expenses accounted for 22.6% in 2023, compared with 12.7% and 18.5% in 2021 and 2022, respectively. We expect our research and development expenses to slightly decrease in absolute amount in the short term as we implement our cost-control initiatives but to increase thereafter as we continue our investment in our technology infrastructure.

*General and Administrative Expenses*

Our general and administrative expenses consist primarily of salaries and benefits, including share-based compensation, for our employees involved in general corporate operations, facility rental, as well as professional service fees related to various corporate activities. As a percentage of total net revenues, general and administrative expenses accounted for 13.7% in 2023, compared with 6.5% and 14.2% in 2021 and 2022, respectively. We expect our general and administrative expenses to slightly decrease in absolute amount in the foreseeable future as we continue to implement our cost-control initiatives.

*Other Operating (Income) Loss, net*

Other operating income primarily consisted of government subsidies and other operating loss primarily consisted of provision and reversal of contingent losses for an investigation of certain alleged illegal acts of our customers, intellectual property infringement lawsuit and compensation payments to victims of alleged misconducts of certain third-party advertisers perpetrated on our platform.

## Results of Operations

The following table sets forth a summary of our consolidated results of operations for the periods presented, both in absolute amount and as a percentage of our total net revenues for the periods presented. This information should be read together with our consolidated financial statements and related notes included elsewhere in this annual report. The results of operations in any period are not necessarily indicative of our future trends.

	For the Years Ended December 31,					
	2021		2022		2023	
	US\$	%	US\$	%	US\$	%
<b>Net revenues:</b>						
Advertising revenue	267,266,716	98.2	76,545,411	91.2	22,822,094	71.4
In-app purchase revenue	2,847,715	1.0	4,110,704	4.9	6,470,995	20.2
Other revenue	2,031,390	0.8	3,270,499	3.9	2,683,179	8.4
<b>Total net revenues</b>	<b>272,145,821</b>	<b>100.0</b>	<b>83,926,614</b>	<b>100.0</b>	<b>31,976,268</b>	<b>100.0</b>
Cost of revenues <sup>(1)</sup>	(32,825,888)	(12.1)	(13,070,923)	(15.6)	(6,035,768)	(18.9)
Gross profit	239,319,933	87.9	70,855,691	84.4	25,940,500	81.1
Operating expenses:						
Sales and marketing expenses <sup>(1)</sup>	(200,235,468)	(73.6)	(44,378,533)	(52.9)	(17,674,610)	(55.3)
Research and development expenses <sup>(1)</sup>	(34,433,316)	(12.7)	(15,523,180)	(18.5)	(7,210,687)	(22.6)
General and administrative expenses <sup>(1)</sup>	(17,815,839)	(6.5)	(11,907,809)	(14.2)	(4,384,720)	(13.7)
Other operating income (loss), net	4,453,462	1.6	2,441,559	2.9	793,685	2.5
<b>Total operating expenses</b>	<b>(248,031,161)</b>	<b>(91.1)</b>	<b>(69,367,963)</b>	<b>(82.7)</b>	<b>(28,476,332)</b>	<b>(89.1)</b>
<b>(Loss) income from operations</b>	<b>(8,711,228)</b>	<b>(3.2)</b>	<b>1,487,728</b>	<b>1.8</b>	<b>(2,535,832)</b>	<b>(7.9)</b>
Interest income (expenses), net	(5,689,947)	(2.1)	(1,362,001)	(1.6)	(28,443)	(0.1)
Impairment loss of investment	(248,140)	(0.1)	—	—	—	—
Foreign exchange gains (losses), net	(219,642)	(0.1)	(93,145)	(0.1)	(10,829)	(0.0)
Fair value change of derivatives	1,108,648	0.4	553,707	0.7	—	—
<b>(Loss) income before income taxes</b>	<b>(13,760,309)</b>	<b>(5.1)</b>	<b>586,289</b>	<b>0.7</b>	<b>(2,575,104)</b>	<b>(8.1)</b>
Income tax expenses	(51,970)	(0.0)	(9,058)	(0.0)	(20,837)	(0.1)
Share of loss in equity method investment	(65,084)	(0.0)	(62,217)	(0.1)	—	—
<b>Net (loss) income</b>	<b>(13,877,363)</b>	<b>(5.1)</b>	<b>515,014</b>	<b>0.6</b>	<b>(2,595,941)</b>	<b>(8.1)</b>

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

	For the Years Ended December 31,		
	2021	2022	2023
	US\$	US\$	US\$
Cost of revenues	142,404	(22,682)	21,434
Sales and marketing expenses	103,324	59,974	(10,061)
Research and development expenses	1,716,316	545,673	180,355
General and administrative expenses	1,754,275	1,237,663	512,837
<b>Total</b>	<b>3,716,319</b>	<b>1,820,628</b>	<b>704,565</b>

### Year Ended December 31, 2023 Compared to Year Ended December 31, 2022

#### Net Revenues

Our net revenues decreased by 61.9% from US\$83.9 million in 2022 to US\$32.0 million in 2023, primarily due to a decrease in our mobile advertising revenue.

*Advertising revenue.* Our advertising revenue decreased by 70.2% from US\$76.5 million in 2022 to US\$22.8 million in 2023. The decrease in advertising revenue was primarily due to the suspension and termination of operations of several non-performing and underperforming applications, especially the mobile games.

*In-app Purchase revenue.* Our in-app purchase revenue increased by 57.4% from US\$4.1 million in 2022 to US\$6.5 million in 2023. The increase of in-app purchase revenue was primarily due to the increase in the sale of in-app virtual currency in our online literature products.

*Other Revenue.* We generate other revenue from out-licensing of our TouchPal Smart Input to certain device manufacturers for pre-installation and out-licensing of online literature works. Our other revenue decreased from US\$3.3 million 2022 to US\$2.7 million 2023.

***Cost of revenues***

Our cost of revenues decreased by 53.8% from US\$13.1 million in 2022 to US\$6.0 million in 2023. This decrease was primarily due to decreases in content costs paid to our signed authors and third-party content providers for the publishing and licensing of relevant online literature works, as we concentrated resources on quality content, salary and payroll expenses associated with cost staff, server and internet equipment depreciation expenses and internet data center service fees, and partially offset by the increase in payment processing fees paid to digital distribution platforms such as Apple App Store and Google Play.

***Gross profit***

As a result of the foregoing, we recorded gross profit of US\$25.9 million in 2023, as compared to gross profit of US\$70.9 million in 2022. Our gross margin decreased from 84.4% in 2022 to 81.1% in 2023, which was primarily driven by the disproportionate increase in payment processing fees paid to digital distribution platforms such as Apple App Store and Google Play associated with in-app purchases.

***Operating expenses***

Our total operating expenses decreased by 58.9% from US\$69.3 million in 2022 to US\$28.5 million in 2023, due to decreases in all expense items along with our cost-control and profit-improving operation strategy.

*Sales and marketing expenses.* Our sales and marketing expenses decreased by 60.2% from US\$44.4 million in 2022 to US\$17.7 million in 2023. The decrease was primarily due to the continuous transition of our strategy in relation to the acquisition of new users and retention of existing users, which resulted in a decrease in the user acquisition costs.

*Research and development expenses.* Our research and development expenses decreased by 53.5% from US\$15.5 million in 2022 to US\$7.2 million in 2023. The decrease was primarily due to a decrease in salary and payroll expenses associated with technology research and development staff and share-based compensation expenses.

*General and administrative expenses.* Our general and administrative expenses decreased by 63.2% from US\$11.9 million in 2022 to US\$4.4 million in 2023. The decrease was primarily due to a decrease in salary and payroll expenses associated with general and administrative staff, share-based compensation expenses, and professional service fee associated with our operation as a public company.

*Other operating income (loss), net.* We recorded other operating income of US\$0.8 million in 2023, which primarily consisted of government subsidies we received, compared to other operating income of US\$2.4 million in 2022.

***(Loss) Income from operations***

As a result of the foregoing, we recorded loss from operations of US\$2.5 million in 2023, compared to income from operations of US\$1.5 million in 2022.

***Interest income (expenses), net***

We had net interest expenses of US\$1.4 million and US\$0.03 million in 2022 and 2023, respectively. The decrease in our interest expense was mainly due to the decrease of interest expenses of a convertible note due April 1, 2023 which has been fully redeemed as of March 31, 2023.

***Foreign exchange (losses) gains, net***

We incurred net foreign exchange losses of US\$0.1 million and US\$0.01 million in 2022 and 2023, respectively, primarily due to the costs incurred on foreign exchange conversion.

***Income tax expense***

We recorded income tax expenses of US\$9,058 and US\$20,837 in 2022 and 2023, respectively.

***Net (loss) income***

As a result of the foregoing, we recorded a net loss of US\$2.6 million in 2023, compared to a net income of US\$0.5 million in 2022.

**Year Ended December 31, 2022 Compared to Year Ended December 31, 2021**

***Net Revenues***

Our net revenues decreased by 69.2% from US\$272.1 million in 2021 to US\$83.9 million in 2022, primarily due to a decrease in our mobile advertising revenue.

*Advertising revenue.* Our advertising revenue decreased by 71.4% from US\$267.3 million in 2021 to US\$76.5 million in 2022. The decrease of advertising revenue was primarily due to the suspension and termination of operations of several non-performing and under-performing applications, especially utility mobile applications and domestic mobile games.

*Other Revenue.* We generate other revenue from (i) in-app purchases by users of our applications; (ii) out-licensing of our TouchPal Smart Input to certain device manufacturers for pre-installation; and (iii) out-licensing of online literature works. Our other revenue increased by 51.3% from 2021 to 2022, primarily driven by our efforts to diversify monetization, resulting in increases in both in-app purchases and revenue from out-licensing our original novels on Fengdu Literature Platform to produce audiobooks, short videos, etc.

***Cost of revenues***

Our cost of revenues decreased by 60.1% from US\$32.8 million in 2021 to US\$13.1 million in 2022. This decrease was primarily due to decreases in content costs paid to our signed authors and third-party content providers for the publishing and licensing of online literature works to concentrate the resources on quality content, salary and payroll expenses associated with cost staff, server and internet equipment depreciation expenses and internet data center service fees.

***Gross profit***

As a result of the foregoing, we recorded gross profit of US\$70.9 million in 2022, as compared to gross profit of US\$239.3 million in 2021. Our gross margin decreased from 87.9% in 2021 to 84.4% in 2022, primarily due to the decrease in our revenues.

***Operating expenses***

Our total operating expenses decreased by 72.1% from US\$248.0 million in 2021 to US\$69.3 million in 2022, due to decreases in all expense items along with our cost-control and profit-improving operation strategy.

*Sales and marketing expenses.* Our sales and marketing expenses decreased by 77.8% from US\$200.2 million in 2021 to US\$44.4 million in 2022. The decrease was primarily due to the continuous transition of our strategy in relation to the acquisition of new users and retention of existing users, which resulted in a decrease in the user acquisition costs.

*Research and development expenses.* Our research and development expenses decreased by 54.9% from US\$34.4 million in 2021 to US\$15.5 million in 2022. The decrease was primarily due to a decrease in salary and payroll expenses associated with technology research and development staff and share-based compensation expenses.

*General and administrative expenses.* Our general and administrative expenses decreased by 33.1% from US\$17.8 million in 2021 to US\$11.9 million in 2022. The decrease was primarily due to a decrease in salary and payroll expenses associated with general and administrative staff, share-based compensation expenses, professional service fee and legal, accounting and other expenses associated with our operation as a public company.

*Other operating income (loss), net.* We recorded other operating income of US\$2.5 million in 2022, which primarily consisted of government subsidies we received, compared to other operating income of US\$4.5 million in 2021.

***(Loss) Income from operations***

As a result of the foregoing, we recorded income from operations of US\$1.5 million in 2022, compared to loss from operations of US\$8.7 million in 2021.

***Interest income (expenses), net***

We had net interest expenses of US\$5.7 million and net interest expenses of US\$1.4 million in 2021 and 2022, respectively. The decrease in our interest expense was mainly due to a decrease in interest expenses on our convertible notes because all principal amount of the convertible note issued to YA II PN, Ltd. on January 29, 2021 and half of the principal amount of the convertible note issued to YA II PN, Ltd. on March 19, 2021 were converted or redeemed in 2021. The interest expenses of the convertible note issued in March 2021 also decreased because of the application of lower effective interest rate and extension of maturity date to April 1, 2023.

***Foreign exchange (losses) gains, net***

We incurred net foreign exchange losses of US\$0.2 million and net foreign exchange losses of US\$0.1 million in 2021 and 2022, respectively, primarily due to the costs incurred on foreign exchange conversion.

***Income tax expense***

We recorded income tax expenses of US\$51,970 and US\$9,058 in 2021 and 2022, respectively.

***Net (loss) income***

As a result of the foregoing, we recorded a net income of US\$0.5 million in 2022, compared to a net loss of US\$13.9 million in 2021.

**Taxation**

***Cayman Islands***

We are an exempted company incorporated in the Cayman Islands. The Cayman Islands currently levies no taxes on corporations based upon profits, income, gains or appreciation. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or after execution brought within the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties that are applicable to any payments made to or by our company. There are no exchange control regulations or currency restrictions in the Cayman Islands. In addition, the Cayman Islands does not impose withholding tax on dividend payments.

***United States***

U.S. corporations are subject to U.S. federal corporate income tax at a rate of 21%, and those doing business in California are also subject to state income tax at a rate of 8.84% in California.

## **Hong Kong**

Companies registered in Hong Kong are subject to Hong Kong profits tax on the taxable income as reported in their respective statutory financial statements adjusted in accordance with Hong Kong tax laws. The applicable tax rate is 8.25% or 16.5% in Hong Kong commencing on or after April 1, 2018. The profits tax rate is 8.25% for the first HK\$2 million of profits, and the profits above that amount will be subject to the tax rate of 16.5%. Under the Hong Kong tax law, our subsidiaries are exempted from income tax on its foreign-derived income and there are no withholding taxes in Hong Kong on remittance of dividends.

## **PRC**

### *Enterprise Income Tax*

Generally, our PRC subsidiary, the VIEs and their subsidiaries, which are considered PRC resident enterprises under PRC tax law, are subject to enterprise income tax on their worldwide taxable income as determined under PRC tax laws and accounting standards at a rate of 25%. A “high and new technology enterprise” is entitled to a favorable statutory tax rate of 15% and this qualification is reassessed by government authorities every three years. Our PRC subsidiary, Shanghai Chule has qualified as a high and new technology enterprise. It is entitled to the preferential tax rate of 15% to the extent it has taxable income under the PRC Enterprise Income Tax Law till 2025. If our holding company in the Cayman Islands or any of our subsidiaries outside mainland China is considered as a PRC resident enterprise for tax purposes, then our global income will be subject to PRC enterprise income tax at the rate of 25%. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Under the PRC Enterprise Income Tax Law, we may be classified as a PRC “resident enterprise,” which could result in unfavorable tax consequences to us and our shareholders and have a material adverse effect on our results of operations and the value of your investment.”

### *Value-Added Tax*

We are subject to VAT at a rate of 6% on the services we provide to advertising customers in mainland China, less any deductible VAT we have already paid or borne. We are also subject to surcharges on VAT payments in accordance with PRC law.

### *Withholding Tax on Dividends*

Dividends paid by our wholly foreign-owned subsidiary in mainland China to our intermediary holding company in Hong Kong will be subject to a withholding tax rate of 10%, unless the Hong Kong entity satisfies all the requirements under the Arrangement between the mainland China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income and Capital and receives approval from the tax authority. If our Hong Kong subsidiary satisfies the requirements under the tax arrangement and receives approval from the tax authority, then the dividends paid to the Hong Kong subsidiary would be subject to withholding tax at a reduced tax rate of 5%. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—There are significant uncertainties under the PRC Enterprise Income Tax Law relating to the withholding tax liabilities of our PRC subsidiary, and dividends payable by our PRC subsidiary to our offshore subsidiaries may not qualify to enjoy certain treaty benefits.”

**B. Liquidity and Capital Resources****Cash Flows and Working Capital**

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

	For the Years Ended		
	December 31		
	2021	2022	2023
	US\$	US\$	US\$
<b>Summary Consolidated Cash Flow Data:</b>			
Net cash (used in) provided by operating activities	(51,043,689)	1,301,198	(6,560,679)
Net cash (used in) provided by investing activities	(1,778,533)	521,859	960,056
Net cash provided by (used in) financing activities	20,899,885	(11,616,017)	(1,957,236)
Net decrease in cash, cash equivalents, and restricted cash	(31,922,337)	(9,792,960)	(7,557,859)
Cash, cash equivalents, and restricted cash at beginning of year	49,622,714	18,431,209	9,785,131
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	730,832	1,146,882	249,299
Cash, cash equivalents, and restricted cash at end of year	<u>18,431,209</u>	<u>9,785,131</u>	<u>2,476,571</u>

Historically, we have financed our operations primarily through the proceeds we received from private issuances of preferred shares, loans from commercial banks, public offering of equity and debt securities and other financing activities. In January and March 2021, we issued two convertible notes with aggregate principal of US\$30.0 million. As of December 31, 2021, 2022 and 2023, we had US\$18.4 million, US\$9.8 million and US\$2.5 million in cash, cash equivalents and restricted cash, respectively. Our cash and cash equivalents consist of cash on hand, demand deposits and floating rate financial instruments which are unrestricted as to withdrawal or use, and which have original maturities of three months or less when purchased. Our restricted cash represents amounts held in our bank account as guarantee deposit for payments processing services and loan facility provided by the bank.

On January 19, 2021, we offered US\$10,000,000 aggregate principal amount of convertible note with an annual interest rate of 5% directly to YA II PN, Ltd, a Cayman Islands exempt limited partnership. The principal and the interest payable under this note matured on January 19, 2022, and we fully repaid the outstanding amount upon maturity. This note has been fully converted to 196,665,850 Class A ordinary shares with the average conversion price of US\$0.0508 per Class A ordinary share in 2021.

On January 25, 2021, we entered into a Standby Equity Distribution Agreement with YA II PN, Ltd. for the offer and sale of up to US\$20,000,000 of the ADSs. We will be able to sell up to US\$20,000,000 of our ADSs at our request any time during the 36 months following the date of the agreement. The ADSs would be purchased pursuant to the agreement at 90% of the Market Price, being the lowest daily volume weighted average price of the ADSs during the five consecutive trading days commencing on the trading day following the date we submit an advance notice to Investor. The purchase would be subject to certain limitations, including that Investor could not purchase any ADSs that would result in it and its affiliates owning more than 4.99% of our then outstanding share capital. The YA II PN, Ltd. has agreed that, during the term of the agreement, neither YA II PN, Ltd. nor its affiliates will engage in any short sales or hedging transactions with respect to our Class A ordinary shares or ADSs. Volume weighted average price means, for any trading day, the daily volume weighted average price of the ADSs for such date on the New York Stock Exchange as reported by Bloomberg L.P. during regular trading hours. Pursuant to the agreement, quoting our ADSs for trading on the New York Stock Exchange is one of the conditions precedent that must be satisfied before we are able to submit an advance notice to the Investor. As of December 31, 2023, none of our ADSs was outstanding under the agreement. As of the date of this annual report, we have not sold any of our ADS pursuant to the agreement.

On March 19, 2021, entered into a securities purchase agreement and a convertible note with YA II PN, Ltd., pursuant to which YA II PN, Ltd. will purchase a convertible promissory note in the principal amount of US\$20,000,000 with an annual interest rate of 5%, which may be convertible into our Class A ordinary shares in exchange for our ADSs, due March 19, 2022, or the March 2021 Note. Beginning on June 1, 2021 and continuing on the first day of each calendar month thereafter through January 2022, the principal amount plus an 8% redemption premium and plus accrued and unpaid interest will be subject to monthly redemption in the event that the daily VWAP on each of the five consecutive trading days immediately prior to the redemption date does not exceed a price equal to 108% of the fixed conversion price. In September 2021, we entered into a letter agreement with YA II PN, Ltd. to amend the schedule of redemptions, which was subsequently replaced by the one signed on October 29, 2021. On October 29, 2021, we entered into a letter agreement with YA II PN, Ltd. to amend and restate the March 2021 Note so as to, among others, extend the maturity date to August 31, 2022, and reduced the floor price from US\$0.015 per Class A ordinary share to US\$0.01 per Class A ordinary share. On January 10 and February 28, 2022, we entered into two letter agreements, pursuant to which the floor price was reduced to US\$0.006 per Class A ordinary share and US\$0.004 per Class A ordinary share, respectively. On May 11, 2022, we and YA II PN, Ltd. agreed to change the floor price to US\$0.50 per ADS. On July 8, 2022, we entered into a letter agreement with YA II PN, Ltd. to amend the schedule of redemptions, which was subsequently replaced by the one signed on October 11, 2022. On October 11, 2022, we entered into a letter agreement with YA II PN, Ltd. to, among other things, extend the maturity date to April 1, 2023, and amend the schedule of redemptions. This note has been partially converted to 1,543,601,450 Class A ordinary shares with the weighted average conversion price of US\$0.0081 per ordinary share and fully redeemed as of March 31, 2023.

On August 16, 2021, we entered into a securities purchase agreement with Mercer Street Global Opportunity Fund LLC, pursuant to which we agreed to issue and sell, and Mercer Street Global Opportunity Fund LLC agreed to subscribe for and purchase, US\$1.5 million worth of our Class A ordinary shares represented by the ADSs at a price of US\$0.0303 per Class A ordinary share in a registered direct offering.

We incurred a net loss of US\$13.9 million and negative cash flows from operations of US\$51.0 million in 2021. We recorded a net income of US\$0.5 million and positive cash flows from operations of US\$1.3 million in 2022. We incurred a net loss of US\$2.6 million and negative cash flows from operations of US\$6.6 million in 2023. Our revenue declined significantly, from US\$272.1 million in 2021 to US\$83.9 million in 2022, and further to US\$32.0 million in 2023. We accumulated a deficit of US\$216.9 million as of December 31, 2023. We had negative working capital, which equals the result of current assets *minus* current liabilities, of US\$11.2 million, US\$0.3 million and US\$1.2 million as of December 31, 2021, 2022 and 2023, respectively.

These adverse conditions indicate that there is substantial doubt about the Company's ability to continue as a going concern. The liquidity of our company is dependent on our ability to enhance our operating cash flow, obtain capital financing from investors and borrowings from commercial banks to fund our general operations including marketing activities. Our ability to continue as a going concern is dependent on our ability to successfully execute our business plans including the implementation of a balanced development approach between growth and profitability. We plan to restructure our portfolio products by focusing resources on more profitable businesses, such as pan-entertainment mobile applications in overseas markets. We also plan to continue implementing our cost-control initiatives to improve cost and expense efficiency. Specifically, we plan to continue terminating the operations of non-performing and under-performing scenario-based mobile apps, and reducing sales and marketing expenses to acquire new users. In January 2024, we entered into a credit facility agreement with a commercial bank under which we could draw down up to US\$2.5 million by January 2025. From January 1 to April 26, 2024, we drew down the credit facility of US\$2.5 million and has made no repayment as of the date of this annual report. We plan to renew our short-term bank borrowings if needed. While there can be no assurance that we will be able to refinance our short-term bank borrowings as they become due, historically, we have renewed our short-term credit facility upon the maturity of the loans, and we believe we will continue to be able to do so. In addition, we will continue to seek external financing to improve our liquidity position to fund continuing operations, though there is no assurance that we will be successful in obtaining sufficient funding on terms acceptable to us.

With the implementation of the above plans, we are of the view that we have addressed contrary indicators of our ability to continue as a going concern. We believe that, with the foregoing potential sources of cash flow and potential cost control measures, we have sufficient financial resources for continuous operations and will be able to meet its payment obligations from operations for the next twelve months from the issuance of the consolidated financial statements.



We may, however, need additional capital in the future. If we determine that our cash requirements exceed the amount of cash and cash equivalents we have on hand at the time, we may seek to issue equity or debt securities or obtain credit facilities. The issuance and sale of additional equity would result in further dilution to our shareholders. The incurrence of indebtedness would result in increased fixed obligations and could result in operating covenants that would restrict our operations.

However, there are material uncertainties relating to our successful implementation of our management's business plans, which lack sufficient historical data for evidence. Furthermore, there is no assurance that we will be able to obtain additional financings or renew our current bank borrowings to fund our operations. These adverse conditions and events, as well as the material uncertainties relating to our management's plans, give rise to substantial doubt as to whether we will continue as a going concern. For a discussion of these risks, see "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—We had incurred declining revenue and negative working capital in the past, and we cannot assure you that we will sustain or improve profitability."

The total outstanding balance of our short-term bank borrowings as of December 31, 2023 was US\$0.7 million.

We have entered into the following short-term loan transactions:

- We entered into a credit facility agreement with a commercial bank under which we can borrow up to US\$10.0 million, with maturity date in June 2022 and collateralized by our accounts receivable. In 2022, we have repaid US\$5.9 million with a weighted average annual interest rate of 5.15%. As of December 31, 2023, we fully repaid the loan under this agreement.
- In July 2021, we entered into a one-year credit facility agreement with a commercial bank under which we can draw down up to US\$1.6 million by July 2022. In December 2021, we entered into a one-year loan agreement with another commercial bank which we can draw down US\$1.6 million by December 31, 2021. The annual interest rates for these two agreements were the loan prime rate. In 2021, we drew down US\$1.6 million from each of the two agreements and no amount was outstanding under these agreements. As of December 31, 2023, we fully repaid the loan under these two agreements.
- In April 2022, we entered into two short-term interest-free loan agreements with a local Hi-tech industrial park, under which we received a total amount of US\$5.5 million and fully repaid the amount at the end of June 2022.
- In September 2022, we entered into a credit facility agreement with a commercial bank under which we could draw down up to US\$0.9 million by February 2024. The annual interest rate for this agreement was the loan prime rate *minus* 0.35%. We drew down the credit facility of US\$0.9 million in 2022 and fully repaid the amount in March 2023. In June 2023, we entered into a six-month credit facility agreement with this commercial bank under which we could draw down up to US\$0.7 million with an annual interest rate of 3.65%. We drew down the credit facility of US\$0.7 million in June 2023 and fully repaid the amount in December 2023.
- In April 2023, we entered into a credit facility agreement with a commercial bank under which we could draw down up to US\$0.7 million by April 2024 with an annual interest rate of 4.15%. In 2023, we drew down the credit facility of US\$0.7 million, and fully repaid the amount in April 2024.
- In January 2024, we entered into a credit facility agreement with a commercial bank under which we could draw down up to US\$2.5 million by January 2025. The annual interest rate for the agreement was the loan prime rate *minus* 0.25%. From January 1 to April 26, 2024, we drew down the credit facility of US\$2.5 million and has made no repayment as of the date of this annual report.

While there can be no assurance that we will be able to refinance our short-term bank borrowings as they become due, historically, we have renewed or rolled over most of our short-term bank loans upon the maturity of such loans and believe we will continue to be able to do so. Meanwhile, we will seek additional credit facility with more financing banks. Additionally, we continue to monitor the daily expenditure regarding matters such as launching new products or upgrading existing products for experimental features, investing in research and development and IT infrastructure, spending in user acquisition and marketing expenses and determine the future business development plan when the necessary financial resources are available.

We believe that our current cash, cash equivalents and restricted cash, the available credit under our existing credit facilities, and our anticipated cash flows from operations will be sufficient to meet our anticipated working capital requirements and capital expenditures in the ordinary course of business for the next 12 months. We may, however, need additional capital for business expansion in the future.

As of December 31, 2023, 36.9% of our cash, cash equivalents and restricted cash were held in mainland China, and 11.4% were held by the VIEs and denominated in Renminbi. Most of the remaining cash and cash equivalents we held as of December 31, 2023, were held in Hong Kong and United States, and mainly denominated in Hong Kong dollars and U.S. dollars. Although we consolidate the results of the VIEs, we only have access to the assets or earnings of the VIEs through our contractual arrangements with the VIEs and their shareholders. See “Item 4. Information on the Company—C. Organizational Structure.” For restrictions and limitations on liquidity and capital resources as a result of our corporate structure, see “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Holding Company Structure.”

To utilize the proceeds we received from our overseas offerings, we may make additional capital contributions to our PRC subsidiary, establish new PRC subsidiaries and make capital contributions to these new PRC subsidiaries, or make loans to the PRC subsidiaries. However, most of these uses are subject to PRC regulations. Foreign direct investment and loans must be approved by and/or registered with SAFE and its local branches. The total amount of loans we can make to our PRC subsidiary cannot exceed statutory limits and must be registered with the local counterpart of SAFE. The statutory limit for the total amount of foreign debts of a foreign-invested company is the difference between the amount of total investment as approved by the Ministry of Commerce or its local counterpart and the amount of registered capital of such foreign-invested company. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—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 our overseas offerings to make loans to our PRC subsidiary and the VIEs, or to make additional capital contributions to our PRC subsidiary.”

A portion of our future revenues are likely to continue to be in the form of Renminbi. Under existing PRC foreign exchange regulations, Renminbi may be converted into foreign exchange for current account items, including profit distributions, interest payments and trade-and service-related foreign exchange transactions without prior SAFE approval by following certain routine procedural requirements. However, current PRC regulations permit our PRC subsidiary to pay dividends to us only out of its accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. Our PRC subsidiary is required to set aside at least 10% of its after-tax profits after making up previous years’ accumulated losses each year, if any, to fund certain reserve funds until the total amount set aside reaches 50% of its registered capital. These reserves are not distributable as cash dividends. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—We may rely on dividends paid by our PRC subsidiary to fund cash and financing requirements. Any limitation on the ability of our PRC subsidiary to pay dividends to us could have a material adverse effect on our ability to conduct our business and to pay dividends to holders of the ADSs and our ordinary shares.”

### ***Operating Activities***

Net cash used in operating activities in 2023 was US\$6.6 million, as compared to net loss of US\$2.6 million in the same period. The difference was primarily due to (i) a decrease of US\$3.6 million in accounts payable driven primarily by the decrease in payment of our user acquisition costs, (ii) a decrease of US\$2.2 million in accrued expenses and other current liabilities, and (iii) a decrease of US\$2.8 million in accrued salary and benefits, partially offset by an increase of US\$2.7 million in accounts receivables and US\$1.1 million in prepaid expenses and other current assets. The principal non-cash items affecting the difference between our net income and our net cash used in operating activities in 2023 primarily consisted of (i) US\$0.4 million in depreciation expenses, (ii) US\$0.7 million in share-based compensation expenses, and (iii) US\$0.3 million in non-cash lease expenses, and partially offset by US\$0.4 million in gain on disposal of property and equipment.

Net cash provided by operating activities in 2022 was US\$1.3 million, as compared to net income of US\$0.5 million in the same period. The difference was primarily due to (i) a decrease of US\$17.5 million in accounts payable driven primarily by the decrease in payment of our user acquisition costs, (ii) a decrease of US\$6.6 million in accrued expenses and other current liabilities, and (iii) a decrease of US\$1.9 million in deferred revenue, partially offset by an increase of US\$15.8 million in accounts receivables and US\$5.8 million in prepaid expenses and other current assets. The principal non-cash items affecting the difference between our net income and our net cash used in operating activities in 2022 primarily consisted of (i) US\$1.8 million in depreciation expenses, (ii) US\$1.8 million in share-based compensation expenses, (iii) US\$1.3 million in amortization of issuance cost and debt discounts related to convertible notes, and (iv) US\$1.2 million in non-cash lease expenses, and partially offset by US\$0.6 million in change in fair value of derivatives.

Net cash used in operating activities in 2021 was US\$51.0 million, as compared to net loss of US\$13.9 million in the same period. The difference was primarily due to (i) a decrease of US\$48.4 million in accounts payable driven primarily by the payments of our user acquisition costs, (ii) a decrease of US\$2.4 million in deferred revenue and (iii) a decrease of US\$4.8 million in accrued expenses and other current liabilities, partially offset by an increase of US\$7.0 million in accounts receivables and US\$1.3 million in prepaid expenses and other current assets. The principal non-cash items affecting the difference between our net income and our net cash used in operating activities in 2021 primarily consisted of (i) US\$5.6 million in amortization of issuance cost and debt discounts related to convertible notes, (ii) US\$3.8 million in depreciation expenses, and (iii) US\$3.7 million in share-based compensation expenses, and partially offset by US\$1.1 million in Change in fair value of derivatives.

#### ***Investing Activities***

Net cash provided by investing activities in 2023 was US\$1.0 million, primarily due to proceeds from disposal of property and equipment of US\$1.0 million.

Net cash provided by investing activities in 2022 was US\$0.5 million, primarily due to proceeds from disposal of property and equipment of US\$0.6 million, partially offset by purchase of long-term investment of US\$0.1 million.

Net cash used in investing activities in 2021 was US\$1.8 million, primarily due to (i) purchase of property, plant and equipment of US\$1.5 million and (ii) purchase of long-term investment of US\$0.3 million.

#### ***Financing Activities***

Net cash used in financing activities in 2023 was US\$2.0 million, primarily due to repayment of convertible notes of US\$1.8 million.

Net cash used in financing activities in 2022 was US\$11.6 million, primarily due to (i) repayment of bank borrowing of US\$14.1 million, and (ii) repayment of convertible notes of US\$3.7 million, offset by proceeds from bank borrowings of US\$6.3 million.

Net cash provided by financing activities in 2021 was US\$20.9 million, primarily due to (i) proceeds from bank borrowings of US\$77.8 million, (ii) proceeds from issuance of convertible notes, net of debt discounts and issuance cost of US\$27.2 million, (iii) proceeds from issuance of a registered direct offering of US\$1.4 million, and (iv) proceeds from issuance of ordinary shares upon exercise of options of US\$0.1 million, partially offset by (i) repayment of bank borrowing of US\$79.8 million, (ii) repayment of convertible notes of US\$4.2 million, (iii) payment of share repurchase of US\$1.3 million, and (iii) payment of issuance costs for the issuance of ordinary shares upon exercise of options of US\$0.2 million.

#### **Material Cash Requirements**

Our material cash requirements as of December 31, 2023 and any subsequent interim period primarily include our operating lease obligations and short-term bank debt obligations.

Our operating lease obligations consist of the commitments under the lease agreements for our office premises. We lease our office facilities under non-cancelable operating leases with various expiration dates. Our leasing expense was US\$1.7 million, US\$1.1 million and US\$0.3 million for the years ended December 31, 2021, 2022 and 2023, respectively. The majority of our operating lease commitments are related to our office lease agreements in mainland China.

We made capital expenditures of US\$1.5 million, nil and US\$0.08 million in 2021, 2022 and 2023, respectively. In 2021, our capital expenditure was mainly used for purchases of property and equipment, including servers and other IT equipment. In 2023, we sold a majority of our servers, terminated leases with internet data centers who hosted those servers, and completed the transition of our data and services to cloud service providers, such as AliCloud, Tencent Cloud and Huoshan Cloud, as a part of our cost-control initiatives. We plan to continue to make capital expenditures to meet the needs that result from the expected growth of our business in the future.

We intend to fund our existing and future material cash requirements with our existing cash balance and future cash from our operations and financings. We will continue to make cash commitments, including capital expenditures, to support the growth of our business.

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We do not have retained or contingent interests in assets transferred. We have not entered into contractual arrangements that support the credit, liquidity or market risk for transferred assets. We do not have obligations that arise or could arise from variable interests held in an unconsolidated entity, or obligations related to derivative instruments that are both indexed to and classified in our own equity, or not reflected in the statement of financial position.

Other than as discussed above, we did not have any significant capital and other commitments, long-term obligations or guarantees as of December 31, 2023.

### **Holding Company Structure**

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

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

See "Item 4. Information On the Company—B. Business Overview—Intellectual Property."

#### **D. Trend Information**

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the period since January 1, 2024, that are reasonably likely to have a material effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

#### **E. Critical Accounting Estimates**

We prepare our consolidated financial statements in accordance with U.S. GAAP, which requires our management to make estimates that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the balance sheet dates, as well as the reported amounts of revenues and expenses during the reporting periods. To the extent that there are material differences between these estimates and actual results, our financial condition or results of operations would be affected. We base our estimates on our own historical experience and other assumptions that we believe are reasonable after taking account of our circumstances and expectations for the future based on available information. We evaluate these estimates on an ongoing basis.

We consider an accounting estimate to be critical if: (i) the accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and (ii) changes in the estimate that are reasonably likely to occur from period to period or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition or results of operations. There are other items within our financial statements that require estimation but are not deemed critical, as defined above. Changes in estimates used in these and other items could have a material impact on our financial statements. For a detailed discussion of our significant accounting policies and related judgments, see “Notes to Consolidated Financial Statements—Note 2 Summary of Significant Accounting Policies” of our audited consolidated financial statements included in this annual report. We believe the following critical accounting estimates are used in the preparation of our financial statements.

#### ***Revenue Recognition - In-app purchase***

We operate applications that allow users to download for free and also offer in-app purchases to users. In-app purchase revenue is primarily derived in the form of subscriptions and sale of in-app virtual currency to obtain virtual items in mobile games or extra content in our online literature products.

Payments from users are non-refundable and relate to non-cancellable contracts for a fixed price that specify our obligations. We are primarily responsible for providing the service and virtual items, have control over the content and operation of applications, and have the discretion to establish the in-app purchases’ prices. Therefore, we are the principal and accordingly revenues are recorded on a gross basis. The digital distribution platforms such as Apple App Store and Google Play collect proceeds from the users and remit the proceeds to us after deducting their respective platform fees. Payment processing fees paid to platforms are recorded within cost of revenues.

In-app purchase revenue derived in the form of subscription is initially deferred and is recognized using the straight-line method over the term of the applicable subscription period.

For in-app purchase revenue derived from the sale of in-app virtual currency, the satisfaction of our performance obligation is dependent on the nature of the virtual item purchased which is categorized as either consumable or durable.

- *Consumable:* Consumable virtual items represent items that can be consumed by a specific user action. Consumable virtual items do not provide the user any continuing benefit after a short period of time following consumption. For the sale of consumable virtual items, we recognize revenue as the items are consumed which approximates 60 days. We have determined through a review of user behavior that users generally do not purchase additional virtual currency until their existing virtual currency balances have been substantially consumed. This review, performed on an app-by-app basis, includes an analysis of users’ historical purchase behavior and consumption behavior. Based upon this analysis, we have estimated the rate at which virtual items are consumed within each application. Accordingly, revenues are recognized using these estimated consumption rates. We monitor this analysis of user behavior on a quarterly basis.
- *Durable:* Durable virtual items represent items that are accessible to the user over an extended period of time. We recognize revenue from the sale of durable virtual items ratably over the estimated service period for the applicable applications, which represents our best estimate of the average life of the durable virtual item.

The substantial majority of virtual items in our applications are consumable virtual items. We expect that in future periods, there will not be significant changes in the mix of consumable and durable virtual items offered and sold.

#### ***Revenue Recognition - Sales incentives***

We provide sales incentives to customers in the form of sales rebates which entitle them to receive reductions in the price. We account for these incentives granted to customers as variable consideration and records it as reduction of revenue. Estimated rebates are determined based on agreed rates, customer spending and amount deposited by the customers. We regularly review the information related to these estimates and adjust the amount accordingly.

### ***Share-based Compensation***

Our share-based payment transactions with our employees are measured based on the grant date fair value of the equity instrument we issued and recognized as compensation expense over the requisite service period based on the straight-line method, with a corresponding impact reflected in additional paid-in capital.

Our share-based compensation expenses are measured at the fair value of the awards as calculated under the binomial option-pricing model. Changes in the assumptions used in the binomial model could significantly affect the fair value of stock options and hence the amount of compensation expenses we recognize in our consolidated financial statements. Using this model, fair value is calculated based on assumptions with respect to (i) expected volatility of our ADS price, (ii) contractual term stated in the agreement (iii) expected dividend yield on our ADS, and (iv) risk-free interest rates, which are based on quoted U.S. Treasury rates for securities with maturities approximating the options' expected lives. Expected volatility is estimated based on annualized standard deviation of daily stock price return of comparable companies for the period before valuation date and with similar span as the expected expiration term. The expected dividend yield is zero as we have never paid dividends and do not currently anticipate paying any in the foreseeable future.

### ***Income Tax***

Current income taxes are provided on the basis of net income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the tax jurisdictions. We follow the asset and liability method of accounting for income taxes.

In accordance with the provisions of ASC 740, we recognize in the financial statements the benefit of a tax position if the tax position is "more likely than not" to prevail based on the facts and technical merits of the position. Tax positions that meet the "more likely than not" recognition threshold are measured at the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement. We estimate liability for unrecognized tax benefits which are periodically assessed and may be affected by changing interpretations of laws, rulings by tax authorities, changes and/or developments with respect to tax audits, and expiration of the statute of limitations. The ultimate outcome for a particular tax position may not be determined with certainty prior to the conclusion of a tax audit and, in some cases, appeal or litigation process.

Under this method, deferred tax assets and liabilities are determined based on the temporary differences between the financial statements carrying amounts and tax bases of assets and liabilities by applying enacted statutory tax rates that will be in effect in the period in which the temporary differences are expected to reverse. We consider positive and negative evidence when determining whether some portion or all of the deferred tax assets will not be realized. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carry-forward periods, historical results of operations, and tax planning strategies. We record a valuation allowance to offset deferred tax assets if based on the weight of available evidence, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rate is recognized in our consolidated financial statements in the period of change. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

### **Recent Accounting Pronouncements**

A list of recently issued accounting pronouncements that are relevant to us is included in "Summary of Significant Accounting Policies-(z) Recent Accounting Pronouncements" of our audited consolidated financial statements included elsewhere in this annual report.

**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

**A. Directors and Senior Management**

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

<b>Directors and Executive Officers</b>	<b>Age</b>	<b>Position/Title</b>
Karl Kan Zhang	43	Chairman of the Board of Directors, Chief Technology Officer and Acting Chief Financial Officer
Susan Qiaoling Li	45	Director, Chief Executive Officer, and President
Michael Jialiang Wang	44	Director
Glen Qian Sun	50	Director

*Mr. Karl Kan Zhang* co-founded our company in 2008 and has served as Chairman of the Board of Directors since March 2012, Chief Technology Officer since April 2020 and Acting Chief Financial Officer since December 2023. Mr. Zhang also served as the Chief Architect from August 2008 to April 2020. Prior to founding our company, Mr. Zhang served as a research and development manager at Microsoft Advanced Technology Center from 2004 to 2008. Prior to that, Mr. Zhang served as a software engineer at Intel China Software Lab from 2002 to 2004. Mr. Zhang received his bachelor's degree in mechanical and electronic engineering from Shanghai University in 2002.

*Ms. Susan Qiaoling Li* co-founded our company in 2008, and has served as our President since April 17, 2018, our director since October 2012, and our Chief Executive Officer since November 2021. Ms. Li first served as our Chief Marketing Officer in 2008, and was then appointed as our Head of Global Business Division in September 2015. Prior to founding our company, Ms. Li served as a program manager in Microsoft China Co., Ltd.'s Shanghai Branch from 2005 to 2008, where she gained extensive experience in developing software and managing key accounts. Prior to that, Ms. Li served as a software quality engineer at Intel (China) Co., Ltd from 2003 to 2005. Ms. Li received her bachelor's degree in automation from Tsinghua University in 2000 and her master's degree in computer engineering from North Carolina State University in 2003.

*Mr. Michael Jialiang Wang* co-founded our company in 2008 and has served as a director since March 2012. Prior to founding our company, Mr. Wang served as a product manager at Microsoft R&D Group in China from 2005 to 2008. Mr. Wang served as our Chief Executive Officer since August 2008 to November 2021. Mr. Wang received his bachelor's and master's degrees in electronic engineering from Shanghai Jiao Tong University in 2002 and 2005, respectively.

*Mr. Glen Qian Sun* has served as our director since July 2014. Mr. Sun is a partner of Sequoia Capital China, a private equity firm affiliated to one of our major shareholders. Mr. Sun has also served on the board of 500.com Limited (NYSE: WBAI) as an independent director since 2013. Prior to joining Sequoia Capital China in 2006, Mr. Sun served as an associate at General Atlantic LLC, a private equity firm, from 2003 to 2005, focusing on technology and internet related investment in China. Mr. Sun also worked as a management consultant at Monitor Group from 1997 to 1999. Mr. Sun received his bachelor's degree in applied mathematics from Harvard College in 1997, and his MBA from Harvard Business School and J.D. from Harvard Law School in 2003.

**Employment Agreements and Indemnification Agreements**

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

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

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

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

## **B. Compensation**

For the fiscal year ended December 31, 2023, we paid an aggregate of approximately US\$0.8 million in cash to our executive officers, and we paid an aggregate of approximately US\$0.3 million in cash to our non-executive directors. We have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our executive officers and directors. Our PRC subsidiary and the VIEs are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, unemployment insurance and other statutory benefits and a housing provident fund.

### ***Share Incentive Plans***

#### ***2012 Stock Incentive Plan***

In November 2012, we adopted the 2012 Stock Incentive Plan, as amended from time to time, or the 2012 Plan, to attract and retain the best available personnel, provide additional incentives to employees, directors and advisors and promote the success of our business. The maximum aggregate number of our ordinary shares which may be issued pursuant to all awards under the 2012 Plan is 226,153,637 ordinary shares. As of March 31, 2024, awards to purchase 202,657,740 ordinary shares have been granted and outstanding, excluding awards that were forfeited or canceled after the relevant grant dates.

On November 6, 2018, our board of directors approved to reduce the exercise price of certain options granted under our 2012 Plan to employees.

On July 20, 2022, our board of directors approved to extend the term of the 2012 Stock Incentive Plan and the expiration date of certain awards issued under this plan for another ten years, effective immediately.

The following paragraphs describe the principal terms of the 2012 Plan.

*Types of Awards.* The 2012 Plan permits the awards of options, restricted shares, restricted share units, or RSUs, or any other form of awards granted to a participant pursuant to the 2012 Plan.

*Plan Administration.* Our board of directors or a committee of one or more members of the board of directors will administer the 2012 Plan. The plan administrator will determine the participants to receive awards, the type and number of awards to be granted to each participant, and the terms and conditions of each award grant.



*Award Agreement.* Awards granted under the 2012 Plan are evidenced by an award agreement that sets forth terms, conditions and limitations for each award, which may include the term of the award, the provisions applicable in the event of the participant's employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind the award.

*Eligibility.* We may grant awards to our senior managers, advisors or employees.

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

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

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

*Termination and amendment of the 2012 Plan.* Unless terminated earlier, the 2012 Plan has a term of 20 years. Our board of directors has the authority to amend or terminate the 2012 Plan. However, no such action may adversely affect in any material way any awards previously granted unless agreed by the participant.

### **2018 Share Incentive Plan**

In August 2018, our shareholders and board of directors adopted the 2018 Share Incentive Plan, or the 2018 Plan, to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of our business. The maximum aggregate number of shares which may be issued under the 2018 Plan shall initially be 63,916,634 Class A ordinary shares, *plus* an annual increase on the first day of each of the first five (5) complete fiscal years after the completion of our initial public offering in 2018 and during the term of this plan commencing with the fiscal year beginning January 1, 2019, by an amount equal to 2.0% of the total number of shares issued and outstanding on the last day of the immediately preceding fiscal year (excluding issued shares reserved for future option exercise and restricted share unit vesting). As of March 31, 2024, awards to purchase 101,100,086 ordinary shares have been granted and outstanding, excluding awards that were forfeited or canceled after the relevant grant dates. The following paragraphs summarize the terms of the 2018 Plan.

*Types of Awards.* The 2018 Plan permits the awards of options, restricted shares, restricted share units, or other types of awards granted to a participant pursuant to the terms of the 2018 Plan.

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

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

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

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

*Exercise of Options.* The plan administrator determines the exercise price for each option, which is stated in the award agreement. The plan administrator shall determine the time or times at which an option may be exercised in whole or in part, but the maximum term of any option is ten years.

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

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

The following table summarizes, as of March 31, 2024, the awards granted under our 2012 Plan and 2018 Plan to several of our directors and executive officers and to other individuals as a group, excluding awards that were forfeited or canceled after the relevant grant dates.

Name	Ordinary Shares Underlying Outstanding Options or RSUs	Exercise Price (US\$/Share)	Date of Grant	Date of Expiration
Karl Kan Zhang	*	0.0002	January 6, 2020	January 5, 2030
Susan Qiaoling Li	*	0.0002	January 6, 2020	January 5, 2030
Other individuals as a group	288,757,826 <sup>(1)</sup>	from 0.0002 to 0.1800		

\* The options and restricted shares units in aggregate held by each of these officers represent less than 1% of our total outstanding shares.

(1) Including options and restricted shares units. With respect to the options, the exercise price is within the range from US\$0.0002 to US\$0.1800 per share.

### C. Board Practices

Our board of directors consists of four directors. A director is not required to hold any shares in our company by way of qualification. A director who is in any way, whether directly or indirectly, interested in a contract or proposed contract with our company is required to declare the nature of his interest at a meeting of our directors. A director may vote in respect of any contract, proposed contract, or arrangement notwithstanding that he may be interested therein, and if he does so his vote shall be counted and he may be counted in the quorum at any meeting of our directors at which any such contract or proposed contract or arrangement is considered. The directors may exercise all the powers of the company to borrow money, mortgage its undertaking, property and uncalled capital, and issue debentures or other securities whenever money is borrowed or as security for any obligation of the company or of any third party.

### Committees of the Board of Directors

As CooTek is not currently listed on any stock exchange, CooTek is not subject to any listing rules or listing standards. In May 2023, CooTek's independent directors resigned from its board of directors and CooTek's board of directors resolved to dissolve the audit committee, the compensation committee and the nominating and corporate governance committee. CooTek's board of directors has assumed the functions and responsibilities of these committees since May 2023. There are no independent directors on CooTek's board of directors as of the date of this annual report. For risks relating to CooTek's current corporate governance practice, see "Item 3. Key Information—D. Risk Factors—Risks Related to Our ADSs—As CooTek is an exempted company incorporated in the Cayman Islands and not listed on any stock exchange, its corporate governance practices may differ significantly from those of companies incorporated in Delaware or other states in the United States or those of companies listed on a stock exchange, and these practices may afford less protection to shareholders."

## Duties of Directors

Under Cayman Islands law, our directors owe fiduciary duties to us, including a duty of loyalty, a duty to act honestly, in good faith and with a view to our best interests. Our directors must also exercise their powers only for a proper purpose. Our directors also have a duty to exercise the skills they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than what may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care, and these authorities are likely to be followed in the Cayman Islands. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association and the class rights vested thereunder in the holders of the shares. The Company has the right to seek damages if a duty owed by our directors is breached. In certain limited exceptional circumstances, a shareholder may have rights to damages if a duty owed by the directors is breached.

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

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

## Terms of Directors and Officers

Our officers are appointed by and serve at the discretion of the board of directors. Our directors are not subject to a term of office and hold office until such time as they are removed from office by ordinary resolution of the shareholders. A director will be removed from office automatically if, among other things, the director (i) becomes bankrupt or makes any arrangement or composition with his creditors; (ii) dies, or is found by our company to be or becomes of unsound mind; (iii) resigns his office by notice in writing to the company, (iv) without special leave of absence from our board, is absent from three consecutive board meetings and our board of directors resolve that his office be vacated; or (v) is removed from office pursuant to any other provision of our memorandum and articles of association.

## D. Employees

We had 385, 181 and 106 employees as of December 31, 2021, 2022 and 2023, respectively. The following table sets forth the breakdown of our employees by function as of December 31, 2023:

<b>Function:</b>	<b>Number of Employees</b>
Research and development	52
Sales and marketing	6
Operations	19
General and administrative	29
<b>Total</b>	<b>106</b>

As required by laws and regulations in mainland China, we contribute to various statutory employee benefit plans that are organized by municipal and provincial governments, including pension, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance plans as well as the housing provident fund. We are required under Chinese law to make contributions to employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time.

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

**E. Share Ownership**

The following table sets forth information with respect to the beneficial ownership of our ordinary shares as of March 31, 2024, by:

- each of our directors and executive officers; and
- each person known to us to own beneficially 5% of our total outstanding shares.

The calculations in the table below are based on 4,591,030,991 Class A ordinary shares (excluding treasury stocks and shares issued and reserved for future issuance upon the exercising or vesting of awards granted under our share incentive plans) and 246,224,465 Class B ordinary shares outstanding as of March 31, 2024.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days after March 31, 2024, including through the exercise of any option, warrant or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.

	Ordinary Shares Beneficially Owned				
	Class A Ordinary Shares	Class B Ordinary Shares	Total Ordinary Shares	% of Beneficial Ownership	% of Aggregate Voting Power <sup>***</sup>
<b>Directors and Executive Officers<sup>**</sup></b>					
Karl Kan Zhang <sup>(1)</sup>	104,285,750	246,224,465	350,510,215	7.2	58.2
Susan Qiaoling Li <sup>(2)</sup>	220,624,465	—	220,624,465	4.6	2.1
Michael Jialiang Wang <sup>(3)</sup>	167,036,665	—	167,036,665	3.5	1.6
Glen Qian Sun	—	—	—	—	—
<b>All Directors and Executive Officers as a Group</b>	491,946,880	246,224,465	738,171,345	15.2	61.8
<b>Principal Shareholders:</b>					
HSG GF Holdco III-A, Ltd. <sup>(4)</sup>	555,204,772	—	555,204,772	11.5	5.2
Qiming Funds <sup>(5)</sup>	540,786,459	—	540,786,459	11.2	5.0
SIG China Investments Master Fund III, LLLP <sup>(6)</sup>	423,583,387	—	423,583,387	8.8	3.9
Kan's Global CoolStuff Investment Inc. <sup>(1)(7)</sup>	—	246,224,465	246,224,465	5.1	57.3

\* Less than 1% of our total outstanding shares.

\*\* Except as otherwise indicated below, the business address of our directors and executive officers is 11F, T2, No.16, Lane 399, Xinlong Road, Minhang District, Shanghai, 201101, China. The business address of Glen Qian Sun is Room 3006, Plaza 66 Tower 2, No.1266 Nanjing West Road, Shanghai, China.

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

- (1) Represents (i) 246,224,465 Class B ordinary shares held by Kan's Global CoolStuff Investment Inc., a British Virgin Islands company, (ii) 94,285,750 Class A ordinary shares in the form of ADSs held by Karl Kan Zhang, and (iii) 10,000,000 Class A ordinary shares issuable upon the exercise of options exercisable within 60 days after the date of this annual report held by Karl Kan Zhang. Kan's Global CoolStuff Investment Inc. is wholly owned by Kan's Universe Investment Limited, a British Virgin Islands company, which is ultimately owned by Karl's Global CoolStuff Investment Trust, a trust established under the laws of Guernsey and managed by Cantrust (Far East) Limited as the trustee. Karl Kan Zhang is the settlor of this trust, and Mr. Zhang and his family members are the trust's beneficiaries. Under the terms of this trust, Mr. Zhang has the power to direct the trustee with respect to the retention or disposal of, and the exercise of any voting and other rights attached to, the shares of CooTek held by Kan's Global CoolStuff Investment Inc. Mr. Zhang is the sole director of Kan's Global CoolStuff Investment Inc. The registered office of Kan's Global CoolStuff Investment Inc. is at Coastal Building, Wickham's Cay II, P.O. Box 2221, Road Town, Tortola, British Virgin Islands.
- (2) Represents (i) 215,624,465 Class A ordinary shares held by LQL Global Innovation Investment Inc., a British Virgin Islands company, and (ii) 5,000,000 Class A ordinary shares issuable upon the exercise of options exercisable within 60 days after the date of this annual report held by Susan Qiaoling Li. LQL Global Innovation Investment Inc. is wholly owned by LQL International Limited, a British Virgin Islands company, which is ultimately owned by LQL International Trust, a trust established under the laws of Guernsey and managed by Cantrust (Far East) Limited as the trustee. Susan Qiaoling Li is the settlor of this trust, and Ms. Li and her family members are the trust's beneficiaries. Under the terms of this trust, Ms. Li has the power to direct the trustee with respect to the retention or disposal of, and the exercise of any voting and other rights attached to, the shares of CooTek held by LQL Global Innovation Investment Inc. Ms. Li is the sole director of LQL Global Innovation Investment Inc. The registered office of LQL Global Innovation Investment Inc. is at Coastal Building, Wickham's Cay II, P.O. Box 2221, Road Town, Tortola, British Virgin Islands.
- (3) Represents (i) 165,874,465 Class A ordinary shares and (ii) 1,162,200 Class A ordinary shares in the form of ADSs held by Jialiang's Global Creativity Investment Inc., a British Virgin Islands company. Jialiang's Global Creativity Investment Inc. is wholly owned by MWRT Global Limited, a British Virgin Islands company, which is ultimately owned by Ivy Trust, a trust established under the laws of Guernsey and managed by Cantrust (Far East) Limited as the trustee. Michael Jialiang Wang is the settlor of this trust, and Mr. Wang and his family members are the trust's beneficiaries. Under the terms of this trust, Mr. Wang has the power to direct the trustee with respect to the retention or disposal of, and the exercise of any voting and other rights attached to, the shares of CooTek held by Jialiang's Global Creativity Investment Inc. Mr. Wang is the sole director of Jialiang's Global Creativity Investment Inc. The registered office of Jialiang's Global Creativity Investment Inc. is at Drake Chambers P.O. Box 3321, Road Town, Tortola, British Virgin Islands.
- (4) Represents (i) 534,404,772 Class A ordinary shares and (ii) 20,800,000 Class A ordinary shares in the form of ADSs held by HSG GF Holdco III-A, Ltd., formerly known as Sequoia Capital China GF Holdco III-A, Ltd. and an exempted company with limited liability incorporated in the Cayman Islands. Information regarding beneficial ownership is reported as of December 31, 2018, based on the information contained in the Schedule 13G filed by Sequoia Capital China GF Holdco Ltd. with SEC on February 14, 2019. The sole shareholder of HSG GF Holdco III-A, Ltd. is HongShan Capital Growth Fund III, L.P., formerly known as Sequoia Capital China Growth Fund III, L.P. The general partner of HongShan Capital Growth Fund III, L.P. is HSG Growth III Management, L.P., formerly known as SC China Growth III Management, L.P., whose general partner is HSG Holding Limited, formerly known as SC China Holding Limited. HSG Holding Limited is wholly owned by SNP China Enterprises Limited, which in turn is wholly owned by Mr. Neil Nanpeng Shen. The registered office of HSG GF Holdco III-A, Ltd. is at Cricket Square, Hutchins Drive P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

- (5) Represents (i) 490,679,348 Class A ordinary shares held by Qiming Venture Partners II, L.P., a Cayman Islands exempted limited partnership; 42,966,564 Class A ordinary shares held by Qiming Venture Partners II-C, L.P., a Cayman Islands exempted limited partnership; and (ii) 7,140,547 Class A ordinary shares by Qiming Managing Directors Fund II, L.P., a Cayman Islands exempted limited partnership. Information regarding beneficial ownership is reported as of December 31, 2022, based on the information contained in the Schedule 13G/A filed by Qiming Corporate GP II, Ltd. with SEC on February 14, 2023. Qiming Venture Partners II, L.P., Qiming Venture Partners II-C, L.P., and Qiming Managing Directors Fund II, L.P. are collectively referred to as Qiming Funds. The general partner of both Qiming Venture Partners II, L.P. and Qiming Venture Partners II-C, L.P. is Qiming GP II, L.P., a Cayman Islands exempted limited partnership. The general partner of both Qiming Managing Directors Fund II, L.P. and Qiming GP II, L.P. is Qiming Corporate GP II, Ltd., a Cayman Islands exempted limited company. Duane Ziping Kuang, Gary Edward Rieschel and Robert Brian Headley each owns approximately 33.33% of Qiming Corporate GP II, Ltd. The registered office of Qiming Funds is at P.O. Box 309, Uglan House, Grand Cayman, KY1-1104, Cayman Islands.
- (6) Represents 423,583,387 Class A ordinary shares held by SIG China Investments Master Fund III, LLLP, a Delaware limited liability limited partnership. Information regarding beneficial ownership is reported as of December 31, 2020, based on the information contained in the Schedule 13G/A filed by SIG China Investments Master Fund III, LLLP, SIG Asia Investment, LLLP, and Heights Capital Management, Inc. with SEC on February 16, 2021. SIG Asia Investment, LLLP, a Delaware limited liability limited partnership, is the investment manager for SIG China Investments Master Fund III, LLLP pursuant to an investment management agreement, and as such, has discretionary authority to vote and dispose of the Class A ordinary shares. Heights Capital Management, Inc., a Delaware Corporation, is the investment manager for SIG Asia Investment, LLLP pursuant to an investment management agreement, and as such, has the discretionary to dispose and vote the Class A ordinary shares. Mr. Authur Dantchik, in his capacity as president of SIG Asia Investment, LLLP, and vice president of Heights Capital Management, Inc. may also be deemed to have investment discretion over the shares held by SIG China Investments Master Fund III, LLLP. Mr. Dantchik disclaims any such investment discretion or beneficiary ownership with respect to these shares. The registered office of SIG China Investments Master Fund III, LLLP is at One Commence Center, 1201 N. Orange Street, Suite 715, Wilmington, DE, USA.
- (7) Represents 246,224,465 Class B ordinary shares held by Kan's Global CoolStuff Investment Inc., a British Virgin Islands company. Kan's Global CoolStuff Investment Inc. is wholly owned by Kan's Universe Investment Limited, a British Virgin Islands company, which is ultimately owned by Karl's Global CoolStuff Investment Trust, a trust established under the laws of Guernsey and managed by Cantrust (Far East) Limited as the trustee. Karl Kan Zhang is the settlor of this trust, and Mr. Zhang and his family members are the trust's beneficiaries. Under the terms of this trust, Mr. Zhang has the power to direct the trustee with respect to the retention or disposal of, and the exercise of any voting and other rights attached to, the shares of CooTek held by Kan's Global CoolStuff Investment Inc. Mr. Zhang is the sole director of Kan's Global CoolStuff Investment Inc. The registered office of Kan's Global CoolStuff Investment Inc. is at Coastal Building, Wickham's Cay II, P.O. Box 2221, Road Town, Tortola, British Virgin Islands.

To our knowledge, as of March 31, 2024, a total of 3,041,863,847 of our ordinary shares (including treasury stocks and shares issued and reserved for future issuance upon the exercising or vesting of awards granted under our share incentive plans) were held by three record holders in the United States. One of these holders is Deutsche Bank Trust Company Americas, the depository of our ADS program, which held 2,627,987,900 Class A ordinary shares (including treasury stocks and shares issued and reserved for future issuance upon the exercising or vesting of awards granted under our share incentive plans). The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.

**F. Disclosure of A Registrant's Action to Recover Erroneously Awarded Compensation**

Not applicable.

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

**A. Major Shareholders**

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

**B. Related Party Transactions**

**Contractual Arrangements with the VIEs and their Shareholders**

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

**Shareholders Agreement**

We entered into our shareholders agreement on January 10, 2017, with our shareholders, which consist of holders of ordinary shares and preferred shares.

The shareholders agreement provides for certain preferential rights, including right of first refusal, co-sale rights, preemptive rights and provisions governing the board of directors and other corporate governance matters. Those preferential rights governing the board of directors has been automatically terminated upon the completion of our initial public offering.

**Employment Agreements and Indemnification Agreements**

See “Item 6. Directors, Senior Management and Employees—A. Directors and Senior Management—Employment Agreements and Indemnification Agreements.”

**Share Incentive Plans**

See “Item 6. Directors, Senior Management and Employees—A. Directors and Senior Management—2012 Stock Incentive Plan.” and “Item 6. Directors, Senior Management and Employees—A. Directors and Senior Management—2018 Share Incentive Plan.”

**C. Interests of Experts and Counsel**

Not applicable.

**ITEM 8. FINANCIAL INFORMATION**

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

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

**Legal Proceedings**

We are from time to time subject to various legal or administrative claims, proceedings and penalties arising in the ordinary course of business. Litigation or any other legal or administrative proceeding, regardless of the outcome, is likely to result in substantial cost and diversion of our management’s time and attention.

In August 2021, a local branch of the Ministry of Culture and Tourism ordered to confiscate approximately RMB451,801 as illegal earnings from and imposed a fine of approximately RMB458,882 on Molihong for providing online publication to the public without any internet publication service license and providing online pornography publication to the public on Fengdu Novel.

In December 2022, a third-party company in mainland China brought a lawsuit against Shanghai Dengyong Information Technology Co., Ltd., a subsidiary of one of the VIEs, in Shanghai Minhang District People’s Court for copyright infringement. The plaintiff alleged that a short drama adapted from an online novel provided by Fengdu Novel infringed its copyright, and claimed for stopping the infringement and compensation of RMB1,000,000. In October 2023, this third-party company brought another lawsuit against Shanghai Dengyong Information Technology Co., Ltd. and Molihong in Shanghai Minhang District People’s Court for copyright infringement. The plaintiff alleged that the online novel mentioned above infringed its copyright, and claimed for the cessation of the infringement and compensation totaling RMB500,000. As of the date of this annual report, no conclusive judicial decision has been made with respect to these lawsuits.

For risks and uncertainties relating to the pending cases against us, please see “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—We may be subject to intellectual property infringement lawsuits which could be expensive to defend and may result in our payment of substantial damages or licensing fees, disruption to our product and service offerings, and reputational harm.”

Other than the above, we are currently not a party to any material legal or administrative proceedings.

#### **Dividend Policy**

Our board of directors has complete discretion on whether to distribute dividends, subject to certain requirements of Cayman Islands law. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. Under Cayman Islands law, a Cayman Islands company may pay a dividend either out of profits or share premium account; *provided* that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant.

We do not have any present plan to pay any cash dividends on our ordinary shares in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

We are a holding company incorporated in the Cayman Islands. We may rely on dividends from our subsidiaries in mainland China for our cash requirements, including any payment of dividends to our shareholders. PRC regulations may restrict the ability of our PRC subsidiaries to pay dividends to us. See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Relating to Foreign Currency Exchange and Dividend Distribution.”

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

#### **B. Significant Changes**

We have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.



**ITEM 9. THE OFFER AND LISTING**

**A. Offering and Listing Details**

Our ADSs were listed on the New York Stock Exchange under the symbol “CTK” since September 28, 2018. On May 19, 2022, we were notified by the NYSE that the staff of NYSE Regulation determined to commence proceedings to delist our ADSs from the NYSE. Trading in our ADSs was suspended after the market close on the NYSE on May 19, 2022. On June 6, 2022, the NYSE filed a Form 25 with the SEC to strike our ADSs from listing, which became effective 10 days after the filing.

Our ADSs, each representing 650 Class A ordinary shares, have been quoted on the OTC Pink Limited Information under the symbol “CTKY” after the NYSE suspended the trading of our ADSs on May 19, 2022.

**B. Plan of Distribution**

Not applicable.

**C. Markets**

Our ADSs have been quoted on the OTC Pink Limited Information under the symbol “CTKY” after the NYSE suspended the trading of our ADSs on May 19, 2022.

**D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION**

**A. Share Capital**

Not applicable.

**B. Memorandum and Articles of Association**

The following are summaries of material provisions of our seventh amended and restated memorandum and articles of association, as well as the Companies Act (As Revised), or the Companies Act, insofar as they relate to the material terms of our ordinary shares.

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

*Ordinary Shares.* Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of our Class A ordinary shares and Class B ordinary shares will have the same rights except for voting and conversion rights. Our ordinary shares are issued in registered form. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares.

*Conversion.* Each Class B ordinary share is convertible into one Class A ordinary share at any time at the option of the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any sale, transfer, assignment or disposition of any Class B ordinary shares by a holder thereof to any person other than holders of Class B ordinary shares or their affiliates or upon a change of ultimate beneficial ownership of any Class B ordinary shares to any person who is not an affiliate of the holder thereof, such Class B ordinary shares shall be automatically and immediately converted into the same number of Class A ordinary shares.

*Dividends.* The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors. Our amended and restated articles of association provide our directors may, before recommending or declaring any dividend, set aside out of the funds legally available for distribution such sums as they think proper as a reserve or reserves which shall, in the absolute discretion of our directors, be applicable for meeting contingencies or for equalizing dividends or for any other purpose to which those funds may be properly applied. Under the laws of the Cayman Islands, our company may pay a dividend out of either profit or share premium account; *provided* that in no circumstances may a dividend be paid if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business.

*Voting Rights.* In respect of all matters subject to a shareholders' vote, on a poll, each holder of Class A ordinary shares is entitled to one vote per share and each holder of Class B ordinary shares is, on a poll, entitled to twenty-five votes per share on all matters subject to vote at our general meetings. Our Class A ordinary shares and Class B ordinary shares vote together as a single class on all matters submitted to a vote of our shareholders, except as may otherwise be required by law. Voting at any shareholders' meeting is by show of hands unless a poll is demanded. A poll may be demanded by the chairman of such meeting or any shareholder present in person or by proxy.

A quorum required for a meeting of shareholders consists of one or more shareholders present or representing by proxy and holding shares which represent, in aggregate, not less than one-third of all votes attaching to the issued and outstanding voting shares entitled to vote at general meetings. Shareholders may be present in person or by proxy or, if the shareholder is a corporation or other non-natural person, by its duly authorized representative. Shareholders' meetings may be convened by our board of directors on its own initiative or upon a request to the directors by shareholders holding, at the date of deposit of the requisition, shares which represent, in aggregate, no less than one-third of all votes attaching to all our issued and outstanding shares, in which case the directors are obliged to call such meeting and to put the resolutions so requisitioned to a vote at such meeting; however, our amended and restated memorandum and articles of association do not provide our shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders. Advance notice of at least ten (10) calendar days is required for the convening of our annual general shareholders' meeting and any other general shareholders' meeting.

An ordinary resolution to be passed at a meeting by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes attaching to the ordinary shares cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting. Both ordinary resolutions and special resolutions may also be passed by a unanimous written resolution signed by all the shareholders of our company, as permitted by the Companies Act and our amended and restated memorandum and articles of association. A special resolution will be required for important matters such as a change of our name or making changes to our amended and restated memorandum and articles of association. Holders of the ordinary shares may, among other things, consolidate or subdivide their shares by ordinary resolution.

*General Meetings of Shareholders.* As a Cayman Islands exempted company, we are not obliged by the Companies Act to call shareholders' annual general meetings. Our memorandum and articles of association provide that we may (but are not obliged to) in each year hold a general meeting as our annual general meeting in which case we shall specify the meeting as such in the notices calling it, and the annual general meeting shall be held at such time and place as may be determined by our directors.

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

The Companies Act provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. Our memorandum and articles of association provide that upon the requisition of shareholders representing in aggregate not less than one-third of all votes attaching to all outstanding shares of our company that as at the date of the deposit carry the right to vote at general meetings, our board will convene an extraordinary general meeting and put the resolutions so requisitioned to a vote at such meeting. However, our memorandum and articles of association do not provide our shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders.

*Election, Removal and Remuneration of Directors.* Unless otherwise determined by our company in general meeting, our memorandum and articles of association provide that our board will consist of not less than three directors. There are no provisions relating to retirement of directors upon reaching any age limit.

The directors have the power to appoint any person as a director either to fill a vacancy on the board or as an addition to the existing board. Our shareholders may also appoint any person to be a director by way of ordinary resolution. A director shall not be required to hold any Shares in the company by way of qualification.

Subject to restrictions contained in our amended and restated memorandum and articles of association, a director may be removed with or without cause by ordinary resolution.

In addition, the office of any director shall be vacated if the director (i) becomes bankrupt or makes any arrangement or composition with his creditors, (ii) dies or is found to be or becomes of unsound mind, (iii) resigns his office by notice in writing to our company, (iv) without special leave of absence from our board is absent from three consecutive board meetings and our board resolves that his office be vacated, or (v) is removed from office pursuant to our amended and restated memorandum and articles of association.

The remuneration of the directors may be determined by the directors or by ordinary resolution of shareholders.

*Transfer of Ordinary Shares.* Subject to the restrictions set out below, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board of directors.

Our board of directors may, in its absolute discretion, decline to register any transfer of any ordinary share which is not fully paid up or on which we have a lien. Our board of directors may also decline to register any transfer of any ordinary share unless:

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

If our directors refuse to register a transfer they shall, within three calendar months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, after compliance with any notice required of the designated stock exchange or market, be suspended and the register closed at such times and for such periods as our board of directors may from time to time determine; *provided, however*; that the registration of transfers shall not be suspended nor the register closed for more than 30 calendar days in any calendar year as our board may determine from time to time.

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

*Calls on Shares and Forfeiture of Shares.* Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares in a notice served to such shareholders at least 14 calendar days prior to the specified time of payment. The shares that have been called upon and remain unpaid are subject to forfeiture.

*Redemption, Repurchase and Surrender of Shares.* We may issue shares on terms that such shares are subject to redemption, at our option or at the option of the holders of these shares, on such terms and in such manner as may be determined by our board of directors. Our company may also repurchase any of our shares on such terms and in such manner as have been approved by our board of directors or by an ordinary resolution of our shareholders. Under the Companies Act, the redemption or repurchase of any share may be paid out of our company's profits or out of the proceeds of a new issue of shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account and capital redemption reserve) if our company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Companies Act no such share may be redeemed or repurchased (a) unless it is fully paid up, (b) if such redemption or repurchase would result in there being no shares outstanding or (c) if the company has commenced liquidation. In addition, our company may accept the surrender of any fully paid share for no consideration.

*Variations of Rights of Shares.* If at any time, our share capital is divided into different classes of shares, the rights attached to any such class (unless otherwise provided by the terms of issue of the shares of that class), may be materially adversely varied with the consent in writing of the holders of two-thirds of the issued shares of that class or with the sanction of a resolution passed at a separate meeting of the holders of the shares of that class by the holders of two-thirds of the issued shares of that class. The rights conferred upon the holders of the shares of any class issued shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be materially and adversely varied by the creation or issue of further shares ranking pari passu with such existing class of shares or subsequent to them or the redemption or purchase of any shares of any class by our company. The rights of the holders of shares shall not be deemed to be materially adversely varied by the creation or issue of shares with preferred or other rights, including, without limitation, the creation of shares with enhanced or weighted voting rights.

*Issuance of Additional Shares.* Our amended and restated memorandum of association authorizes our board of directors to issue additional ordinary shares from time to time as our board of directors shall determine, to the extent of available authorized but unissued shares.

Our amended and restated memorandum of association also authorizes our board of directors to establish from time to time one or more series of preference shares and to determine, with respect to any series of preference shares, the terms and rights of that series, including but not limited to:

- the designation of the series;
- the number of shares of the series and the subscription price thereof if different from the par value thereof;
- the dividend rights, dividend rates, conversion rights, voting rights; and
- the rights and terms of redemption and liquidation preferences.

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

*Inspection of Books and Records.* Holders of our ordinary shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records (save for our memorandum and articles of association, register of mortgages and charges and special resolutions of our shareholders). However, we will provide our shareholders with annual audited financial statements.

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

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

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

*Exempted Company.* We are incorporated as an exempted company with limited liability under the Companies Act. The Companies Act distinguishes between ordinary resident companies and exempted companies. Any company that is incorporated in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be incorporated as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except that an exempted company:

- does not have to file an annual return of its shareholders with the Registrar of Companies;
- is not required to open its register of members for inspection;
- does not have to hold an annual general meeting;
- may issue shares with no par value;
- may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 30 years in the first instance);
- may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- may register as a limited duration company; and
- may register as a segregated portfolio company.

“Limited liability” means that the liability of each shareholder is limited to the amount unpaid by the shareholder on the shares of the company (except in exceptional circumstances, such as involving fraud, the establishment of an agency relationship or an illegal or improper purpose or other circumstances in which a court may be prepared to pierce or lift the corporate veil).

#### **Differences in Corporate Law**

The Companies Act (As Revised) is derived, to a large extent, from the older Companies Acts of England but does not follow recent United Kingdom statutory enactments, and accordingly there are significant differences between the Companies Act and the current Companies Act of England.

In addition, the Companies Act (As Revised) differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of certain significant differences between the provisions of the Companies Act (As Revised) applicable to us and the laws applicable to United States corporations and companies incorporated in the State of Delaware and their shareholders.

*Mergers and Similar Arrangements.* The Companies Act (As Revised) permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (1) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company and (2) a “consolidation” means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies in the consolidated company.

In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (1) a special resolution of the shareholders of each constituent company, and (2) such other authorization, if any, as may be specified in such constituent company’s articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies together with a declaration as to, amongst other matters, the solvency of the consolidated or surviving company, a statement of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

A merger between a Cayman parent company and its Cayman subsidiary or subsidiaries does not require authorization by a resolution of shareholders of that Cayman subsidiary if a copy of the plan of merger is given to every member of that Cayman subsidiary to be merged unless that member agrees otherwise. For this purpose a company is a “parent” of a subsidiary if it holds issued shares that together represent at least 90% of the votes at a general meeting of the subsidiary.

The consent of each holder of a fixed or floating security interest over a constituent company is required unless this requirement is waived by a court in the Cayman Islands.

Save in certain limited circumstances, a shareholder of a Cayman constituent company who dissents from the merger or consolidation is entitled to payment of the fair value of his shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) upon dissenting to the merger or consolidation, provide the dissenting shareholder complies strictly with the procedures set out in the Companies Act. The exercise of dissenter rights will preclude the exercise by the dissenting shareholder of any other rights to which he or she might otherwise be entitled by virtue of holding shares, save for the right to seek relief on the grounds that the merger or consolidation is void or unlawful.

Separate from the statutory provisions relating to mergers and consolidations, the Companies Act also contains statutory provisions that facilitate the reconstruction and amalgamation of companies by way of schemes of arrangement, provided that the arrangement is approved by (a) 75% in value of the shareholders or class of shareholders, as the case may be, or (b) a majority in number representing 75% in value of the creditors or each class of creditors, as the case may be, with whom the arrangement is to be made, that are, in each case, present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the Grand Court can be expected to approve the arrangement if it determines that:

- the statutory provisions as to the required majority vote have been met;
- the shareholders have been fairly represented at the meeting in question and the statutory majority are acting bona fide without coercion of the minority to promote interests adverse to those of the class;
- the arrangement is such that may be reasonably approved by an intelligent and honest man of that class acting in respect of his interest; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Act.

The Companies Act (As Revised) also contains a statutory power of compulsory acquisition which may facilitate the “squeeze out” of dissentient minority shareholder upon a tender offer. When a tender offer is made and accepted by holders of 90% of the shares affected within four months, the offeror may, within a two-month period commencing on the expiration of such four-month period, require the holders of the remaining shares to transfer such shares to the offeror on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed in the case of an offer which has been so approved unless there is evidence of fraud, bad faith or collusion.

If an arrangement and reconstruction by way of scheme of arrangement is thus approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of Delaware corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

*Shareholders' Suits.* In principle, we will normally be the proper plaintiff to sue for a wrong done to us as a company, and as a general rule a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, the Cayman Islands court can be expected to follow and apply the common law principles (namely the rule in *Foss v. Harbottle* and the exceptions thereto) so that a non-controlling shareholder may be permitted to commence a class action against or derivative actions in the name of our company to challenge actions where:

- an act which is ultra vires or illegal and is therefore incapable of ratification by the shareholders;
- the act complained of, although not ultra vires, could only be effected duly if authorized by more than a simple majority vote that has not been obtained; and
- an act which constitutes a fraud against the minority where the wrongdoer are themselves in control of the company.

*Indemnification of Directors and Executive Officers and Limitation of Liability.* Cayman Islands law does not limit the extent to which a company's memorandum and articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime.

Our memorandum and articles of association permit indemnification of officers and directors for all actions, proceedings, costs, charges, expenses, losses, damages or liabilities incurred or sustained by such person in or about their conduct of our business or affairs (including as a result of any mistake of judgment) or in the execution or discharge of his duties, powers, authorities or discretions, including without prejudice to the generality of the foregoing, any costs, expenses, losses or liabilities incurred by such persons in defending (whether successfully or otherwise) any civil proceedings concerning us or our affairs in any court whether in the Cayman Islands or elsewhere, unless such losses or damages arise from dishonesty, wilful defraud or fraud of such directors or officers. This standard of conduct is generally the same as permitted under the Delaware General Corporation Law for a Delaware corporation.

In addition, we have entered into indemnification agreements with our directors and executive officers that provide such persons with additional indemnification beyond that provided in our memorandum and articles of association.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us under the foregoing provisions, we have been informed that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

*Directors' Fiduciary Duties.* Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction.

The duty of loyalty requires that a director acts in a manner he or she reasonably believes to be in the best interests of the corporation. He or she must not use his corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally.

In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, the director must prove the procedural fairness of the transaction and that the transaction was of fair value to the corporation.

As a matter of Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company and therefore it is considered that he or she owes the following duties to the company:

- a duty to act in good faith in the best interests of the company,
- a duty not to make a personal profit based on his or her position as director (unless the company permits him or her to do so),
- a duty not to put himself or herself in a position where the interests of the company conflict with his or her personal interest or his or her duty to a third party, and
- a duty to exercise powers for the purpose for which such powers were intended.

A director of a Cayman Islands company owes to the company a duty of care, diligence and skill. It was previously considered that a director need not exhibit in the performance of his or her duties a greater degree of skill than may reasonably be expected from a person of his or her knowledge and experience. However, English courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands.

*Shareholder Action by Written Consent.* Under the Delaware General Corporation Law, a corporation may eliminate the right of shareholders to act by written consent by amendment to its certificate of incorporation. Cayman Islands law and our currently effective memorandum and articles of association provide that our shareholders may approve corporate matters by way of a unanimous written resolution signed by or on behalf of all shareholders who would have been entitled to vote on such matter at a general meeting without a meeting being held.

*Shareholder Proposals.* Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

The Companies Act (As Revised) does not provide shareholders with an express right to put forth any proposal before a general meeting of the shareholders. However, the Companies Act may provide shareholders with limited rights to requisition a general meeting but such rights must be stipulated in the articles of association of the company.

Under our memorandum and articles of association, any one or more shareholders holding in aggregate not less than one-third of the voting rights attaching to all issued and outstanding shares of the Company that as at the date of deposit of the requisition carry the right to vote at our general meetings shall at all times have the right, by written requisition to the board of directors or the secretary of the company, to require an extraordinary general meeting to be called by the board of directors for the transaction of any business specified in such requisition.

*Cumulative Voting.* Under the Delaware General Corporation Law, cumulative voting for election of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director.

There are no prohibitions relating to cumulative voting under the laws of the Cayman Islands, but our memorandum and articles of association do not provide for cumulative voting. As a result, our shareholders are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.



*Removal of Directors.* Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under our memorandum and articles of association, directors may be removed by an ordinary resolution of our shareholders notwithstanding anything in our memorandum and articles of association or in any agreement between our company and such director (but without prejudice to any claim for damages under any such agreement).

*Transactions with Interested Shareholders.* The Delaware General Corporation Law contains a business combination statute applicable to Delaware public corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an “interested shareholder” for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target’s outstanding voting shares within the past three years.

This statute has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware corporation to negotiate the terms of any acquisition transaction with the target’s board of directors.

Cayman Islands law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that such transactions must be entered into bona fide in the best interests of the company and for a proper purpose and not with the effect of constituting a fraud on the minority shareholders.

*Restructuring.* A company may present a petition to the Grand Court of the Cayman Islands for the appointment of a restructuring officer on the grounds that the company:

- is or is likely to become unable to pay its debts; and
- intends to present a compromise or arrangement to its creditors (or classes thereof) either pursuant to the Companies Act, the law of a foreign country or by way of a consensual restructuring.

The Grand Court may, among other things, make an order appointing a restructuring officer upon hearing of such petition, with such powers and to carry out such functions as the court may order. At any time (i) after the presentation of a petition for the appointment of a restructuring officer but before an order for the appointment of a restructuring officer has been made, and (ii) when an order for the appointment of a restructuring officer is made, until such order has been discharged, no suit, action or other proceedings (other than criminal proceedings) shall be proceeded with or commenced against the company, no resolution to wind up the company shall be passed, and no winding up petition may be presented against the company, except with the leave of the court. However, notwithstanding the presentation of a petition for the appointment of a restructuring officer or the appointment of a restructuring officer, a creditor who has security over the whole or part of the assets of the company is entitled to enforce the security without the leave of the court and without reference to the restructuring officer appointed.

*Dissolution; Winding Up.* Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation’s outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board.

Under Cayman Islands law, a company may be wound up by either an order of the courts of the Cayman Islands or by a special resolution of its members or, if the company is unable to pay its debts as they fall due, by an ordinary resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so.

*Variation of Rights of Shares.* Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under Cayman Islands law and our memorandum and articles of association, if our share capital is divided into more than one class of shares, we may materially adversely vary the rights attached to any class with the consent in writing of the holders of two-thirds of the issued shares of that class or with the sanction of a resolution passed at a separate meeting of the holders of the shares of that class by the holders of not less than two-thirds of the issued shares of that class.

*Amendment of Governing Documents.* Under the Delaware General Corporation Law, a corporation's governing documents may be amended with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise.

Under Cayman Islands law, our memorandum and articles of association may only be amended with a special resolution of our shareholders.

*Rights of Non-resident or Foreign Shareholders.* There are no limitations imposed by our memorandum and articles of association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares.

In addition, there are no provisions in our memorandum and articles of association governing the ownership threshold above which shareholder ownership must be disclosed.

*Inspection of Books and Records.* Under the Delaware General Corporation Law, any shareholder of a corporation may for any proper purpose inspect or make copies of the corporation's stock ledger, list of shareholders and other books and records.

Shareholders of Cayman Islands exempted companies like us have no general right under Cayman Islands law to inspect corporate records (other than the memorandum and articles of association, the register of mortgages and charges and any special resolutions passed by our shareholders) or obtain copies of the list of shareholders of these companies. Under Cayman Islands law, the names of our current directors can be obtained from a search conducted at the Registrar of Companies. However, we intend to provide our shareholders with annual reports containing audited financial statements.

#### **C. Material Contracts**

We have not entered into any material contracts other than in the ordinary course of business and other than those described in "Item 4. Information on the Company," "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions," in this "Item 10. Additional Information—C. Material Contracts" or elsewhere in this annual report on Form 20-F.

#### **D. Exchange Controls**

See "Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Relating to Foreign Currency Exchange and Dividend Distribution."

#### **E. Taxation**

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

## **Cayman Islands Taxation**

According to Maples and Calder (Hong Kong) LLP, our Cayman Islands counsel, the Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of estate duty or inheritance tax. There are no other taxes likely to be material to holders of our ADSs or ordinary shares levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or after execution brought within the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties that are applicable to any payments made to or by our company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

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

## **People's Republic of China Taxation**

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside of the PRC with “de facto management body” within mainland China is considered a resident enterprise. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control and overall management over the business, productions, personnel, accounts and properties of an enterprise. In April 2009, the State Administration of Taxation issued a circular, known as Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in mainland China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in the circular may reflect the State Administration of Taxation’s general position on how the “de facto management body” text should be applied in determining the tax resident status of all offshore enterprises. According to Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in mainland China only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in mainland China; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in mainland China; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in mainland China; and (iv) at least 50% of voting board members or senior executives habitually reside in mainland China.

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

If the PRC tax authorities determine that CooTek (Cayman) Inc. is a PRC resident enterprise for enterprise income tax purposes, we may be required to withhold a 10% withholding tax from dividends we pay to our shareholders that are non-resident enterprises, including the holders of our ADSs. In addition, non-resident enterprise shareholders (including our ADS holders) may be subject to a 10% PRC tax on gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is treated as sourced from within mainland China. It is unclear whether our non-PRC individual shareholders (including our ADS holders) would be subject to any PRC tax on dividends or gains obtained by such non-PRC individual shareholders in the event we are determined to be a PRC resident enterprise. If any PRC tax were to apply to such dividends or gains, it would generally apply at a rate of 20% unless a reduced rate is available under an applicable tax treaty. However, it is also unclear whether non-PRC shareholders of CooTek (Cayman) Inc. would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that CooTek (Cayman) Inc. is treated as a PRC resident enterprise.

## **United States Federal Income Tax Considerations**

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

### ***General***

For purposes of this discussion, a “U.S. Holder” is a beneficial owner of our ADSs or ordinary shares that is, for United States federal income tax purposes, (i) an individual who is a citizen or resident of the United States, (ii) a corporation (or other entity treated as a corporation for United States federal income tax purposes) created in, or organized under the law of, the United States or any state thereof or the District of Columbia, (iii) an estate the income of which is includible in gross income for United States federal income tax purposes regardless of its source, or (iv) a trust (A) the administration of which is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust or (B) that has otherwise validly elected to be treated as a United States person under the Code.

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

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

### ***Passive Foreign Investment Company Considerations***

A non-United States corporation, such as our company, will be classified as a PFIC for United States federal income tax purposes, if, in the case of any particular taxable year, either (i) 75% or more of its gross income for such year consists of certain types of “passive” income or (ii) 50% or more of the value of its assets (generally determined on the basis of a quarterly average) during such year is attributable to assets that produce or are held for the production of passive income. For this purpose, cash and assets readily convertible into cash are categorized as a passive asset and the company’s goodwill and other unbooked intangibles are taken into account. Passive income generally includes, among other things, dividends, interest, rents, royalties, and gains from the disposition of passive assets. We will be treated as owning a proportionate share of the assets and earning a proportionate share of the income of any other corporation in which we own, directly or indirectly, 25% or more (by value) of the stock.

Although the law in this regard is not entirely clear, we treat the VIEs as being owned by us for United States federal income tax purposes because, in accordance with contractual arrangements, we control their management decisions and are entitled to substantially all of the economic benefits associated with them. As a result, we have a “controlling financial interest” in the VIEs (as defined in FASB ASC 810), and we are considered the primary beneficiary of the VIEs for accounting purposes. We therefore consolidate their results of operations in our consolidated U.S. GAAP financial statements. If it were determined, however, that we do not own the stock of the VIEs for United States federal income tax purposes, we may be treated as a PFIC for the current taxable year and any subsequent taxable year.

Assuming that we are the owner of the VIEs for United States federal income tax purposes, we do not believe that we were a PFIC for our taxable year ended December 31, 2023, and we do not presently expect to be a PFIC for the current taxable year. However, no assurance can be given in this regard because the determination of whether we are or will become a PFIC is a fact-intensive inquiry made on an annual basis and will depend, in part, upon the composition of our income and assets and the value of our assets. Fluctuations in the market price of our ADSs may cause us to become a PFIC for the current or future taxable years because the value of our assets for the purpose of the asset test, including the value of our goodwill and unbooked intangibles, may be determined by reference to the market price of our ADSs from time to time (which may be volatile). In particular, recent decline in the market price of our ADSs increased our risk of becoming a PFIC. The market price of our ADSs may continue to fluctuate considerably and, consequently, we cannot assure you of our PFIC status for any taxable year. The composition of our income and our assets may also be affected by how, and how quickly, we use our liquid assets. Under circumstances where our revenue from activities that produce passive income significantly increases relative to our revenue from activities that produce non-passive income, or where we determine not to deploy significant amounts of cash for active purposes, our risk of becoming a PFIC may substantially increase.

If we are classified as a PFIC for any year during which a U.S. Holder holds our ADSs or ordinary shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. Holder holds our ADSs or ordinary shares.

The discussion below under “Dividends” and “Sale or Other Disposition of ADSs or Ordinary Shares” is written on the basis that we are not and will not be or become classified as a PFIC for United States federal income tax purposes. The United States federal income tax rules that apply if we are treated as a PFIC are generally discussed below under “Passive Foreign Investment Company Rules.”

### ***Dividends***

Subject to the discussion below under “Passive Foreign Investment Company Rules,” any cash distributions (including the amount of any PRC tax withheld) paid on our ADSs or ordinary shares out of our current or accumulated earnings and profits, as determined under United States federal income tax principles, will generally be includible in the gross income of a U.S. Holder as dividend income on the day actually or constructively received by the U.S. Holder, in the case of ordinary shares, or by the depository, in the case of ADSs. Because we do not intend to determine our earnings and profits on the basis of United States federal income tax principles, any distribution we pay will generally be treated as a “dividend” for United States federal income tax purposes. A non-corporate U.S. Holder will be subject to tax on dividend income from a “qualified foreign corporation” at a lower applicable capital gains rate rather than the marginal tax rates generally applicable to ordinary income provided that certain holding period requirements are met. A non-United States corporation (other than a corporation that is classified as a PFIC for the taxable year in which the dividend is paid or the preceding taxable year) will generally be considered to be a qualified foreign corporation (i) if it is eligible for the benefits of a comprehensive tax treaty with the United States which the Secretary of Treasury of the United States determines is satisfactory for purposes of this provision and which includes an exchange of information program, or (ii) with respect to any dividend it pays on stock (or ADSs in respect of such stock) which is readily tradable on an established securities market in the United States. Our ADSs, but not our Class A ordinary shares, were traded on the New York Stock Exchange, or the NYSE, which is an established securities market in the United States, from September 2018 to May 2022. On June 16, 2022, our ADSs were delisted from the NYSE and subsequently quoted on the OTC Pink Limited Information, which are not considered established securities markets in the United States for these purposes, under the symbol “CTKYY.” See “Item 3. Key Information—D. Risk Factors—Risks Related to Our ADSs—The delisting of our ADSs from the NYSE may continue to have a material adverse effect on the trading and price of our ADSs, and we cannot assure you that our ADSs will be relisted, or that once relisted, they will remain listed.” If our ADSs remain delisted from the NYSE and are not otherwise readily tradable on an established securities market in the United States, dividends received on our ADSs would generally not be eligible to be taxed as dividend income from a qualified foreign corporation.

In the event that we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law, a U.S. Holder may be subject to PRC withholding taxes on dividends paid on our ADSs or ordinary shares. We may, however, be eligible for the benefits of the United States-PRC income tax treaty, or the Treaty, (which the Secretary of Treasury of the United States has determined is satisfactory for the purpose of being a “qualified foreign corporation”). If we are eligible for such benefits, dividends we pay on our ordinary shares, regardless of whether such shares are represented by the ADSs, would be eligible for the reduced rates of taxation described in the preceding paragraph. Dividends received on our ADSs or ordinary shares will not be eligible for the dividends received deduction allowed to corporations.

Dividends will generally be treated as income from foreign sources for United States foreign tax credit purposes and will generally constitute passive category income. Depending on the U.S. Holder’s individual facts and circumstances, a U.S. Holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit not in excess of any applicable treaty rate in respect of any foreign withholding taxes imposed on dividends received on our ADSs or ordinary shares. A U.S. Holder who does not elect to claim a foreign tax credit for foreign tax withheld may instead, subject to applicable limitations, claim a deduction, for United States federal income tax purposes, in respect of such withholding, but only for a year in which such holder elects to do so for all creditable foreign income taxes. The rules governing the foreign tax credit are complex and their outcome depends in large part on the U.S. Holder’s individual facts and circumstances. Accordingly, U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

#### ***Sale or Other Disposition of ADSs or Ordinary Shares***

Subject to the discussion below under “Passive Foreign Investment Company Rules,” a U.S. Holder will generally recognize gain or loss upon the sale or other disposition of ADSs or ordinary shares in an amount equal to the difference between the amount realized upon the disposition and the holder’s adjusted tax basis in such ADSs or ordinary shares. Any gain or loss will be capital gain or loss if the ADSs or ordinary shares have been held for more than one year and will generally be United States source gain or loss for United States foreign tax credit purposes. Long-term capital gains of non-corporate taxpayers are currently eligible for reduced rates of taxation. In the event that gain from the disposition of the ADSs or ordinary shares is subject to tax in mainland China, such gain may be treated as PRC source gain under the Treaty. Pursuant to the United States Treasury Regulations, however, if a U.S. Holder is not eligible for the benefits of the Treaty or does not elect to apply the Treaty, then such holder may not be able to claim a foreign tax credit arising from any PRC tax imposed on the disposition of ADSs or ordinary shares. The rules regarding foreign tax credits and deduction of foreign taxes are complex. U.S. Holders should consult their tax advisors regarding the availability of a foreign tax credit or deduction in light of their particular circumstances, including their eligibility for benefits under the Treaty and the potential impact of the United States Treasury Regulations.

#### ***Passive Foreign Investment Company Rules***

If we are classified as a PFIC for any taxable year during which a U.S. Holder holds our ADSs or ordinary shares, and unless the U.S. Holder makes a mark-to-market election (as described below), the U.S. Holder will generally be subject to special tax rules that have a penalizing effect, regardless of whether we remain a PFIC, on (i) any excess distribution that we make to the U.S. Holder (which generally means any distribution paid during a taxable year to a U.S. Holder that is greater than 125 percent of the average annual distributions paid in the three preceding taxable years or, if shorter, the U.S. Holder’s holding period for the ADSs or ordinary shares), and (ii) any gain realized on the sale or other disposition, including a pledge, of ADSs or ordinary shares. Under the PFIC rules:

- the excess distribution or gain will be allocated ratably over the U.S. Holder’s holding period for the ADSs or ordinary shares;
- the amount allocated to the current taxable year and any taxable years in the U.S. Holder’s holding period prior to the first taxable year in which we are classified as a PFIC, each, a pre-PFIC year, will be taxable as ordinary income;
- the amount allocated to each prior taxable year, other than a pre-PFIC year, will be subject to tax at the highest tax rate in effect for individuals or corporations, as appropriate, for that year; and
- increased by an additional tax equal to the interest on the resulting tax deemed deferred with respect to each

If we are a PFIC for any taxable year during which a U.S. Holder holds our ADSs or ordinary shares and any of our subsidiaries or the VIEs is also a PFIC, such U.S. Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. U.S. Holders are urged to consult their tax advisors regarding the application of the PFIC rules to any of our subsidiaries or the VIEs.

As an alternative to the foregoing rules, a U.S. Holder of “marketable stock” in a PFIC may make a mark-to-market election with respect to such stock; *provided* that such stock is regularly traded on a qualified exchange or other market, as defined in the applicable United States Treasury Regulations. Our ADSs, but not our Class A ordinary shares, were traded on the NYSE, which is an established securities market in the United States, from September 2018 to May 2022. On June 16, 2022, our ADSs were delisted from the NYSE and subsequently quoted on the OTC Pink Limited Information, which are not considered established securities markets in the United States for these purposes, under the symbol “CTKYY.” See “Item 3. Key Information—D. Risk Factors—Risks Related to Our ADSs—The delisting of our ADSs from the NYSE may continue to have a material adverse effect on the trading and price of our ADSs, and we cannot assure you that our ADSs will be relisted, or that once relisted, they will remain listed.” If our ADSs remain delisted from the NYSE and are not otherwise listed on a qualified exchange or other market, as described above, our ADSs would not be treated as “marketable stock” for these purposes and a U.S. Holder would not be eligible to make a mark-to-market election with respect to our ADSs.

If a U.S. Holder makes a mark-to-market election with respect to our ADSs, the holder will generally (i) include as ordinary income for each taxable year that we are a PFIC the excess, if any, of the fair market value of ADSs held at the end of the taxable year over the adjusted tax basis of such ADSs and (ii) deduct as an ordinary loss the excess, if any, of the adjusted tax basis of the ADSs over the fair market value of such ADSs held at the end of the taxable year, but such deduction will only be allowed to the extent of the amount previously included in income as a result of the mark-to-market election. The U.S. Holder’s adjusted tax basis in the ADSs would be adjusted to reflect any income or loss resulting from the mark-to-market election. If a U.S. Holder makes a mark-to-market election in respect of a corporation classified as a PFIC and such corporation ceases to be classified as a PFIC, the holder will not be required to take into account the gain or loss described above during any period that such corporation is not classified as a PFIC. If a U.S. Holder makes a mark-to-market election, any gain such U.S. Holder recognizes upon the sale or other disposition of our ADSs in a year when we are a PFIC will be treated as ordinary income and any loss will be treated as ordinary loss, but such loss will only be treated as ordinary loss to the extent of the net amount previously included in income as a result of the mark-to-market election.

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

We do not intend to provide information necessary for U.S. Holders to make qualified electing fund elections which, if available, would result in tax treatment different from the general tax treatment for PFICs described above.

If a U.S. Holder owns our ADSs or ordinary shares during any taxable year that we are a PFIC, the holder must generally file an annual IRS Form 8621 or such other form as is required by the United States Treasury Department. Each U.S. Holder is advised to consult its tax advisor regarding the United States federal income tax considerations of owning and disposing of ADSs or ordinary shares if we are or become a PFIC, including the availability and possibility of making a mark-to-market election.

**F. Dividends and Paying Agents**

Not applicable.

**G. Statement by Experts**

Not applicable.

## **H. Documents on Display**

We are subject to the periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F no later than four months after the close of each fiscal year. All information we file with the SEC can be obtained over the internet at the SEC's website at [www.sec.gov](http://www.sec.gov). As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

We will furnish Deutsche Bank Trust Company Americas, the depository of our ADSs, with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders' meetings and other reports and communications that are made generally available to our shareholders. The depository will make such notices, reports and communications available to holders of ADSs and, upon our request, will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depository from us.

## **I. Subsidiary Information**

Not applicable.

## **J. Annual Report to Security Holders**

Not applicable.

## **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **Market Risks**

#### ***Foreign Exchange Risk***

A majority of our expenses and a certain percentage of our revenues are denominated in RMB. We have not used any derivative financial instruments to hedge exposure to such risk.

The conversion of Renminbi into other currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The Renminbi has fluctuated against other currencies, at times significantly and unpredictably. The value of Renminbi against other currencies is affected by changes in China's political and economic conditions and by China's foreign exchange policies, among other things. It is difficult to predict how market forces or government policies may impact the exchange rate between Renminbi and other currencies in the future.

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

As of December 31, 2023, we had RMB-denominated cash, cash equivalents and restricted cash of RMB6.5 million, HKD-denominated cash, cash equivalents and restricted cash of HKD0.6 million, and U.S. dollars-denominated cash, cash equivalents and restricted cash of US\$1.5 million. Assuming we had converted the U.S. dollars-denominated cash, cash equivalents and restricted cash of US\$1.5 million into RMB at the exchange rate of US\$1.00 for RMB7.0999 as of December 29, 2023, a 10% appreciation or depreciation of RMB against the U.S. dollars as of December 31, 2023, would result in a decrease or an increase of RMB1.1 million in our cash, cash equivalents and restricted cash, respectively. Assuming we had converted the HKD-denominated cash, cash equivalents and restricted cash of HKD0.6 million into RMB at the exchange rate of HKD1.00 for RMB0.9035 as of December 29, 2023, a 10% appreciation or depreciation of RMB against HKD as of December 31, 2023, would result in a decrease or an increase of RMB0.1 million in our cash, cash equivalents and restricted cash, respectively.



To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk, but we may, in the future, enter into derivatives or other financial instruments in an attempt to hedge our foreign currency exchange risk. The effectiveness of these hedges may be limited and we may not be able to successfully reduce our exposure.

**Interest Rate Risk**

Our exposure to interest rate risk primarily relates to the interest expenses incurred on bank borrowings and income generated by excess cash, which is mostly held in interest-bearing bank deposits. Interest-earning instruments carry a degree of interest rate risk. We have not been exposed to material risks due to changes in interest rates, and we have not used any derivative financial instruments to manage our interest risk exposure. However, our future interest income may fall short of expectations due to changes in market interest rates.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

**A. Debt Securities**

Not applicable.

**B. Warrants and Rights**

Not applicable.

**C. Other Securities**

Not applicable.

**D. American Depositary Shares**

**Fees and Expenses Our ADS Holders May Have to Pay**

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

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

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

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

The depositary fees payable upon the issuance and cancellation of ADSs are typically paid to the depositary bank by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depositary bank and by the brokers (on behalf of their clients) delivering the ADSs to the depositary bank for cancellation. The brokers in turn charge these fees to their clients. Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary services fee are charged by the depositary bank to the holders of record of ADSs as of the applicable ADS record date.

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

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

#### **Fees and Other Payments Made by the Depositary to Us**

The depositary may make payments to us or reimburse us for certain costs and expenses, by making available a portion of the ADS fees collected in respect of the ADR program or otherwise, upon such terms and conditions as we and the depositary bank agree from time to time. For the year ended December 31, 2023, we did not receive reimbursement from the depositary.

**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

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

None.

**ITEM 15. CONTROLS AND PROCEDURES**

**(a) Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our chairman of the board of directors, chief executive officer and our acting chief financial officer, we carried out an evaluation of the effectiveness of our disclosure controls and procedures, which is defined in Rules 13a-15(e) of the Exchange Act, as of December 31, 2023.

Based upon that evaluation, our management, with the participation of our chairman of the board of directors, chief executive officer and acting chief financial officer, has concluded that, as of the end of the period covered by this annual report, our disclosure controls and procedures were effective in ensuring that the information that we are required to disclose in this annual report is recorded, processed, summarized and reported to them for assessment, and required disclosure is made within the time period specified in the rules and forms of the SEC.

**(b) Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the exchange Act), under the supervision and with the participation of our chairman of the board of directors, chief executive officer and acting chief financial officer, our management conducted an assessment of the effectiveness of internal control over financial reporting as of December 31, 2023, based on the criteria established in *Internal Control - Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management determined that our internal control over financial reporting was effective as of December 31, 2023.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

**(c) Attestation Report of the Registered Public Accounting Firm**

A "material weakness" is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. In preparing our consolidated financial statements for the fiscal year ended December 31, 2020, we identified one material and one significant deficiency. The material weakness identified related to the lack of accounting policies and procedures relating to financial reporting in accordance with U.S. GAAP and SEC financial reporting requirements. The significant control deficiency related to lack of formal risk assessment process and monitoring activities in connection with the preparation of our consolidated financial statements.

To remediate our identified material weakness and improve our internal control over financial reporting, we have implemented a number of measures to address the material weakness and significant deficiency. These measures including the follows:

- we have developed a comprehensive accounting policies and procedures manual in accordance with U.S. GAAP available to guide the day-to-day accounting operation and reporting work of our accounting personnel;

- we have hired additional competent and qualified accounting and reporting personnel with relevant knowledge and working experiences of U.S. GAAP; and
- we have hired additional competent and qualified personnel with relevant knowledge and working experiences of internal control over financial reporting to monitoring our daily activities.

As of December 31, 2023, based on the measures implemented as described above, while we need to continue to improve our internal controls process, our management concluded the material weakness has been remediated while the significant deficiency remains as we are still in the process of completing our implementation of remediation measures. We are in the process of implementing remediation measures to remediate the significant deficiency. However, we cannot assure you that we will remediate our deficiencies in a timely manner.

As we are a “non-accelerated filer,” our independent registered public accounting firm were not required to perform an evaluation of our internal control over financial reporting as of December 31, 2023. Had our independent registered public accounting firm performed an audit of our internal control over financial reporting, additional control deficiencies may have been identified. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—If we fail to implement and maintain an effective system of internal control, we may be unable to accurately report our operating results, meet our reporting obligations or prevent fraud.”

**(d) Changes in Internal Control Over Financial Reporting**

Other than as described above, there have been no changes in our company’s internal control over financial reporting during the period ended December 31, 2023 that have materially affected our company’s internal controls over financial reporting.

**ITEM 16. [RESERVED]**

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

CooTek’s board of directors has determined that CooTek does not have an audit committee financial expert as of the date of this annual report.

CooTek’s board of directors assumes the functions and responsibilities of audit committees. We believe that retaining an independent director who would qualify as an audit committee financial expert would be overly costly and burdensome considering the current scale of CooTek.

**ITEM 16B. CODE OF ETHICS**

Our board of directors adopted a code of business conduct and ethics that applies to our directors, officers and employees in August 2018. We have posted a copy of our code of business conduct and ethics on our website at *ir.cootek.com*.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following table sets forth the aggregate fees by categories specified below that are billed or made payable in connection with certain professional services rendered by Deloitte Touche Tohmatsu Certified Public Accountants LLP, or Deloitte, and Shandong Haoxin Certified Public Accountants Co., Ltd., or Shandong Haoxin, our principal external auditors, directly to us during the periods indicated.

	For the Year Ended	
	December 31,	
	2022	2023
	(in US\$ thousands)	
Audit fees <sup>(1)</sup>	547	259
Audit-related fees <sup>(2)</sup>	70	—
Tax fees <sup>(3)</sup>	7	7

*Notes:*

- (1) “Audit fees” means the aggregate fees billed for professional services rendered by our independent registered public accounting firm for the audit of our annual financial statements. We paid or accrued audit fees of US\$0.2 million and US\$0.1 million related to Deloitte in 2022 and 2023. We paid or accrued audit fees of US\$0.4 million and US\$0.2 million related to Shandong Haoxin in 2022 and 2023, respectively.
- (2) “Audit-related fees” includes the aggregate fees billed for the professional services rendered by our principal auditors for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under “Audit fees.” Audit-related fees in 2022 were to support our responses to the comments from the staff of the SEC regarding our annual report on Form 20-F for the fiscal year ended December 31, 2021 and the filing of Amendment No. 1 on Form 20-F/A to amend our annual report on Form 20-F for the fiscal year ended December 31, 2021. In 2022, we paid or accrued audit-related fees of US\$70 thousand related to Deloitte, and did not pay or accrue audit-related fees related to Shandong Haoxin. We did not pay or accrue audit-related fees in 2023.
- (3) “Tax fees” means the aggregate fees billed for professional services rendered by our independent registered public accounting firm for tax compliance, tax advice and tax planning. We paid or accrued tax fees of US\$7 thousand and US\$7 thousand related to Deloitte in 2022 and 2023, respectively. We did not pay or accrue tax fees related to Shandong Haoxin.

The policy of our board of directors is to pre-approve all audit and other service provided by our independent registered public accounting firms, including audit services, audit-related services, tax services and other services as described above, other than those for de minimis services which are approved by the board of directors of the Company prior to the completion of the audit.

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

Not applicable.

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

None.

**ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

The disclosure required by this Item 16F has previously been disclosed in Item 16F of our annual report on Form 20-F for the year ended December 31, 2022, filed with the SEC on April 26, 2023.

**ITEM 16G. CORPORATE GOVERNANCE**

Not applicable.

**ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable.

**ITEM 16I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

Not applicable.

**ITEM 16J. INSIDER TRADING POLICIES**

Not applicable.

## **ITEM 16K. CYBERSECURITY**

### **Risk Management and Strategy**

We have implemented robust processes for assessing, identifying and managing material risks from cybersecurity threats and monitoring the prevention, detection, mitigation and remediation of material cybersecurity incident. We have also integrated cybersecurity risk management into our overall enterprise risk management system.

We have established a comprehensive information security framework that includes a dynamic and multi-layered cybersecurity defense system to effectively mitigate both internal and external cyber threats. We have implemented an information security emergency response mechanism, categorizing security incidents into four main types: cyber-attack incidents, malicious program incidents, information leakage incidents, and information security incidents, and developed emergency response plans for each type of incident. Our cybersecurity defense system spans multiple security domains, including network, host, and application layers. It integrates a range of security capabilities such as threat defense, continuous monitoring, in-depth analysis, rapid response, as well as strategic deception and countermeasures. Our approach to managing cybersecurity risks and safeguarding sensitive data is multi-faceted, involving technological safeguards, procedural protocols, a rigorous program of surveillance on our corporate network, ongoing internal and external evaluations of our security measures, a solid incident response plan, and regular cybersecurity training sessions for our employees. Furthermore, we have implemented a comprehensive information security monitoring system that forecasts and issues timely warnings regarding potential or ongoing information security emergencies, including cybersecurity threats. Our IT department is actively engaged in continuous monitoring of our application, platforms and infrastructure to ensure prompt identification and response to potential issues, including emerging cybersecurity threats.

We do not engage any assessors, consultants, auditors, or other third parties in connection with processes for assessing, identifying, and managing material risks from cybersecurity threats. As of the date of this annual report, we have not experienced any material cybersecurity incidents or identified any material cybersecurity threats that have affected or are reasonably likely to materially affect us, our business strategy, results of operations or financial condition.

### **Governance**

Our board of directors is responsible for overseeing our cybersecurity risk management. Our board of directors shall (i) maintain oversight of the disclosure related to cybersecurity matters in current reports or periodic reports of our company, (ii) review updates to the status of any material cybersecurity incidents or material risks from cybersecurity threats to our company, and the relevant disclosure issues, if any, presented by our chief executive officer, principal financial officer and cybersecurity officer on a quarterly basis, and (iii) review disclosure concerning cybersecurity matters in our annual report on Form 20-F presented by our chief executive officer, principal financial officer and cybersecurity officer.

Our disclosure committee, which is comprised of our chief executive officer, principal financial officer and cybersecurity officer, is responsible for assessing, identifying and managing material risks from cybersecurity threats to our company and monitoring the prevention, detection, mitigation and remediation of material cybersecurity incident. Our cybersecurity officer possesses extensive experience in information security risk management and compliance, particularly in the internet technology industry, and holds a data security capability maturity model assessor certification issued by the Guizhou Big Data Protection Engineering Research Center. Our disclosure committee reports to our board of directors on (i) a quarterly basis on updates to the status of any material cybersecurity incidents or material risks from cybersecurity threats to our company, and the relevant disclosure issues, if any, and (ii) on disclosure concerning cybersecurity matters in our annual report on Form 20-F.

**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

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

**ITEM 18. FINANCIAL STATEMENTS**

The consolidated financial statements of CooTek (Cayman) Inc. are included at the end of this annual report.

**ITEM 19. EXHIBITS**

<b>Exhibit Number</b>	<b>Description of Document</b>
1.1	<a href="#">Seventh Amended and Restated Memorandum and Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.2 from our registration statement on Form F-1, as amended, initially filed on August 16, 2018 (File No. 333226867))</a>
2.1	<a href="#">Specimen American Depositary Receipt of the Registrant (included in Exhibit 2.4) (incorporated by reference to Exhibit 2.1 from our annual report on Form 20-F (File No. 001-38665) filed with the SEC on April 26, 2023)</a>
2.2	<a href="#">Specimen Certificate for Class A Ordinary Shares of the Registrant (incorporated by reference to Exhibit 4.2 from our registration statement on Form F-1 (File No. 333-226867), as amended, initially filed with the SEC on August 16, 2018)</a>
2.3	<a href="#">Deposit Agreement among the Registrant, the depository and holders and beneficial holders of the American Depositary Shares dated September 27, 2018 (incorporated by reference to Exhibit 2.3 from our annual report on Form 20-F (File No. 001-38665) filed with the SEC on April 29, 2022)</a>
2.4	<a href="#">Amendment No. 1 to the Deposit Agreement among the Registrant, the depository and holders and beneficial holders of the American Depositary Shares dated May 9, 2022 (incorporated by reference to Exhibit 2.4 from our annual report on Form 20-F (File No. 001-38665) filed with the SEC on April 26, 2023)</a>
2.5	<a href="#">Fifth Amended and Restated Shareholders Agreement between the Registrant and other parties therein dated January 10, 2017 (incorporated by reference to Exhibit 4.4 from our registration statement on Form F-1 (File No. 333-226867), as amended, initially filed with the SEC on August 16, 2018)</a>
2.6	<a href="#">Description of rights of each class of securities registered under Section 12 of the Securities Exchange Act of 1934 (incorporated by reference to Exhibit 2.6 from our annual report on Form 20-F (File No. 001-38665) filed with the SEC on April 26, 2023)</a>
4.1	<a href="#">Amended and Restated 2012 Stock Incentive Plan (incorporated by reference to Exhibit 4.1 from our annual report on Form 20-F (File No. 001-38665) filed with the SEC on April 26, 2023)</a>
4.2	<a href="#">2018 Share Incentive Plan (incorporated by reference to Exhibit 10.2 from our registration statement on Form F-1 (File No. 333-226867), as amended, initially filed with the SEC on August 16, 2018)</a>
4.3	<a href="#">Form of Indemnification Agreement between the Registrant and its directors and executive officers (incorporated by reference to Exhibit 10.3 from our registration statement on Form F-1 (File No. 333-226867), as amended, initially filed with the SEC on August 16, 2018)</a>
4.4	<a href="#">Form of Employment Agreement between the Registrant and executive officers of the Registrant (incorporated by reference to Exhibit 10.4 from our registration statement on Form F-1 (File No. 333-226867), as amended, initially filed with the SEC on August 16, 2018)</a>
4.5	<a href="#">Executed form of exclusive business cooperation agreement between Shanghai Chule (CooTek) Information Technology Co., Ltd. and a VIE, as currently in effect, and a schedule of all executed exclusive business cooperation agreements adopting the same form in respect of each of the VIEs (incorporated by reference to Exhibit 4.5 from our annual report on Form 20-F (File No. 001-38665) filed with the SEC on April 20, 2020)</a>
4.6	<a href="#">Executed form of exclusive purchase option agreements among Shanghai Chule (CooTek) Information Technology Co., Ltd. and each shareholder of the VIEs, as currently in effect, and a schedule of all executed exclusive purchase option agreements adopting the same form in respect of each of the VIEs (incorporated by reference to Exhibit 4.6 from our annual report on Form 20-F (File No. 001-38665) filed with the SEC on April 20, 2020)</a>



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<b>Exhibit Number</b>	<b>Description of Document</b>
4.7	<a href="#">Executed form of equity pledge agreements among Shanghai Chule (CooTek) Information Technology Co., Ltd. and each shareholder of the VIEs, as currently in effect, and a schedule of all equity pledge agreement adopting the same form in respect of each of the VIEs (incorporated by reference to Exhibit 4.7 from our annual report on Form 20-F (File No. 001-38665) filed with the SEC on April 20, 2020)</a>
4.8	<a href="#">Executed form of powers of attorney granted by each shareholder of the VIEs, as currently in effect, and a schedule of all powers of attorney adopting the same form in respect of each of the VIEs (incorporated by reference to Exhibit 4.8 from our annual report on Form 20-F (File No. 001-38665) filed with the SEC on April 20, 2020)</a>
4.9	<a href="#">Executed form of loan agreement between Shanghai Chule (CooTek) Information Technology Co., Ltd. and each shareholder of the VIEs, as currently in effect, and a schedule of all executed loan agreements adopting the same form in respect of each of the VIEs (incorporated by reference to Exhibit 4.9 from our annual report on Form 20-F (File No. 001-38665) filed with the SEC on April 20, 2020)</a>
4.10	<a href="#">The form spouse consent letter signed by each spouse of the shareholders of the VIEs, as currently in effect (incorporated by reference to Exhibit 4.10 from our annual report on Form 20-F (File No. 001-38665) filed with the SEC on April 20, 2020)</a>
4.11	<a href="#">Series D-1 Preferred Share Purchase Agreement between the Registrant and other parties dated January 10, 2017 (incorporated by reference to Exhibit 10.11 from our registration statement on Form F-1 (File No. 333-226867), as amended, initially filed with the SEC on August 16, 2018)</a>
4.12	<a href="#">The form of audience network terms between Facebook, Inc. and Facebook Ireland Limited and us (incorporated by reference to Exhibit 10.12 from our registration statement on Form F-1 (File No. 333-226867), as amended, initially filed with the SEC on August 16, 2018)</a>
4.13	<a href="#">The form of Google DoubleClick Platform Services Terms and Conditions between Google Inc. and us (incorporated by reference to Exhibit 10.13 from our registration statement on Form F-1 (File No. 333-226867), as amended, initially filed with the SEC on August 16, 2018)</a>
4.14	<a href="#">The form of Google AdSense Online Terms of Service between Google Inc. and us (incorporated by reference to Exhibit 10.15 from our registration statement on Form F-1 (File No. 333-226867), as amended, initially filed with the SEC on August 16, 2018)</a>
4.15	<a href="#">The form of Chuan Shan Jia Distribution Cooperation Agreement signed by certain VIEs and a schedule of all executed Chuan Shan Jia Distribution Cooperation Agreements adopting the same form in respect of each of these VIEs (incorporated by reference to Exhibit 4.17 from our annual report on Form 20-F (File No. 001-38665), filed with the SEC on April 26, 2021)</a>
4.16	<a href="#">Securities Purchase Agreement between the Registrant and Mercer Street Global Opportunity Fund LLC, dated August 16, 2021 (incorporated by reference on Exhibit 10.1 from our Form 6-K (File No. 001-38665), filed on August 16, 2021)</a>
4.17*	<a href="#">The form of AppLovin Terms of Use Agreement between AppLovin Corporation and the Registrant</a>
8.1*	<a href="#">List of Principal Subsidiaries and Variable Interest Entities of the Registrant</a>
11.1	<a href="#">Code of Business Conduct and Ethics of Registrant (incorporated by reference to Exhibit 99.1 from our registration statement on Form F-1 (File No. 333-226867), as amended, initially filed with the SEC on August 16, 2018)</a>
12.1*	<a href="#">Principal Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
12.2*	<a href="#">Principal Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>

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<b>Exhibit Number</b>	<b>Description of Document</b>
13.1**	<a href="#">Principal Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
13.2**	<a href="#">Principal Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
15.1*	<a href="#">Consent of Deloitte Touche Tohmatsu Certified Public Accountants LLP, an independent registered public accounting firm</a>
15.2*	<a href="#">Consent of Shandong Haoxin Certified Public Accountants Co., Ltd., an independent registered public accounting firm</a>
15.3*	<a href="#">Consent of JunHe LLP</a>
15.4*	<a href="#">Consent of Maples and Calder (Hong Kong) LLP</a>
15.5	<a href="#">Letter from Deloitte Touche Tohmatsu Certified Public Accountants LLP to the Securities and Exchange Commission (incorporated by reference to Exhibit 15.5 from our annual report on Form 20-F (File No. 001-38665) filed with the SEC on April 26, 2023)</a>
101.INS*	XBRL Instance Document - this instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document)

\* Filed with this Annual Report on Form 20-F.

\*\* Furnished with Annual Report on Form 20-F.

**SIGNATURES**

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

**CooTek (Cayman) Inc.**

By: /s/ Karl Kan Zhang

Name: Karl Kan Zhang

Title: Chairman of the Board of Directors, Chief Technology Officer  
and Acting Chief Financial Officer

Date: April 30, 2024

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and shareholders of CooTek (Cayman) Inc.

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of CooTek (Cayman) Inc., its subsidiaries and its consolidated variable interest entities (the “Company”) as of December 31, 2022 and 2023, the related consolidated statements of operations, comprehensive income (loss), changes in shareholders’ equity (deficit), and cash flows for each of the two years in the period ended December 31, 2023, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2023, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2(a) to the financial statements, the Company changed the ratio of ADSs to its Class A ordinary shares in May 2022. The earnings per ADS in the financial statements have been retrospectively adjusted for the year ended December 31, 2021. Our procedures included but were not limited to recalculating and inspecting supporting documents. In our opinion, such retrospective adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2021 consolidated financial statements of the Company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2021 consolidated financial statements taken as a whole.

***Basis for Opinion***

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

***Explanatory Paragraph—Going Concern***

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2(a) to the financial statements, facts and circumstances include accumulated and recurring losses from operations, negative cash flows from operating activities and negative working capital as of December 31, 2023. These adverse conditions indicate that there is substantial doubt about its ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note 2(a). The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Shandong Haoxin Certified Public Accountants Co., Ltd.

We have served as the Company’s auditor since 2022.

Weifang, People’s Republic of China

April 30, 2024

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of CooTek (Cayman) Inc.

### Opinion on the Financial Statements

We have audited, before the effects of the retrospective adjustments relating to the effects of the change in ADS ratio as disclosed in Note 2(a) to the consolidated financial statements, the accompanying consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity (deficit), and cash flows of CooTek (Cayman) Inc., its subsidiaries and its consolidated variable interest entities (the "Company") for the year ended December 31, 2021 and the related notes and the schedule listed in the Schedule I, (collectively referred to as the "financial statements") (the 2021 financial statements before the effects of the retrospective adjustments as disclosed in Note 2(a) to the financial statement are not presented herein). In our opinion, the 2021 financial statements, before the effects of the retrospective adjustments as disclosed in Note 2(a) to the financial statements, present fairly, in all material respects, the results of the Company's operations and its cash flows for the year ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

We were not engaged to audit, review or apply any procedures to the retrospective adjustments as disclosed in Note 2(a) to the financial statements, and accordingly, we do not express an opinion or any other form of assurance about whether such retrospective adjustments are appropriate and have been properly applied. Those retrospective adjustments were audited by other auditors.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Explanatory Paragraph—Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2(a) to the financial statements, the Company has suffered recurring losses from operations and negative working capital that raise substantial doubt about its ability to continue as a going concern. Additionally, the Company received two non-compliance notifications related to its share price and market capitalization not meeting the minimum requirements of the New York Stock Exchange ("NYSE"), which if not cured would result in the potential cash redemption of the outstanding convertible notes and repayment of bank borrowings which had outstanding amounts of US\$11.2 million and US\$1.6 million, respectively as of December 31, 2021. Management's plans in regard to these matters are also described in Note 2(a). The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP  
Shanghai, the People's Republic of China  
April 29, 2022

We have served as the Company's auditor since 2018. In 2022, we became the predecessor auditor.

**COOTEK (CAYMAN) INC.**  
**CONSOLIDATED BALANCE SHEETS**

	Note	As of December 31,	
		2022 US\$	2023 US\$
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents		9,724,925	2,436,369
Restricted cash	2(f)	60,206	40,202
Short-term investments		50,059	50,074
Accounts receivable, net of allowance for credit losses of US\$159,414 and US\$43,734 as of December 31, 2022 and 2023, respectively	3	4,949,244	2,334,607
Prepaid expenses and other current assets	4	4,443,670	3,384,207
Total current assets		19,228,104	8,245,459
Property and equipment, net	5	912,633	90,501
Intangible assets, net	6	89,532	15,625
Operating lease right-of-use assets	2(r)	782,719	472,053
Long-term investments	7	276,600	258,038
Other non-current assets		95,699	199,824
<b>TOTAL ASSETS</b>		<b>21,385,287</b>	<b>9,281,500</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>			
<b>Current liabilities (including amounts of the consolidated VIEs without recourse to the Company. See Note 2(b)):</b>			
Accounts payable		8,171,310	4,425,136
Short-term borrowings	8	861,500	705,945
Accrued salary and benefits		4,007,449	1,142,038
Operating lease liabilities, current	2(r)	328,046	315,953
Accrued expenses and other current liabilities	9	4,257,554	2,199,751
Convertible notes	10	1,754,656	—
Derivative liabilities	10	—	—
Deferred revenue		175,375	643,997
<b>Total current liabilities</b>		<b>19,555,890</b>	<b>9,432,820</b>
Other non-current liabilities		209,439	73,320
Operating lease liabilities, non-current	2(r)	489,122	165,015
<b>TOTAL LIABILITIES</b>		<b>20,254,451</b>	<b>9,671,155</b>
<b>Commitments and contingencies</b>	17		
<b>Shareholders' deficit:</b>			
Class A ordinary shares (US\$0.00001 par value; 13,750,000,000 shares authorized as of December 31, 2022 and 2023; 4,591,030,991 shares issued and outstanding as of December 31, 2022 and 2023, respectively)	13	45,910	45,910
Class B ordinary shares (US\$0.00001 par value; 250,000,000 shares authorized; 246,224,465 shares issued and outstanding as of December 31, 2022 and 2023)	13	2,462	2,462
Additional paid-in capital		217,540,733	218,245,298
Accumulated deficit		(214,327,424)	(216,923,365)
Accumulated other comprehensive loss		(2,130,845)	(1,759,960)
<b>Total shareholders' deficit</b>		<b>1,130,836</b>	<b>(389,655)</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT</b>		<b>21,385,287</b>	<b>9,281,500</b>

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

COOTEK (CAYMAN) INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Note	For the years ended December 31,		
		2021 US\$	2022 US\$	2023 US\$
<b>Net revenues</b>	2(n)	272,145,821	83,926,614	31,976,268
Cost of revenues (including share-based compensation expense of US\$142,404, US\$(22,682) and US\$21,434 in 2021, 2022 and 2023, respectively)		(32,825,888)	(13,070,923)	(6,035,768)
<b>Gross profit</b>		239,319,933	70,855,691	25,940,500
<b>Operating expenses:</b>				
General and administrative expenses (including share-based compensation expense of US\$1,754,275, US\$1,237,663 and US\$512,837 in 2021, 2022 and 2023, respectively)		(17,815,839)	(11,907,809)	(4,384,720)
Research and development expenses (including share-based compensation expense of US\$1,716,316, US\$545,673 and US\$180,355 in 2021, 2022 and 2023, respectively)		(34,433,316)	(15,523,180)	(7,210,687)
Sales and marketing expenses (including share-based compensation expense of US\$103,324, US\$59,974 and US\$(10,061) in 2021, 2022 and 2023, respectively)		(200,235,468)	(44,378,533)	(17,674,610)
Other operating income (loss), net	11	4,453,462	2,441,559	793,685
<b>Total operating expenses</b>		(248,031,161)	(69,367,963)	(28,476,332)
<b>(Loss) income from operations</b>		(8,711,228)	1,487,728	(2,535,832)
Interest (expenses) income, net		(5,689,947)	(1,362,001)	(28,443)
Impairment loss of investment	7	(248,140)	—	—
Foreign exchange (loss) gain, net		(219,642)	(93,145)	(10,829)
Fair value change of derivatives	10	1,108,648	553,707	—
<b>(Loss) income before income taxes</b>		(13,760,309)	586,289	(2,575,104)
Income tax expenses	12	(51,970)	(9,058)	(20,837)
Share of loss in equity method investment	7	(65,084)	(62,217)	—
<b>Net (loss) income</b>		(13,877,363)	515,014	(2,595,941)
Deemed dividend in relation to the convertible notes	10	(1,368,866)	—	—
<b>Net (loss) income attributable to ordinary shareholders</b>		(15,246,229)	515,014	(2,595,941)
<b>Net (loss) income per ordinary share:</b>	16			
Basic		(0.005)	0.0001	(0.0005)
Diluted		(0.005)	0.0001	(0.0005)
<b>Net (loss) income per American Depositary Shares (“ADS”) (each of ADS represents 650 Class A ordinary shares):</b>				
Basic		(3.00)	0.07	(0.35)
Diluted		(3.00)	0.07	(0.35)
<b>Weighted average shares used in calculating net loss per ordinary share:</b>				
Basic		3,303,168,725	4,591,748,099	4,837,255,456
Diluted		3,303,168,725	4,592,307,849	4,837,255,456

Note: Basic and diluted earnings per ADS for the years ended December 31, 2021 have been retrospectively adjusted for the ADS ratio change that were effective on May 9, 2022. Refer to Note 2(a) for additional information.

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



## COOTEK (CAYMAN) INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	For the years ended December 31,		
	2021 US\$	2022 US\$	2023 US\$
Net (loss) income	(13,877,363)	515,014	(2,595,941)
<b>Other comprehensive (loss) income</b>			
Foreign currency translation adjustments, net of tax of nil	202,020	(217,949)	370,885
<b>Comprehensive (loss) income attributable to CooTek (Cayman) Inc.</b>	<u>(13,675,343)</u>	<u>297,065</u>	<u>(2,225,056)</u>
Deemed dividend in relation to convertible note (see Note 10)	(1,368,866)	—	—
<b>Total comprehensive (loss) income attributable to ordinary shares of CooTek (Cayman) Inc.</b>	<u>(15,044,209)</u>	<u>297,065</u>	<u>(2,225,056)</u>

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

**COOTEK (CAYMAN) INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)**

	Class A Ordinary shares		Class B Ordinary shares		Treasury Shares		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive (loss) income	Total shareholders' equity (deficit)
	Shares	US\$	Shares	US\$	Shares	US\$	US\$	US\$	US\$	US\$
Balance at January 1, 2021	2,845,646,241	28,456	246,224,465	2,462	44,511,050	(4,672,334)	193,918,852	(200,965,075)	(2,114,916)	(13,802,555)
Net Loss	—	—	—	—	—	—	—	(13,877,363)	—	(13,877,363)
Issuance of ordinary shares upon vesting of restricted shares (Note 15)	5,051,850	51	—	—	—	—	(51)	—	—	—
Repurchase of ordinary shares (Note 14)	—	—	—	—	24,237,100	(1,322,195)	—	—	—	(1,322,195)
Conversion of convertible notes (Note 10)	481,038,200	4,810	—	—	(63,248,150)	5,229,132	13,607,968	—	—	18,841,910
Beneficial conversion feature on convertible notes (Note 10)	—	—	—	—	—	—	(1,368,866)	—	—	(1,368,866)
Commitment fee paid to holders of convertible notes through issuance of treasury shares (Note 10)	—	—	—	—	(5,500,000)	765,397	(436,247)	—	—	329,150
Issuance of ordinary shares upon follow-on public offering, net of issuance cost (Note 13)	49,501,700	495	—	—	—	—	1,199,505	—	—	1,200,000
Exercise of share options (Note 15)	10,571,200	106	—	—	—	—	81,355	—	—	81,461
Share-based compensation	—	—	—	—	—	—	3,716,319	—	—	3,716,319
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	202,020	202,020
<b>Balance at December 31, 2021</b>	<b>3,391,809,191</b>	<b>33,918</b>	<b>246,224,465</b>	<b>2,462</b>	<b>—</b>	<b>—</b>	<b>210,718,835</b>	<b>(214,842,438)</b>	<b>(1,912,896)</b>	<b>(6,000,119)</b>
Net Income	—	—	—	—	—	—	—	515,014	—	515,014
Issuance of ordinary shares upon vesting of restricted shares (Note 15)	1,143,100	11	—	—	—	—	(11)	—	—	—
Conversion of convertible notes (Note 10)	1,195,980,950	11,960	—	—	—	—	5,000,992	—	—	5,012,952
Exercise of share options (Note 15)	2,097,750	21	—	—	—	—	289	—	—	310
Share-based compensation	—	—	—	—	—	—	1,820,628	—	—	1,820,628
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	(217,949)	(217,949)
<b>Balance at December 31, 2022</b>	<b>4,591,030,991</b>	<b>45,910</b>	<b>246,224,465</b>	<b>2,462</b>	<b>—</b>	<b>—</b>	<b>217,540,733</b>	<b>(214,327,424)</b>	<b>(2,130,845)</b>	<b>1,130,836</b>
Net Loss	—	—	—	—	—	—	—	(2,595,941)	—	(2,595,941)
Share-based compensation	—	—	—	—	—	—	704,565	—	—	704,565
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	370,885	370,885
<b>Balance at December 31, 2023</b>	<b>4,591,030,991</b>	<b>45,910</b>	<b>246,224,465</b>	<b>2,462</b>	<b>—</b>	<b>—</b>	<b>218,245,298</b>	<b>(216,923,365)</b>	<b>(1,759,960)</b>	<b>(389,655)</b>

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

COOTEK (CAYMAN) INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended December 31,		
	2021	2022	2023
	US\$	US\$	US\$
<b>Cash flows from operating activities:</b>			
Net (Loss) income	(13,877,363)	515,014	(2,595,941)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	3,772,121	1,803,031	379,539
Provision (reversal) for credit losses	240,658	108,146	(90,526)
Impairment loss of investment	248,140	—	—
Share-based compensation expense	3,716,319	1,820,628	704,565
Amortization of issuance cost and debt discounts related to convertible notes	5,647,358	1,337,672	51,797
Change in fair value of derivatives	(1,108,648)	(553,707)	—
Gain on disposal of property and equipment	(33,817)	(199,442)	(386,915)
Noncash lease expense	1,580,933	1,193,216	298,002
Share of loss in equity method investment	65,084	62,217	—
Changes in assets and liabilities:			
Accounts receivable	6,993,094	15,841,979	2,687,831
Prepaid expenses and other current assets	1,397,809	5,804,641	1,090,622
Other non-current assets	177,780	636,892	(106,459)
Accounts payable	(48,466,953)	(17,484,903)	(3,613,124)
Accrued salary and benefits	(4,807,311)	(9,525)	(2,831,392)
Accrued expenses and other current liabilities	(2,178,255)	(6,629,926)	(2,175,269)
Operating lease liabilities	(1,839,838)	(885,014)	(322,991)
Deferred revenue	(2,429,459)	(1,945,855)	485,700
Other non-current liabilities	(141,341)	(113,866)	(136,118)
Net cash (used in) provided by operating activities	<b>(51,043,689)</b>	<b>1,301,198</b>	<b>(6,560,679)</b>
<b>Cash flows from investing activities:</b>			
Purchases of property and equipment and intangible assets	(1,464,575)	(1,294)	(76,458)
Proceeds from disposal of property and equipment	133	569,447	1,022,200
Purchases of long-term investments	(314,091)	(57,433)	—
Proceeds from reclaim of long-term investments	—	11,139	14,314
Net cash (used in) provided by investing activities	<b>(1,778,533)</b>	<b>521,859</b>	<b>960,056</b>
<b>Cash flows from financing activities:</b>			
Proceeds from short-term borrowings	83,146,674	6,255,905	1,422,613
Repayment of short-term borrowings	(85,229,391)	(14,126,509)	(1,573,396)
Proceeds from issuance of ordinary shares upon exercise of options	81,339	542	—
Proceeds from issuance of convertible notes, net of debt discounts and issuance cost of US\$2.8 million	27,175,000	—	—
Repayment of convertible notes	(4,181,918)	(3,745,955)	(1,806,453)
Proceeds from issuance of ordinary shares upon follow-on public offering	1,390,000	—	—
Cash paid for issuance costs	(159,624)	—	—
Payment of share repurchase	(1,322,195)	—	—
Net cash provided by (used in) financing activities	<b>20,899,885</b>	<b>(11,616,017)</b>	<b>(1,957,236)</b>
Net decrease in cash, cash equivalents, and restricted cash	(31,922,337)	(9,792,960)	(7,557,859)
Cash, cash equivalents, and restricted cash at beginning of year	49,622,714	18,431,209	9,785,131
Effect of exchange rate changes on cash, cash equivalents and restricted cash	730,832	1,146,882	249,299
Cash, cash equivalents, and restricted cash at end of year	<b>18,431,209</b>	<b>9,785,131</b>	<b>2,476,571</b>
<b>Supplemental disclosure of cash flow information:</b>			
Income taxes paid	51,970	3,159	26,736
Interest paid	721,276	504,134	86,893
Cash paid for amounts included in the measurement of operating lease liabilities	1,666,271	927,257	409,100
Operating lease right-of-use assets obtained in exchange for operating lease liabilities	199,474	759,530	—
<b>Supplemental disclosure of noncash investing and financing activities:</b>			
Purchases of property and equipment included in payables	54,814	—	—
Conversion of convertible notes into ordinary shares	17,473,045	5,012,952	—
Deemed dividend from issuance of convertible notes	1,368,866	—	—
Commitment fees on convertible notes through issuance of treasury shares	329,150	—	—
<b>Reconciliation in amounts on consolidated balance sheets:</b>			
Cash and cash equivalents	18,232,130	9,724,925	2,436,369
Restricted cash	199,079	60,206	40,202
<b>Total cash, cash equivalents, and restricted cash</b>	<b>18,431,209</b>	<b>9,785,131</b>	<b>2,476,571</b>

COOTEK (CAYMAN) INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**1. Organization and Principal Activities**

CooTek (Cayman) Inc. (the “Company”) was incorporated in the Cayman Islands on March 5, 2012. The Company, its subsidiaries, its consolidated variable interest entities (“VIEs”) and VIEs’ subsidiaries (collectively referred to as the “Group”) are a fast-growing mobile internet company with a global vision, offering mobile applications.

**History of the Group and reorganization**

The Group’s history began in August 2008 with the commencement of operations of Shanghai Han Xiang (CooTek) Information Technology Co., Ltd (“Han Xiang”), a limited liability company incorporated in the People’s Republic of China (“PRC”) by certain individuals. In October 2010, three outside investors acquired an aggregate of 24.24% equity interest of Han Xiang. In 2012, Han Xiang and its shareholders undertook a reorganization which was conducted to establish a Cayman holding company for the existing business to obtain investment from outside investors and in preparation of an overseas initial public offering. The Group has recognized the net assets of Han Xiang on a historical cost with no change in basis in the consolidated financial statements upon the completion of the reorganization. The shareholders’ rights and obligations remained the same after the reorganization.

On October 2, 2018 the Group completed its initial public offering (“IPO”) in the United States and issued 4,350,000 American depository shares representing 217,500,000 of the Group’s ordinary shares. Net proceeds from the IPO after deducting underwriting discount and offering costs were US\$45.1 million.

**2. Summary of Significant Accounting Policies**

**(a) Basis of Presentation**

The consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

Effective as of May 9, 2022, the Company changed the ratio of ADSs to its Class A ordinary shares from the current ADS Ratio of one ADS to 50 Class A ordinary share to a new ADS Ratio of one ADS to 650 Class A ordinary shares (the “ADS Ratio change”). The per ADS data as disclosed elsewhere in these consolidated financial statements and notes thereto are presented on a basis after taking into account the effects of the ADS Ratio change and have been retrospectively adjusted, where applicable.

The accompanying consolidated financial statements have been prepared assuming that the Group will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The realization of assets and the satisfaction of liabilities in the normal course of business are dependent on, among other things, the Group’s ability to generate cash flows from operations, and the Group’s ability to arrange adequate financing arrangements, including the renewal or rollover of its bank borrowings, to support its working capital requirements.

The Group’s revenue declined from US\$272.1 million in 2021 to US\$83.9 million in 2022 and further to US\$32.0 million in 2023. As of December 31, 2023, the Group’s current liabilities exceeded its current assets by US\$1.2 million, compared to US\$0.3 million as of December 31, 2022. The Group incurred a net loss of US\$2.6 million and negative cash flows from operating activities of US\$6.6 million in 2023, and recorded an accumulated deficit of US\$216.9 million as of December 31, 2023.

These adverse conditions and events indicate raise substantial doubt about the Group’s ability to continue as a going concern. The Group’s ability to continue as a going concern is dependent on management’s ability to execute its business plan covering the next twelve months to enhance its operating cash flow, obtain capital financing from investors and borrowings from commercial banks to fund its general operations including its marketing activities. The Group’s ability to continue as a going concern is dependent on the following factors:

COOTEK (CAYMAN) INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of Presentation (Continued)

- The successful implementation of a balanced development approach between growth and profitability. To implement the plans, the Group plans to restructuring its portfolio products by focusing resources on more profitable businesses, such as pan-entertainment mobile applications in overseas markets. The Group also plans to continue to implement its cost-control initiative so as to improve cost and expense efficiency. Specifically, The Group plans to continue to terminate the operations of non-performing and under-performing scenario-based mobile apps, and reduce sales and marketing expenses to acquire new users.
- In January 2024, the Group entered into a credit facility agreement guaranteed by founder's assets with a commercial bank with a credit facility of US\$2.5 million, which will expire by January 2025. As of April 26, 2024, the Group has fully drawn down US\$2.5 million. The Group plans to renew its short-term bank borrowings if needed. However, there is no assurance that the Group will be successful in renewing this short-term credit facility.
- The Group will continue to seek external financing to improve its liquidity position to fund continuing operations, though there is no assurance that the Group will be successful in obtaining sufficient funding on terms acceptable to the Group.

Management has concluded, after giving consideration to its plans as noted above, that the Group has sufficient cash and liquidity to fund its operations for one year from the date of the issuance of the consolidated financial statements. Accordingly, the consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and liquidation of liabilities during the normal course of operations. However, there is a material uncertainty relating the Group's successful implementation of management's business plans which lacks of sufficient historical data for evidence and there is no assurance the Group will be able to obtain additional financing or renew its current bank borrowings to fund its operations. These adverse condition and events and material uncertainties relating to management's plan give rise to substantial doubt as to whether the Group will continue as a going concern and therefore whether it will realize its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial statements. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

(b) Principles of Consolidation

The consolidated financial statements include the financial information of the Company, its wholly owned subsidiaries, its consolidated VIEs and VIEs' subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation.

Applicable PRC laws and regulations currently limit foreign ownership of companies that provide internet content distribution services and any other restrictions. The Company is deemed a foreign legal person under PRC laws and accordingly subsidiaries owned by the Company are not eligible to engage in provisions of internet content or online services. The Group therefore conducts its online business through the following major consolidated VIEs:

- Shanghai Chu Bao (CooTek) Information Technology Co., Ltd. ("Chu Bao")
- Molihong (Shenzhen) Internet Technology Co., Ltd. ("Molihong")

COOTEK (CAYMAN) INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

To provide the Group effective control over the VIEs and receive substantially all of the economic benefits of the VIEs, the Company's wholly owned subsidiary, Shanghai ChuLe (CooTek) Information Technology Co., Ltd. ("Chu Le" or "WFOE") entered into a series of contractual arrangements, described below, with The VIEs and their respective shareholders.

Agreements that provide the Company effective control over the VIEs include:

Voting Rights Proxy Agreements & Irrevocable Power of Attorney

Pursuant to which each of the shareholders of VIEs has executed voting rights proxy agreements, appointing the WFOE, or any person designated by the WFOE, as their attorney-in-fact to (i) call and attend shareholders' meetings of VIEs and execute relevant shareholders' resolutions; (ii) exercise on their behalf all his rights as a shareholder of VIEs, including those rights under PRC laws and regulations and the articles of association of VIEs, such as voting, appointing, replacing or removing directors, (iii) submit all documents as required by governmental authorities on behalf of VIEs, and (iv) assign the shareholding rights of VIEs, including receiving dividends, disposing of equity interest and enjoying the rights and interests during and after liquidation.

**2. Summary of Significant Accounting Policies (Continued)**

**(b) Principles of Consolidation (Continued)**

Exclusive Purchase Option Agreements

Pursuant to which each the VIE shareholders unconditionally and irrevocably granted the WFOE or its designee exclusive options to purchase, to the extent permitted under PRC laws and regulations, all or part of the equity interests in the VIEs. The WFOE has the sole discretion to decide when to exercise the options, and whether to exercise the options in part or in full. Without the WFOE's written consent, the VIE shareholders may not sell, transfer, pledge or otherwise dispose of or create any encumbrance on any of VIEs' assets or equity interests.

Equity Pledge Agreements

The VIE shareholders agreed to pledge their equity interests in VIEs to the WFOE to secure the performance of the VIEs' obligations under the series of contractual agreements and any such agreements to be entered into in the future. Without prior written consent of the WFOE, the VIEs' shareholders shall not transfer or dispose of the pledged equity interests or create or allow any encumbrance on the pledged equity interests. If any economic interests were received by means of their equity interests in the VIEs, such interests belong to the WFOE.

Agreements that transfer economic benefits of VIEs to the Group include:

Exclusive Business Cooperation Agreements

Under the exclusive services agreement, the Company and the WFOE have the exclusive right to provide comprehensive technical and business support services to the VIEs. In exchange, the VIEs pay monthly service fees to the WFOE in the amount equivalent to all of their net income as confirmed by the WFOE. The WFOE has the right to adjust the service fee rates at its sole discretion. The agreement can be early terminated by the WFOE by giving a 30-day prior notice, but not by the VIEs or VIE shareholders.

Loan Agreements

The WFOE entered into loan agreements with each shareholder of the VIEs. Pursuant to the terms of these loan agreements, the WFOE granted an interest-free loan to each shareholder of the VIEs for the explicit purpose of making a capital contribution to the VIEs. The term of the loans are 10 years and shall be renewed automatically every 3 years for an additional 3 years unless the WFOE terminates the agreement (which option is at the WFOE's sole discretion) at which point the loans are payable on demand. The shareholders of the VIEs may not prepay all or any portion of the loans without the WFOE's consent.

COOTEK (CAYMAN) INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Voting Rights Proxy Agreements & Irrevocable Powers of Attorney and Exclusive Purchase Option Agreements provide the Company effective control over the VIEs and its subsidiaries, while the Exclusive Business Cooperation Agreements and Equity Pledge Agreements secure the obligations of the shareholders of the VIEs under the relevant agreements. Because the Company, through the WFOE, has (i) the power to direct the activities of the VIEs that most significantly affect the entity's economic performance and (ii) the right to receive substantially all of the benefits from the VIEs, the Company is deemed the primary beneficiary of the VIEs. Accordingly, the Company has consolidated the VIEs' financial results of operations, assets and liabilities in the Group's consolidated financial statements. The aforementioned agreements are effective agreements between a parent and consolidated subsidiaries, neither of which is accounted for in the consolidated financial statements or are ultimately eliminated upon consolidation (i.e. service fees under the Exclusive Business Cooperation Agreement).

**2. Summary of Significant Accounting Policies (Continued)**

**(b) Principles of Consolidation (Continued)**

The Group believes that the contractual arrangements with the VIEs are in compliance with PRC law and are legally enforceable. However, uncertainties in the PRC legal system could limit the Company's ability to enforce the contractual arrangements. If the legal structure and contractual arrangements were found to be in violation of PRC laws and regulations, the PRC government could:

- Revoke the business and operating licenses of the Company's PRC subsidiaries and VIEs;
- Discontinue or restrict the operations of any related-party transactions between the Company's PRC subsidiaries and VIEs;
- Limit the Group's business expansion in China by way of entering into contractual arrangements;
- Impose fines or other requirements with which the Company's PRC subsidiaries and VIEs may not be able to comply;
- Require the Company or the Company's PRC subsidiaries or VIEs to restructure the relevant ownership structure or operations; or
- Restrict or prohibit the Company's use of the proceeds of the additional public offering to finance the Group's business and operations in China.

COOTEK (CAYMAN) INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

(b) Principles of Consolidation (Continued)

The following consolidated financial statement balances and amounts of the Group's VIEs were included in the accompanying consolidated financial statements after the elimination of intercompany balances and transactions among the Company, its subsidiaries and its VIEs.

	As of December 31,	
	2022 US\$	2023 US\$
<b>ASSETS</b>		
Cash and cash equivalents	2,087,760	283,530
Restricted cash	206	—
Accounts receivable, net	1,031,662	221,848
Prepaid expense and other assets	1,879,727	1,730,359
Long-term investments	276,600	—
Property and equipment, net	108,957	8,191
Operating lease right-of-use assets	212,517	132,080
Other non-current assets	21,280	98,551
<b>Total Assets</b>	<b>5,618,709</b>	<b>2,474,559</b>
<b>LIABILITIES</b>		
Accounts payable	3,300,720	1,582,409
Accrued salary and benefits	874,763	152,145
Accrued expenses and other current liabilities	2,353,038	767,641
Deferred revenue	104,711	48,636
Operating lease liabilities, current	84,813	88,403
Operating lease liabilities, non-current	136,857	46,171
<b>Total Liabilities</b>	<b>6,854,902</b>	<b>2,685,405</b>

	For the years ended December 31,		
	2021 US\$	2022 US\$	2023 US\$
Net revenues	101,383,320	31,296,937	5,752,574
Income (loss) from operations	(31,302,836)	17,304,119	93,144
Net (loss) income	(31,694,750)	17,177,101	59,026
Net cash (used in) provided by operating activities	(27,664,505)	(13,423,567)	(2,990,648)
Net cash (used in) provided by investing activities	(475,661)	43,397	273,659
Net cash provided by (used in) financing activities	4,772,782	6,436,801	(1,948,205)

The VIEs' assets are comprised of recognized and unrecognized revenue-producing assets. The recognized revenue producing assets mainly include purchased servers, which are presented in the account of "Property and equipment, net". The unrecognized revenue-producing assets mainly consist of the Internet Content Provider license ("ICP" license), trademarks, copyrights and registered patents, which are not recognized in the consolidated balance sheets.

Revenues of VIEs included in the consolidated financial statements mainly include revenue of advertising services. The VIEs contributed 37%, 39% and 18% of the Group's consolidated net revenues for years ended December 31, 2021, 2022 and 2023, respectively. As of December 31, 2022 and 2023, the VIEs accounted for an aggregate of 26% and 27% respectively, of the consolidated total assets, and 34% and 28% respectively, of the consolidated total liabilities.



COOTEK (CAYMAN) INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**2. Summary of Significant Accounting Policies (Continued)**

**(b) Principles of Consolidation (Continued)**

There are no terms in any arrangements, considering both explicit arrangements and implicit variable interests that require the Company or its subsidiaries to provide financial support to the VIEs. However, if the VIEs were ever to need financial support, the Group may, at its option and subject to statutory limits and restrictions, provide financial support to its VIE through loans to the shareholders of the VIEs.

The Group believes that there are no assets held in the VIEs that can be used only to settle obligations of the VIEs, except for registered capital and the PRC statutory reserves. As the VIEs are incorporated as limited liability companies under the PRC Company Law, creditors of the VIEs do not have recourse to the general credit of the Company for any of the liabilities of the VIEs. Relevant PRC laws and regulations restrict the VIEs from transferring a portion of their net assets, equivalent to the balance of its statutory reserve and its share capital, to the Company in the form of loans and advances or cash dividends. Please refer to Note 20 for disclosure of restricted net assets.

**(c) Use of Estimates**

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. The Group bases its estimates on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Significant accounting estimates reflected in the Group's financial statements including but not limited to estimated consumption rates at which consumable virtual items is consumed, allowance for credit losses, accruals for user incentive programs, valuation allowances of deferred tax assets, valuation of share-based compensation, and valuation of embedded derivative liabilities. Actual results may differ materially from those estimates.

**(d) Fair Value**

Fair value reflects the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the assets or liabilities.

The Group applies a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. This guidance specifies a hierarchy of valuation techniques, which is based on whether the inputs into the valuation technique are observable or unobservable. The hierarchy is as follows:

- Level 1—Valuation techniques in which all significant inputs are unadjusted quoted prices from active markets for assets or liabilities that are identical to the assets or liabilities being measured.
- Level 2—Valuation techniques in which significant inputs include quoted prices from active markets for assets or liabilities that are similar to the assets or liabilities being measured and/or quoted prices for assets or liabilities that are identical or similar to the assets or liabilities being measured from markets that are not active. Also, model-derived valuations in which all significant inputs and significant value drivers are observable in active markets are Level 2 valuation techniques.

COOTEK (CAYMAN) INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**2. Summary of Significant Accounting Policies (Continued)**

**(d) Fair Value (Continued)**

- Level 3—Valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are valuation technique inputs that reflect the Group’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair value guidance describes three main approaches to measure the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

When available, the Group uses quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, the Group will measure fair value using valuation techniques that use, when possible, current market-based or independently sourced market parameters, such as interest rates and currency rates.

Beginning January 1, 2019, the Group’s equity investments without readily determinable fair values, which do not qualify for Net Asset Value (“NAV”) practical expedient and over which the Group does not have the ability to exercise significant influence through the investments in common stock or in substance common stock, are accounted for under the measurement alternative upon the adoption of Accounting Standards Update (“ASU”) 2016-01 Recognition and Measurement of Financial Assets and Liabilities (the “Measurement Alternative”). Under the Measurement Alternative, the carrying value is measured at cost, less any impairment, plus and minus changes resulting from observable price changes in orderly transactions for identical or similar investments. After management’s assessment of each of the long-term investments, management concluded that investments do not have readily determinable fair values, and elects the measurement alternative.

The Group measures equity method investments at fair value on a nonrecurring basis when they are deemed to be impaired. The fair values of these investments are determined based on valuation techniques using the best information available, and may include future performance projections, discount rate and other assumptions that are significant to the measurements of fair value. An impairment charge to these investments is recorded when the carrying amount of the investment exceeds its fair value and this condition is determined to be other-than-temporary. During the years ended December 31, 2021, 2022 and 2023, the Group recognized US\$0.25 million, nil and nil of impairment loss of equity method investments, respectively.

Financial instruments not reported at fair value include cash and cash equivalents, restricted cash, short-term investments, accounts receivable, accounts payable, other current liabilities, short-term borrowings, and convertible note payable (see Note 10). The embedded monthly redemption right of the convertible note was measured at fair value and the Group determined these recurring fair value measurements reside primarily within Level 3 of the fair value hierarchy because the absence of observable inputs used in Monte Carlo simulation. The significant inputs applied in Monte Carlo simulation include expected volatility, dividend yield and present value discount rate. The carrying amounts of other financial instruments as of December 31, 2022 and December 31, 2023 were considered representative of their fair values due to their short-term nature.

**(e) Foreign Currency Translation**

The functional currency of the Company is the United States Dollar (“US\$”). The functional currency of the VIEs and the VIEs’ subsidiaries in the PRC is Renminbi (“RMB”). The functional currency of all the other subsidiaries is US\$.

Foreign currency transactions have been translated into the functional currency at the exchange rates prevailing on the date of transactions. Foreign currency denominated monetary assets and liabilities are re-measured into the functional currency at exchange rates prevailing on the balance sheet date. Exchange gains and losses are recorded in the statements of operations.

COOTEK (CAYMAN) INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**2. Summary of Significant Accounting Policies (Continued)**

**(e) Foreign Currency Translation (Continued)**

The Group has chosen the US\$ as its reporting currency. Assets and liabilities have been translated using exchange rates prevailing on the balance sheet date. Equity accounts are translated at historical exchange rates. Income statement items have been translated using the average exchange rate for the year. Translation adjustments have been reported as cumulative translation adjustments and are shown as a component of other comprehensive (loss) income in the consolidated statements of comprehensive loss and consolidated statements of changes in shareholders' equity (deficit).

**(f) Cash, Cash Equivalents and Restricted cash**

Cash and cash equivalents consist of cash on hand, demand deposits and floating rate financial instruments which are unrestricted as to withdrawal or use, and which have original maturities of three months or less when purchased.

**(g) Short-term Investments**

Short-term investments primarily consist of the time deposits with maturities between three months and one year. The Group classifies the short-term investments as "held-to-maturity" securities and stated at amortized cost within Level 2.

For investments classified as held-to-maturity securities, the Group evaluates whether a decline in fair value below the amortized cost basis is other-than-temporary in accordance with the Group's policy and ASC 320. The other-than-temporary impairment loss is recognized in earnings equal to the entire excess of the investment's amortized cost basis over its fair value at the balance sheet date of the reporting period for which the assessment is made. No impairment losses in relation to its short-term investments were recorded for the years ended December 31, 2021, 2022 and 2023.

**(h) Accounts Receivable, net**

Accounts receivable, net represents those receivables derived from the ordinary course of business and are recorded net of allowance that reflects the Group's best estimate of the amounts that will not be collected. In determining collectability of the accounts receivables, the Group considers factors in assessing the expected credit losses, including historical credit loss experience, credit quality of customers, aging of the receivables, financial condition of the customers and market trends, and specific facts and circumstances.

On January 1, 2023, the Group adopted ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, using the modified retrospective method. Expected credit losses are recorded as general and administrative expenses on the consolidated statements of operations.

**(i) Long-term Investments**

Investments represent equity-method investments and equity investments without readily determinable fair value.

The Group accounts for equity investment in entities with significant influence but holds no controlling interest under equity-method accounting. Under this method, the Group's pro rata share of income (loss) from investment is recognized in the consolidated statements of operation. When the Group's share of loss in an equity-method investee equals or exceeds its carrying value of the investment in that entity, the Group continues to report its share of equity method losses in the statements of operation to the extent and as an adjustment to the carrying amount of its other investments in the investee. Equity-method investment is reviewed for impairment by assessing if the decline in market value of the investment below the carrying value is other-than-temporary. In making this determination, factors are evaluated in determining whether a loss in value should be recognized. These include consideration of the intent and ability of the Group to hold investment and the ability of the investee to sustain an earnings capacity, justifying the carrying amount of the investment. Impairment losses are recognized in impairment losses of investment when a decline in value is deemed to be other-than-temporary.

## COOTEK (CAYMAN) INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**2. Summary of Significant Accounting Policies (Continued)****(i) Long-term Investments (Continued)**

Investments in equity securities without readily determinable fair values are measured at cost minus impairment adjusted by observable price changes in orderly transactions for the identical or a similar investment of the same issuer. An impairment loss is recognized in the consolidated statements of operation equal to the amount by which the carrying value exceeds the fair value of the investment.

The Group recognized US\$248,140, nil and nil of impairment loss to write down the long-term investments for the years ended December 31, 2021, 2022 and 2023, respectively.

**(j) Property and Equipment, net**

Property and equipment is recorded at cost less accumulated depreciation and impairment. Depreciation expense of long-lived assets is recorded as either cost of revenue or operating expenses, as appropriate. Depreciation is computed using the straight-line method over the following estimated useful lives by major asset category:

Electronic equipment	3 years
Office equipment and furniture	3 - 5 years
Motor vehicles	5 years
Leasehold improvements	Shorter of the lease term or expected useful life

Repair and maintenance costs are charged directly to expense as incurred, whereas the cost of renewals and improvement that extend the useful lives of property and equipment are capitalized as additions to the related assets.

**(k) Intangible Assets**

Intangible assets mainly consist of externally purchased software and other intangible assets which are amortized over an estimated useful life of 3-10 years on a straight-line basis.

**(l) Impairment of Long-lived Assets**

Long-lived assets, including property and equipment and intangible assets, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Factors considered important that could result in an impairment review include, but are not limited to, significant under-performance relative to historical or planned operating results, significant changes in the manner of use or expected life of the assets or significant changes in business strategies. An impairment analysis is performed at the lowest level of identifiable cash flows for an asset or asset group based on valuation techniques such as discounted cash flow analysis. An impairment charge is recognized when the estimated undiscounted cash flows expected to result from the use of the asset plus net proceeds expected from the disposition of the asset, if any, are less than the carrying value of the asset net of other liabilities. The estimation of future cash flows requires significant management judgment and actual results may differ from estimated amounts. No impairment was recognized for the years ended December 31, 2021, 2022 and 2023.

**(m) Treasury Shares**

Treasury shares represents ordinary shares repurchased by the Company that are no longer outstanding and are held by the Group. Treasury shares are accounted for under the cost method. Under this method, repurchased ordinary shares were recorded as treasury shares at historical purchase price. At retirement, the ordinary shares account is charged only for the aggregate par value of the shares. The excess of the acquisition cost of treasury shares over the aggregate par value is allocated between additional paid-in capital (up to the amount credited to the additional paid-in capital upon original issuance of the shares) and retained earnings.

COOTEK (CAYMAN) INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**2. Summary of Significant Accounting Policies (Continued)**

**(n) Revenue Recognition**

***Mobile Advertising***

The Group generates majority of its revenue through mobile advertising and recognizes the revenue according to ASC Topic 606. The Group provides advertising services to customers for promotion of their brands and products through its pan-entertainment mobile applications, including online literature applications and mobile games. Online literature contributed approximately 38.3%, 46.7% and 47.3% of its advertising revenue in 2021, 2022 and 2023 respectively. Meanwhile, mobile games contributed approximately 53.2%, 50.3% and 48.6% of its advertising revenue in 2021, 2022 and 2023 respectively.

The Group has two general pricing models for its advertising products: cost over a time period and cost for performance basis including per impression basis. For advertising contracts over a time period, the Group generally recognizes revenue ratably over time, because the customer simultaneously receives and consumes the benefits as the Group performs throughout a fixed contract term. For contracts that are charged on the cost for performance basis, the Group charges an agreed-upon fee to its customers determined based on the effectiveness of advertising links, which is typically measured by clicks, transactions, installations, user registrations, and other actions originating from the Group's mobile applications. Revenue is recognized at a point in time when there is an effective click, transaction, installations, user registrations, and other actions originating from the Group's mobile applications. For contracts that are charged on the cost per impression basis, the Group recognizes the revenue at a point in time when the impressions are delivered. Revenue for performance-based advertising services is recognized at a point in time when all the revenue recognition criteria are met.

For certain of the Group's advertising service arrangements, customers are required to pay a deposit before using Group's services. Deposits received are recorded as deferred revenue on the consolidated balance sheets. Service fees due to the Group are deducted from the deposited amounts when performance criteria have been satisfied.

***In-app purchase***

The Group operates applications that allow users to download for free and also offer in-app purchases to users. In-app purchase revenue is primarily derived in the form of subscriptions and sale of in-app virtual currency to obtain virtual goods in mobile games or extra content in our online literature products (together, defined as "virtual items" or a "virtual item").

Payments from users are non-refundable and relate to non-cancellable contracts for a fixed price that specify the Group's obligations. The Group is primarily responsible for providing the service and virtual items, have control over the content and operation of applications, and have the discretion to establish the in-app purchases' prices. Therefore, the Group is the principal and, accordingly revenues are recorded on a gross basis. The platform such as Apple App Store and Google Play collect proceeds from the users and remit the proceeds to us after deducting their respective platform fees. Payment processing fees paid to platform are recorded within cost of revenues.

In-app purchase revenue derived in the form of subscription is initially deferred and is recognized using the straight-line method over the term of the applicable subscription period.

## COOTEK (CAYMAN) INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**2. Summary of Significant Accounting Policies (Continued)****(n) Revenue Recognition (Continued)**

For in-app purchase revenue derived from sale of in-app virtual currency, the satisfaction of the Group's performance obligation is dependent on the nature of the virtual item purchased which is categorized as either consumable or durable.

- *Consumable:* Consumable virtual items represent items that can be consumed by a specific user action. Consumable virtual items do not provide the user any continuing benefit after a short period of time following consumption. For the sale of consumable virtual items, the Group recognize revenue as the items are consumed which approximates in 60 days. The Group has determined through a review of user behavior that users generally do not purchase additional virtual currency until their existing virtual currency balances have been substantially consumed. This review, performed on an app-by-app basis, includes an analysis of users' historical purchase behavior and consume behavior. Based upon this analysis, the Group has estimated the rate at which virtual items is consumed within each application. Accordingly, revenues are recognized using these estimated consumption rates. The Group monitors analysis of user behavior on a quarterly basis.
- *Durable:* Durable virtual items represent items that are accessible to the user over an extended period of time. The Group recognizes revenue from the sale of durable virtual items ratably over the estimated service period for the applicable applications, which represents our best estimate of the average life of the durable virtual item.

The substantial majority of virtual items in the Group's applications are consumable virtual items. The Group expects that in future periods, there will not be significant changes in the mix of consumable and durable virtual items offered and sold.

For the years ended December 31, 2022 and 2023, the Company recognized in-app purchase revenue of US\$4,110,704 and US\$6,470,995, respectively.

**Others**

The Group also generates other revenues mainly through licensing of online literature works and licensing of TouchPal Smart Input to certain device manufacturers. The revenue is recognized at the point of time that the licensing performance delivered.

**Sales Incentives**

The Group provides sales incentives to certain customers in the form of sales rebates which entitle them to receive reductions in the price. The Group accounts for these incentives granted to customers as variable consideration and records it as reduction of revenue. The amount of variable consideration is measured based on the most likely amount of incentives to be. For the years ended December 31, 2021, 2022 and 2023, the rebates recorded by the Group were US\$10,897,346, nil and nil, respectively.

**Disaggregation of Revenue**

In the following table, revenue is disaggregated by revenue streams and geographic location of customers' headquarters.

	For the years ended December 31,		
	2021	2022	2023
	US\$	US\$	US\$
Revenue:			
Advertising revenue	267,266,716	76,545,411	22,822,094
In-app purchase and other revenues	4,879,105	7,381,203	9,154,174
Total	272,145,821	83,926,614	31,976,268

COOTEK (CAYMAN) INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

(n) Revenue Recognition (Continued)

	For the years ended December 31,		
	2021	2022	2023
	US\$	US\$	US\$
PRC	232,300,929	48,480,865	11,656,321
USA	30,023,116	25,598,517	17,373,071
Others	9,821,776	9,847,232	2,946,876
Total	272,145,821	83,926,614	31,976,268

**Contract Balances**

Timing of revenue recognition may differ from the timing of invoicing to customers.

For advertising and licensing arrangements, accounts receivable represents the amount to be collected from customers for which service has been delivered. Contract liabilities include payments received in advance of performance under the contract or for differences between the amount billed to a customer and the revenue recognized for the completed performance obligation which is presented as deferred revenue on the consolidated balance sheets.

Payments for in-app purchase revenue are required at time of purchase, are non-refundable and relate to non-cancellable contracts. Such payments are initially recorded to deferred revenue and are recognized into revenue as the Group satisfies performance obligations. Further, payments made by users of applications are collected by platform such as Google Play and Apple App Store, and remitted to the Group generally within 18 to 45 days of the last day of the fiscal month in which the purchase was completed. The Group's right to the payments collected on its behalf is unconditional and therefore recorded as accounts receivable, net of the associated payment processing fees.

Due to the generally short-term duration of the Group's contracts, majority of the performance obligations are satisfied in one year. The movements of the Group's accounts receivable and deferred revenue are as follows:

	Accounts Receivable	Deferred Revenue
	US\$	US\$
Opening Balance as of January 1, 2022	21,483,102	1,943,168
Decrease, net	(16,533,858)	(1,767,793)
Ending Balance as of December 31, 2022	4,949,244	175,375
Decrease, net	(2,614,637)	468,622
Ending Balance as of December 31, 2023	2,334,607	643,997

Revenue amounted US\$1,857,881 and US\$83,085 were recognized in the years ended December 31, 2022 and 2023, respectively, which were included in the balance of deferred revenue at the beginning of each year.

**Transaction Price Allocated to the Remaining Performance Obligations**

Revenue expected to be recognized in any future year related to remaining performance obligations, excluding revenue pertaining to contracts that have an original expected duration of one year or less, contracts where revenue is recognized as invoiced and contracts with variable consideration related to undelivered performance obligations, is not material.

COOTEK (CAYMAN) INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**2. Summary of Significant Accounting Policies (Continued)**

**(n) Revenue Recognition (Continued)**

**Practical Expedients and Exemptions**

The Group elects not to disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less (ii) contracts for which the Group recognizes revenues at the amount to which it has the right to invoice for services performed and (iii) contracts with variable consideration related to wholly unsatisfied performance obligations.

**(o) Cost of Revenue**

Cost of revenue consists of direct costs primarily relating to generating revenue, which includes payment processing fees paid to platform such as Apple App Store and Google Play, bandwidth costs and cloud service costs, content costs paid to signed authors and third-party content providers for the publishing and licensing of relevant online literature works, third-party outsourcing fees, depreciation expenses and service fees for internet data center, and salary and benefits expenses of operation and maintenance department.

**(p) Research and Development Expenses**

Research and development expenses primarily consist of (1) salary and benefits expenses incurred in the research and development of new products and new functionality, and (2) general expenses and depreciation expenses associated with the research and development activities.

Expenditures incurred during the research phase are expensed as incurred and no research and development expenses were capitalized as of December 31, 2021, 2022 and 2023.

**(q) Sales and Marketing Expenses**

Sales and marketing expenses primarily consist of advertising and promotion expenses, expenses incurred for the user incentive programs, salaries and benefits of sales and marketing personnel and fees paid to mobile device manufacturers to pre-install the Group's smart input products. Advertising and promotion expenses which mainly include user acquisition costs that represent payment to the third parties for online user acquisition of the Group's products via social media and demand-side platforms amounted to US\$145,992,236, US\$41,174,550 and US\$17,407,958 for the years ended December 31, 2021, 2022 and 2023, respectively. The Group launched the user incentive programs for its registered users in its various applications to enhance user engagements.

**(r) Leases**

The Group leases office space in different cities in PRC and USA under non-cancellable operating lease agreements that expire at various dates through December 2025. Before January 1, 2021, the Group applied the ASC 840, Leases, under which each lease is classified at the inception date as either a capital lease or an operating lease. All the Group's leases were classified as operating lease under ASC 840.

Effective January 1, 2021, the Group adopted ASU No. 2016-02 "Leases" (ASC 842) using the modified retrospective approach. The Group elected the transition package of practical expedients permitted within the standard, which allowed it not to reassess initial direct costs, lease classification, or whether the contracts contain or are leases for any leases that existed prior to January 1, 2021. The Group also elected the short-term lease exemption for all contracts with an original lease term of 12 months or less. Upon the adoption, the Group recognized operating lease right of use ("ROU") assets of US\$2,563,151 with corresponding lease liabilities of US\$2,470,968 on the consolidated balance sheets. The operating lease ROU assets include adjustments for prepayments. The adoption did not impact the Group's beginning retained earnings as of January 1, 2021, or the Group's prior years' financial statements.



## COOTEK (CAYMAN) INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 2. Summary of Significant Accounting Policies (Continued)

## (r) Leases (Continued)

Under ASC 842, the Group determines whether an arrangement constitutes a lease and records lease liabilities and ROU assets on its consolidated balance sheets at the lease commencement. The Group measures the operating lease liabilities at the commencement date based on the present value of remaining lease payments over the lease term, which is computed using the Group's incremental borrowing rate, an estimated rate the Group would be required to pay for a collateralized borrowing equal to the total lease payments over the lease term. The Group measures the operating lease ROU assets based on the corresponding lease liability adjusted for payments made to the lessor at or before the commencement date, and initial direct costs it incurs under the lease. The Group begins recognizing operating lease expense based on lease payments on a straight-line basis over the lease term after the lessor makes the underlying asset available to the Group. Some of the Group's lease contracts include options to extend the leases for an additional period which has to be agreed with the lessors based on mutual negotiation. After considering the factors that create an economic incentive, the Group does not include renewal option periods in the lease term for which it is not reasonably certain to exercise.

The Group incurred operating lease costs amounting to US\$1,129,612 and US\$334,918 (excluding US\$131,079 and US\$48,560 for short-term leases not capitalized as ROU assets for the year ended December 31, 2022 and 2023) for the years ended December 31, 2022 and 2023, respectively. Cash payments against operating lease liabilities were US\$927,257 and US\$409,100 for the year ended December 31, 2022 and 2023.

As of December 31, 2023, Group's operating leases had a weighted average remaining lease term of 1.6 years and a weighted average discount rate of 6.0%. Future lease payments under operating leases as of December 31, 2023 were as follows:

	<u>As of December 31,</u> <u>2023</u> US\$
2024	334,863
2025	167,431
Total lease payment	502,294
Less: imputed interest	(21,326)
Total lease liability balance	480,968
Less: Operating lease liabilities, current	(315,953)
Long-term operating lease liabilities	165,015

As of December 31, 2023, the future minimum lease payments under the Group's non-cancelable operating lease agreements based on ASC 840 are as follows:

	<u>As of December 31,</u> <u>2023</u> US\$
2024	349,907
2025	167,431
Total lease commitment	517,338

COOTEK (CAYMAN) INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**2. Summary of Significant Accounting Policies (Continued)**

**(s) Convertible Notes, Beneficial Conversion Feature (“BCF”) and Redemption Feature**

The Group issued convertible notes in January and March 2021. The Group has evaluated whether the conversion feature of the notes is considered an embedded derivative instrument subject to bifurcation in accordance with Topic 815, *Derivatives and Hedging* (“ASC 815”), Accounting for Derivative Instruments and Hedging Activities. Based on the Group’s evaluation, the conversion feature is not considered an embedded derivative instrument subject to bifurcation as conversion option does not provide the holder of the notes with means to net settle the contracts. Convertible notes, for which the embedded conversion feature does not qualify for derivative treatment, are evaluated to determine if the effective rate of conversion per the terms of the convertible note agreement is below market value. In these instances, the value of the BCF is determined as the intrinsic value of the conversion feature is recorded as deduction to the carrying amount of the notes and credited to additional paid-in-capital. The value of the BCF is recorded in the financial statements as a debt discount from the face amount of the notes, which is then accreted to interest expense over the life of the related debt using the effective interest method. The Group presents the occurred debt issuance costs as a direct deduction from the convertible note rather than as an asset. Amortization of the costs is reported as interest expense. At the date of above conversion, the remaining amount has been fully amortized to interest expense.

The convertible notes issued in March 2021 also include a monthly redemption feature which trigger a mandatory monthly redemption of a portion of the principal amount plus an 8% redemption premium and accrued and unpaid interest to be redeemed in cash, the shares of the Group or a combination of both at the option of the Group if certain conditions relating to trading prices of the Group’s shares are not met (“Monthly Redemption”). The Group has evaluated whether the Monthly Redemption feature is considered an embedded derivative instrument subject to bifurcation in accordance with ASC 815, Accounting for Derivative Instruments and Hedging Activities. Based on the Group’s evaluation, the monthly redemption has an underlying based on the fair value of the Group’s shares. An underlying that is based on common stock is not considered to be clearly and closely related to a debt host instrument, therefore, the Monthly Redemption feature should be separately accounted for as a standalone derivative under ASC 815. This derivative is presented at fair value with change in fair value recognized in earnings. For the convertible note issued with this derivative, a portion of the note’s proceed is allocated to the derivative based on the fair value at the date of the issuance. The allocated fair value for the derivative is recorded as a debt discount from the face amount of the notes, which is then accreted to interest expense over the life of the related debt using the effective interest method.

**(t) Income Taxes**

Current income taxes are provided on the basis of net income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions. The Group follows the asset and liability method of accounting for income taxes.

In accordance with the provisions of ASC 740, *Income Taxes*, the Group recognizes in the financial statements the benefit of a tax position if the tax position is “more likely than not” to prevail based on the facts and technical merits of the position. Tax positions that meet the “more likely than not” recognition threshold are measured at the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement. The Group estimates liability for unrecognized tax benefits which are periodically assessed and may be affected by changing interpretations of laws, rulings by tax authorities, changes and/or developments with respect to tax audits, and expiration of the statute of limitations. The ultimate outcome for a particular tax position may not be determined with certainty prior to the conclusion of a tax audit and, in some cases, appeal or litigation process.

Under this method, deferred tax assets and liabilities are determined based on the temporary differences between the financial statements carrying amounts and tax bases of assets and liabilities by applying enacted statutory tax rates that will be in effect in the period in which the temporary differences are expected to reverse. The Group considers positive and negative evidence when determining whether some portion or all of the deferred tax assets will not be realized. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carry-forward periods, historical results of operations, and tax planning strategies. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

COOTEK (CAYMAN) INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**2. Summary of Significant Accounting Policies (Continued)**

**(t) Income Taxes (Continued)**

The actual benefits that are ultimately realized may differ from estimates. As each audit is concluded, adjustments, if any, are recorded in the financial statements in the period in which the audit is concluded. Additionally, in future periods, changes in facts, circumstances and new information may require us to adjust the recognition and measurement estimates with regard to individual tax positions. Changes in recognition and measurement estimates are recognized in the period in which the changes occur. As of December 31, 2021, 2022 and 2023, the Group did not have any significant unrecognized uncertain tax positions.

**(u) Employee Contribution Plan**

Pursuant to the relevant labor rules and regulations in the PRC, the Group participates in defined contribution retirement schemes (the “Schemes”) organized by the relevant local government authorities for its eligible employees whereby the Group is required to make contributions to the Schemes at certain percentages of the deemed salary rate announced annually by the local government authorities. Contributions to the defined contribution plan are expensed as incurred.

The Group has no other material obligation for payment of pension benefits except for the annual contributions described above.

**(v) Share-based Compensation**

Fair value recognition provisions according to ASC718, Compensation—Stock Compensation: Overall, is applied to share-based compensation, which requires the Group to recognize expense for the fair value of its share-based compensation awards. Compensation expense adjusted for forfeiture effect on a straight-line basis over the requisite service period, with a corresponding impact reflected in additional paid-in capital.

Employees’ share-based awards are measured at the grant date fair value of the awards and recognized as expenses a) immediately at grant date if no vesting conditions are required, or b) using grade vesting method, net of actual forfeitures, over the requisite service, which is the vesting period.

The Group determines fair value of share options as of the grant date using binomial option pricing model and the fair value of restricted share units as of the grant date based on the fair market value of the underlying ordinary shares.

The expected term represents the period that share-based awards are expected to be outstanding, giving consideration to the contractual terms of the share-based awards, vesting schedules and expectations of future employee exercise behavior. Volatility is estimated based on annualized standard deviation of daily stock price return of comparable companies for the period before valuation date and with similar span as the expected expiration term. The Group accounts for forfeitures of the share-based awards when they occur. Previously recognized compensation cost for the awards is reversed in the period that the award is forfeited. Amortization of share-based compensation is presented in the same line item in the consolidated statements of operations as the cash compensation of those employees receiving the award.

**(w) Comprehensive Loss**

Comprehensive Loss includes all changes in equity except those resulting from investments by owners and distributions to owners. For the years presented, the Group’s total comprehensive loss includes net loss and foreign currency translation adjustments.

COOTEK (CAYMAN) INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

(x) *(Loss) income per Share*

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

Diluted (loss) income per share reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares, which consists of the ordinary shares issuable upon the conversion of the convertible notes (using the if-converted method), ordinary shares issuable upon the exercise of share options and vest of non-vested restricted share units (using the treasury stock method).

(y) *Concentration and risks*

Concentration of Customers

Financial instruments that potentially expose the Group to concentration of credit risk consist primarily of cash and cash equivalents, short-term investments, accounts receivable and prepayments. The Group places its cash and cash equivalents and short-term investments with financial institutions with high-credit ratings and quality. The Group conducts credit evaluations of customers, and generally does not require collateral or other security from its customers. The Group establishes an allowance for credit losses primarily based upon the historical credit loss experience of the receivables and factors surrounding the credit risk of customers. With respect to prepayments, the Group performs on-going credit evaluations of the financial condition of these suppliers and has noted no significant credit risk.

The following customers accounted for 10% or more of revenue:

	For the years ended December 31,					
	2021		2022		2023	
	US\$	%	US\$	%	US\$	%
Company A	75,896,207	27.89 %	20,179,468	24.04 %	*	*
Company B	68,943,513	25.33 %	8,940,784	10.65 %	*	*
Company C	*	*	12,980,235	15.47 %	4,862,217	15.21 %
Company D	*	*	*	*	4,453,331	13.93 %
Company E	*	*	*	*	3,628,882	11.35 %

\* Less than 10%.

The following customers accounted for 10% or more of accounts receivable:

	As of December 31,			
	2022		2023	
	US\$	%	US\$	%
Company C	604,129	12.21 %	*	*
Company D	*	*	737,087	31.57 %
Company E	505,376	10.21 %	*	*

\* Less than 10%.

## COOTEK (CAYMAN) INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 2. Summary of Significant Accounting Policies (Continued)

## (y) Concentration and risks (Continued)

Concentration of Vendors

The Group uses certain vendors to acquire users and those cost are recorded as sales and marketing expenses. Vendors accounted for 10% or more are listed as below:

	For the years ended December 31,					
	2021		2022		2023	
	US\$	%	US\$	%	US\$	%
Company C	*	*	18,184,318	40.98 %	8,345,027	47.21 %
Company F	24,058,293	12.02 %	7,365,582	16.60 %	2,098,906	11.88 %
Company G	22,034,256	11.00 %	*	*	*	*
Company H	*	*	*	*	3,349,826	18.95 %

\* Less than 10%.

The following vendors accounted for 10% or more of accounts payable:

	As of December 31,			
	2022		2023	
	US\$	%	US\$	%
Company C	2,381,107	29.14 %	587,044	13.27 %
Company F	1,562,950	19.13 %	506,145	11.44 %
Company H	*	*	1,254,904	28.36 %

\* Less than 10%.

Business and Economic Risks

The Group participates in the dynamic and competitive high technology industry and believes that changes in any of the following areas could have a material adverse effect on the Group's future financial position, results of operations and cash flows: changes in the overall demand for services and products; competitive pressures due to existing and new entrants; advances and new trends in new technologies and industry standards; changes in certain strategic relationships or customer relationships; regulatory considerations; copyright regulations; brand maintenance and enhancement; and risks associated with the Group's ability to attract and retain employees necessary to support its growth.

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

Foreign Currency Risk

The RMB is not a freely convertible currency. The State Administration for Foreign Exchange in the PRC, under the authority of the Peoples Bank of China, controls the conversion of RMB into other currencies. The value of the RMB is subject to changes in central government policies, international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. The Group's cash and cash equivalents and restricted cash denominated in RMB amounted to RMB44,614,204 (amounted to US\$6,405,853) and RMB6,473,047 (amounted to US\$913,924) as of December 31, 2022 and 2023, respectively.

COOTEK (CAYMAN) INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

(z) Recent Accounting Pronouncements

*New accounting pronouncements recently adopted*

In June 2016, the FASB issued ASU 2016-13, Credit Losses, Measurement of Credit Losses on Financial Instruments. This ASU provides more useful information about expected credit losses to financial statement users and changes how entities will measure credit losses on financial instruments and timing of when such losses should be recognized. This ASU is effective for annual and interim periods beginning after December 15, 2019 for the public business entities. Early adoption is permitted for all entities for annual periods beginning after December 15, 2018, and interim periods therein. In November 2019, the FASB issued ASU No. 2019-10 which delayed the effective date of ASU 2016-13 for smaller reporting companies and other non-SEC reporting entities to fiscal years beginning after December 15, 2022, including interim periods within those fiscal periods. Early adoption is permitted. The Group adopted this standard on January 1, 2023 using the modified retrospective method. The adoption did not impact the Group's beginning retained earnings as of January 1, 2023, or the Group's prior years' financial statements. There was no material impact to the Group's financial position or results of operations upon adoption.

In October 2021, the FASB issued ASU 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers, which provides guidance on the acquirer's accounting for acquired revenue contracts with customers in a business combination. The amendments require an acquirer to recognize and measure contract assets and contract liabilities acquired in a business combination at the acquisition date in accordance with ASC 606 as if it had originated the contracts. This guidance also provides certain practical expedients for acquirers when recognizing and measuring acquired contract assets and contract liabilities from revenue contracts in a business combination. The new guidance is required to be applied prospectively to business combinations occurring on or after the date of adoption. This guidance is effective for the Group for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted. The Group adopted this standard on January 1, 2023. There was no material impact to the Group's financial position or results of operations upon adoption.

*New accounting pronouncements not yet adopted*

In June 2022, the FASB issued ASU 2022-03, Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions, which clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The amendments also clarify that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. This guidance also requires certain disclosures for equity securities subject to contractual sale restrictions. The new guidance is required to be applied prospectively with any adjustments from the adoption of the amendments recognized in earnings and disclosed on the date of adoption. This guidance is effective for the Group for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. Early adoption is permitted. The Group does not expect that the adoption of this guidance will have a material impact on consolidated financial statements.

In November 2023, the FASB issued ASU 2023-07, Improvements to Reportable Segment Disclosures (Topic 280): Improvements to Reportable Segment Disclosures, which updates reportable segment disclosure requirements by requiring disclosures of significant reportable segment expenses that are regularly provided to the Chief Operating Decision Maker ("CODM") and included within each reported measure of a segment's profit or loss. This ASU also requires disclosure of the title and position of the individual identified as the CODM and an explanation of how the CODM uses the reported measures of a segment's profit or loss in assessing segment performance and deciding how to allocate resources. The ASU is effective for annual periods beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Adoption of the ASU should be applied retrospectively to all prior periods presented in the financial statements. Early adoption is also permitted. This ASU will likely result in us including the additional required disclosures when adopted. The Group is currently evaluating the potential effect that the updated standard will have on financial statement disclosures.

COOTEK (CAYMAN) INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

(z) Recent Accounting Pronouncements (Continued)

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topics 740): Improvements to Income Tax Disclosures, which requires to expand the disclosure requirements for income taxes, specifically related to the rate reconciliation and income taxes paid. The ASU is effective for annual periods beginning after December 15, 2024, with early adoption permitted. The Group is currently evaluating the potential effect that the updated standard will have on financial statement disclosures.

3. Accounts Receivable, net

Accounts receivable, net, consisted of the following:

	As of December 31,		
	2021	2022	2023
	US\$	US\$	US\$
Accounts receivable	22,651,618	5,108,658	2,378,341
Allowance for credit losses:			
Balance at beginning of the year	(1,161,955)	(1,168,516)	(159,414)
(Additions) reversal provisions	(34,005)	(91,369)	90,526
Write-off	28,367	1,101,163	22,922
Foreign exchange effect	(923)	(692)	2,232
Balance at end of the year	(1,168,516)	(159,414)	(43,734)
<b>Accounts receivable, net</b>	<b>21,483,102</b>	<b>4,949,244</b>	<b>2,334,607</b>

4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the followings:

	As of December 31,	
	2022	2023
	US\$	US\$
Value added tax recoverable	2,478,357	2,329,848
Other receivables	1,729,071	922,375
Advance to suppliers	135,071	63,780
Others	101,171	68,204
<b>Prepaid expenses and other current assets</b>	<b>4,443,670</b>	<b>3,384,207</b>

5. Property and Equipment, net

Property and equipment, net, consisted of the followings:

	As of December 31,	
	2022	2023
	US\$	US\$
Electronic equipment	11,869,445	4,075,582
Office equipment and furniture	288,278	180,470
Motor vehicles	229,065	143,405
Leasehold improvements	1,009,709	814,514
Total	13,396,497	5,213,971
Less: Accumulated depreciation	(12,483,864)	(5,123,470)
<b>Property and equipment, net</b>	<b>912,633</b>	<b>90,501</b>

For the years ended December 31, 2021, 2022 and 2023, depreciation expenses were US\$3,619,036, US\$1,657,216 and US\$306,388, respectively.

## COOTEK (CAYMAN) INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**6. Intangible Assets, net**

Intangible assets, net consist of the following:

	As of December 31,	
	2022	2023
	US\$	US\$
Purchased software	548,921	541,159
Less: Accumulated amortization	(459,389)	(525,534)
<b>Intangible Assets, net</b>	<b>89,532</b>	<b>15,625</b>

Amortization expense of intangible assets for the years ended December 31, 2021, 2022 and 2023 amounted to US\$153,085, US\$145,815 and US\$73,151, respectively. Estimated amortization expenses of the existing intangible assets for each of the five years ending December 31, 2028 and thereafter is US\$15,625, nil, nil, nil and nil, respectively.

**7. Long-term Investments**

In April 2020, the Group partnered with an unrelated third-party investor to form a privately-held investing company in limited partnership, of which the Group holds 4% equity interest. The business is to invest enterprises in high-tech industries. The Group measures its equity securities without a readily determinable fair value at its cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The Group reclaimed US\$0.01 million and US\$0.01 million from this investment for the year ended December 31, 2022 and 2023, respectively. No impairment was recognized for the year ended December 31, 2022 and 2023.

In April 2021, the Group acquired 13.33% equity interests in a privately-held company for cash consideration of US\$0.3 million, which the Group plans to hold for long term investment purpose. The Group accounts for equity investment in entities with significant influence but does not own a majority equity interest or otherwise control under equity-method accounting. The Group records equity method adjustments in share of profits and losses and continually reviews equity method investments to determine whether a decline in fair value to below the carrying value is other-than-temporary. The Group recognized a share of loss in equity method investment of US\$0.07 million and a full impairment of US\$0.25 million on this investment for the year ended December 31, 2021.

In January 2022, the Group acquired 17.6% equity interests in a privately-held company for cash consideration of US\$0.06 million, which the Group plans to hold for long term investment purpose. The Group accounts for equity investment in entities with significant influence but does not own a majority equity interest or otherwise control under equity-method accounting. The Group records equity method adjustments in share of profits and losses and continually reviews equity method investments to determine whether a decline in fair value to below the carrying value is other-than-temporary. The Group recognized a share of loss in equity method investment of US\$0.06 million for the year ended December 31, 2022. In 2023, the Group fully withdrew the investment due to the invested company's reduction of capital.



## COOTEK (CAYMAN) INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**8. Short-term Borrowings**

In July 2016, the Group entered into a credit facility agreement with a commercial bank under which the Group can draw-down up to US\$6.0 million by October, 2018. In June 2021, the Group renewed the bank credit facility under which the Group can borrow up to US\$10.0 million collateralized by its accounts receivable by June 2022, which contains maximum quarterly net loss and maximum monthly debt ratio as financial covenants. The interest rate for this credit facility is the LPR plus 1.30%. No guarantee has been deposited in the bank as of December 31, 2021. In 2021, the Group has aggregately drawn down the credit facility of US\$74.7 million and repaid US\$79.8 million with the weighted average interest rate of 5.15%. In 2022, the Group repaid US\$5.9 million with the weighted average interest rate of 5.15%. As of December 31, 2022, the Group has fully repaid the loan under this agreement.

In April 2022, the Group entered into a short-term interest-free loan agreement with a local Hi-tech industrial park, under which the Group received a total of US\$5.5 million and fully repaid the amount by the end of June 2022.

In July 2021, the Group entered into a credit facility agreement with a commercial bank under which the Group can draw down up to US\$1.6 million by July 2022, which contains maximum external investment and debt financing as financial covenants for its subsidiary. In December 2021, the Group entered into a loan agreement with another commercial bank under which the Group can draw down US\$1.6 million once by December 31, 2021, which contains minimum net income and minimum operating cash inflow for its subsidiary as financial covenants, and minimum annual active user for the Group as operating covenant. The interest rates for these two agreements are the LPR. The Group has drawn down US\$1.6 million under each of the two agreements in December 2021 and fully repaid the amount by the end of December 2022.

In September 2022, the Group entered into a credit facility agreement with a commercial bank under which the Group can draw down up to US\$0.9 million by February 2024. The interest rate for the agreement is the LPR minus 0.35%. The Group has drawn down the credit facility of US\$0.9 million in 2022 and fully repaid the amount in March 2023. In June 2023, the Group entered into a six-month credit facility agreement with this commercial bank under which the Group can draw down up to US\$0.7 million with interest rate of 3.65%. In 2023, the Group has drawn down the credit facility of US\$0.7 million in June and fully repaid the amount in December.

In April 2023, the Group entered into a credit facility agreement with a commercial bank under which the Group can draw down up to US\$0.7 million by April 2024 with interest rate of 4.15%. In 2023, the Group has drawn down the credit facility of US\$0.7 million and has made no repayment as of December 31, 2023. Shanghai Administration Center of Policy Financing Guarantee Funds for Small and Medium-sized Enterprises and Karl Kan Zhang provided joint and several guarantees.

**9. Accrued Expenses and Other Current Liabilities**

Accrued expenses and other current liabilities consisted of the following:

	As of December 31,	
	2022	2023
	US\$	US\$
Other tax payables (Note 1)	519,178	68,140
Accruals for user incentive programs	944,854	426,366
Accrued expenses (Note 2)	2,210,912	1,195,426
Accrued loss contingencies relating litigation and asserted claims	209,842	244,540
Others	372,768	265,279
Total	4,257,554	2,199,751

Note 1: Other tax payables mainly consisted of value-added tax payable of US\$0.4 million and US\$0.04 million as of December 31, 2022 and 2023, and other taxes such as individual income tax and stamp duty tax.

Note 2: Accrued expenses mainly consisted of accrued professional service fees and other miscellaneous expenses related to marketing and operation activities.

COOTEK (CAYMAN) INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**10. Convertible notes and Standby Equity Distribution Agreement**

*January 2021 Note*

On January 19, 2021, the Group issued a convertible note for a principle amount of US\$10.0 million with a 3% discount, an annual interest rate of 5% and a maturity date of January 19, 2022, refer to as the “January 2021 Note”. The Group received a cash proceed of US\$8.9 million from this issuance. The note is convertible into the Group’s shares at the option of the holders based on a conversion price determined to be the lower of (1) US\$0.084 per ordinary share, or (2) 88% of the lowest daily volume weighted average trading price (“VWAP”) of the Group’s ordinary shares during the ten consecutive trading days immediately preceding the conversion date or other date of determination.

The January 2021 Note also include provision which require the Group to pay the note holders a commitment fee of 1,750,000 ordinary shares at the date of closing which is considered to be further discount on the note provided to the debt holders. The Group settle this commitment fee by issuing 1,750,000 ordinary shares out of treasury shares to the convertible note holders. The Group has recognized this commitment fees amounted to US\$0.1 million determined based on the fair value of shares issued at the date of closing as a part of debt discount.

The note has been fully converted to 196,665,850 ordinary shares with a conversion price of US\$0.0508 per ordinary share during three-month period ended March 31, 2021. The Group recorded a beneficial conversion feature amounted to US\$1.4 million representing the difference between the conversion price and the fair value per share as deemed dividend relating to this conversion as the conversion price is determined to be lower than fair value at the date of conversion.

Loan discount of US\$0.4 million and issuance costs of US\$0.7 million relating to the January 2021 Notes are being amortized to interest expense using effective interest method.

*March 2021 Note*

On March 19, 2021, the Group issued a convertible note for a principle amount of US\$20.0 million with a 2% discount, an annual interest of 5% per year, a floor price of US\$0.015 per ordinary share and a fixed conversion price of US\$0.1 per ordinary share, refer to as the “March 2021 Note”. The maturity date of the March 2021 Note is March 19, 2022. The Group received a cash proceed of US\$18.2 million from this issuance.

The March 2021 Note also include provision which require the Group to pay the note holders a commitment fee of 3,750,000 ordinary shares at the date of closing which is considered to be further discount on the note provided to the debt holders. The Group settled this commitment fee by issuing 3,750,000 ordinary shares out of treasury shares to the convertible note holders. The Group has recognized this commitment fees amounted to US\$0.2 million determined based on the fair value of shares issued at the date of closing as a part of debt discount.

During the time that any portion of this Note is outstanding, if any event of default such as cease to be listed for trading in NYSE for 10 consecutive trading days has occurred and is continuing, the full unpaid principal amount of this note, together with interest and other amounts owing in respect thereof, to the date of acceleration shall become at the holder’s election, immediately due and payable in cash.

Beginning from June 1, 2021 and continuing on the first day of each calendar month thereafter through January 2022 as set forth on the redemption schedule, a portion of the principal amount plus an 8% redemption premium and plus accrued and unpaid interest will be subject to redemption in cash, ADSs through conversion of the note or a combination of both at the Group’s option in the event that the daily VWAP on each of the five consecutive trading days immediately prior to the redemption date does not exceed a price equal to 108% of the fixed conversion price (the “Monthly Redemption”). In the event that the daily VWAP on each of the five consecutive trading days immediately prior to the scheduled redemption date exceeds a price equal to 108% of the fixed conversion price, then no Monthly Redemption shall be due on such scheduled redemption date. If the daily VWAP is less than the floor price for a period of 5 consecutive trading days, then the interest rate shall increase to an annual rate of 15%.

COOTEK (CAYMAN) INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**10. Convertible notes and Standby Equity Distribution Agreement (Continued)**

In accordance with ASC 815, the Group determined that the Monthly Redemption feature is an embedded financial instrument which requires bifurcation from the host debt instrument. The Group performs a valuation with the assistance of a third-party appraiser to evaluate fair value of the embedded derivative associated with this note at the date of issuance and subsequently at each reporting date. Initially, the Group recorded a derivative liability of US\$1,662,355 relating to the Monthly Redemption feature based on its fair value at the date of issuance. A portion of the note's proceed is allocated to the derivative based on the fair value at the date of the issuance. The allocated fair value for the derivative is recorded as a debt discount from the face amount of the notes, which is then accreted to interest expense over the life of the related debt using the effective interest method. This derivative liability is revalued at each reporting date and immediately prior to conversion with changes in fair value recorded to fair value change at derivative liabilities in the statement of operations. As of December 31, 2021, 2022 and 2023, the fair value of the derivative liability is determined to be US\$553,707, nil and nil, and the gain of US\$1,108,648, US\$553,707 and nil representing the change in fair value has been recorded in earnings for the year ended December 31, 2021, 2022 and 2023. Total discount of US\$2 million and issuance costs of US\$1.6 million relating to the March 2021 Notes are being amortized to interest expense using effective interest method.

On October 29, 2021, the Group agreed with the investor that the maturity date of the March 2021 Note was extended to August 31, 2022 from March 19, 2022. The redemption period was extended to August 2022 and the redemption amounts from September 2021 to August 2022 were amended as well. The fixed conversion price was changed from \$0.1 per ordinary share to \$0.06 per ordinary share, and the floor price was changed from \$0.015 per ordinary shares to \$0.01 per ordinary shares. The Group has evaluated the changes to the March 2021 Notes in accordance with ASC 470-50, *Debt – Modifications and Extinguishments* and determined the new terms of the notes are not substantially different from the original terms. Accordingly, these changes are accounted for as modification with an application of new effective interest rate on the March 2021 Notes starting in October 2021.

On January 10, February 28, and May 5, 2022, the Group entered into three letter agreements with the investor, pursuant to which the floor price was reduced to US\$0.006, US\$0.004 and US\$0.002 per ordinary share, respectively. On May 11, 2022, the Group and investor modified the floor price to US\$0.50 per ADS.

On July 8 and October 11, 2022, the Group agreed with the investor that the maturity date of the March 2021 Note was extended to March 1, 2023 from August 31, 2022 and further to April 1, 2023 from March 1, 2023. The redemption period was extended to April 1, 2023 and the redemption premium and redemption amounts were amended as well. The Group has evaluated the changes to the March 2021 Notes in accordance with ASC 470-50, *Debt – Modifications and Extinguishments* and determined the new terms of the notes are not substantially different from the original terms. Accordingly, these changes are accounted for as modification with an application of new effective interest rate on the March 2021 Notes starting in July 2022 and October 2022.

As of December 31, 2021, the Group redeemed the loan principle, redemption premium and unpaid interests total amounted to US\$7.4 million through issuance of 347,620,500 ordinary shares with a weighted average conversion price of US\$0.0214 per ordinary shares and US\$4.2 million through cash payments. During the year ended December 31, 2022, the Group redeemed the loan principle, redemption premium and unpaid interests total amounted to US\$8.8 million through issuance of 1,195,980,950 ordinary shares with a weighted average conversion price of US\$0.0042 per ordinary shares and US\$3.7 million through cash payments. During the year ended December 31, 2023, the Group redeemed the loan principle, redemption premium and unpaid interests total amounted to US\$1.8 million in the form of cash. The March 2021 Note has been fully redeemed as of March 31, 2023.

*Standby Equity Distribution Agreement with YA II PN, Ltd.*

On January 22, 2021, the Company entered into a standby equity distribution agreement (the "SEDA") with this investor pursuant to which the Company has an option to sell up to US\$20.0 million of its ADSs solely at the Company's request any time during the 36 months following the date of the SEDA at a price determined to be at 90% of the market price, which is defined as the lowest daily VWAP of the Company's ADSs during the five consecutive trading days commencing on the trading day following the date the Company submits an advance notice to this investor. The delisting from the principal market, which is the New York Stock Exchange, led to the factor that the Company was no longer able to sell the ADSs to the investor. There was no outstanding equity financing available as of December 31, 2022 and 2023.

## COOTEK (CAYMAN) INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**11. Other Operating Income (Loss), net**

	For the year ended December 31,		
	2021	2022	2023
	US\$	US\$	US\$
Government subsidies	4,231,406	2,155,039	418,717
Reversal (provision) of contingent losses	254,833	66,994	(35,228)
Gain on disposal of property and equipment	—	199,442	386,915
Others	(32,777)	20,084	23,281
Total	4,453,462	2,441,559	793,685

Other operating income, net for the year ended December 31, 2023, primarily consisted of government subsidies and gain on disposal of property and equipment.

**12. Income Taxes Expenses**

For the years ended December 31, 2021, 2022 and 2023, income tax expenses were US\$51,970, US\$9,058 and US\$20,837, respectively.

***Cayman Islands***

CooTek (Cayman) Inc. is incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, CooTek (Cayman) Inc. is not subject to income or capital gains taxes. In addition, dividend payments are not subject to withholdings tax in the Cayman Islands.

***USA***

The Group's subsidiaries incorporated in U.S. are subject to U.S. federal corporate income tax at a rate of 21%, and also subject to state income tax in California.

***Hong Kong***

Under the current Hong Kong Inland Revenue Ordinance, the Group's subsidiaries domiciled in Hong Kong has introduced a two-tiered profits tax rate regime which is applicable to any year of assessment commencing on or after April 1, 2018. The profits tax rate for the first HK\$2 million of profits of corporations will be lowered to 8.25%, while profits above that amount will continue to be subject to the tax rate of 16.5%. Additionally, payments of dividends by the subsidiary incorporated in Hong Kong to the Group are not subject to any Hong Kong withholding tax.

***PRC***

Under the Law of the People's Republic of China on Enterprise Income Tax ("EIT Law"), the Group's subsidiaries and VIEs incorporated in the PRC are subject to statutory rate of 25% with the exception of Chu Le. Chu Le is a foreign-invested enterprise established in June, 2012 located in Shanghai, China. Chu Le obtained the High and New Technology Enterprise ("HNTE") certificate in 2020, valid for a period of 3 years from 2020 to 2022. Chu Le renewed the HNTE certificate in 2023, valid for a period of 3 years from 2023 to 2025. For the years ended December 31, 2022 and 2023, Chu Le was eligible for a preferential tax rate of 15%.

COOTEK (CAYMAN) INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Income Taxes Expenses (Continued)

(Loss) income before income taxes consists of:

	For the years ended December 31,		
	2021	2022	2023
	US\$	US\$	US\$
PRC	15,109,493	6,671,262	(1,557,411)
HK	8,228,582	3,227,007	1,720,901
US	(24,846,729)	(3,480,824)	(651,647)
Cayman	(12,251,655)	(5,831,156)	(2,086,947)
Total	(13,760,309)	586,289	(2,575,104)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Group has no deferred tax liabilities. The Group's deferred tax assets were as follows:

	As of December 31,		
	2021	2022	2023
	US\$	US\$	US\$
Deferred tax assets:			
Net operating loss carry-forward	30,042,281	24,035,082	28,450,558
Accrued expenses	331,770	745,627	255,809
Advertising fees	18,287,319	14,554,843	16,846,785
Deferred subsidies and revenue	—	3,139	62,009
Provision for doubtful accounts	197,592	351,434	347,903
Depreciation difference of property, plant and equipment	965,052	494,779	514,635
Impairment loss	161,993	145,900	155,953
Total deferred tax assets	49,986,007	40,330,804	46,633,652
Valuation allowance on deferred tax assets	(49,986,007)	(40,330,804)	(46,633,652)
Net deferred tax assets	—	—	—

As of December 31, 2023, the PRC companies had tax loss carry forwards amounted to US\$47,898,533, of which US\$2,411,591, US\$936,888, US\$9,647,218, US\$10,656,280, US\$5,430,841 and US\$18,815,715 will expire in 2024, 2025, 2026, 2027, 2028 and thereafter, respectively. As of December 31, 2023, the companies incorporated in Hong Kong and USA had tax loss carry forwards of US\$28,861,689 and US\$38,233,703, which can be offset taxable loss in the future without any time restriction.

The Group operates its business through its subsidiaries and VIEs. The Group does not file consolidated tax returns, therefore, losses from individual subsidiaries or the VIEs may not be used to offset other subsidiaries' or VIEs' earnings within the Group.

The Group considers positive and negative evidence to determine whether some portion or all of the deferred tax assets will be more likely than not realized. This assessment considers, among other matters, the nature, frequency and severity of recent losses and forecasts of future profitability. These assumptions require significant judgment and the forecasts of future taxable income are consistent with the plans and estimates the Group is using to manage the underlying businesses. Valuation allowances are established for deferred tax assets based on a more likely than not threshold. The Group's ability to realize deferred tax assets depends on its ability to generate sufficient taxable income within the carry forward periods provided for in the tax law. The Group has provided a full valuation allowance for the deferred tax assets as of December 31, 2021, 2022 and 2023, as management is not able to conclude that the future realization of those net operating loss carry forwards and other deferred tax assets are more likely than not.

## COOTEK (CAYMAN) INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**12. Income Taxes Expenses (Continued)**

The changes in valuation allowance are as follows:

	For the years ended December 31,		
	2021 US\$	2022 US\$	2023 US\$
Balance at the beginning of the year	48,157,934	49,986,007	40,330,804
Movement	1,834,481	(6,287,720)	6,305,253
Tax loss carry forwards expired	(6,408)	(3,367,483)	(2,405)
Balance at the end of the year	49,986,007	40,330,804	46,633,652

Uncertainties exist with respect to how the current income tax law in the PRC applies to the Group's overall operations, and more specifically, with regard to tax residency status. The EIT Law includes a provision specifying that legal entities organized outside of the PRC, will be considered residents for Chinese Income tax purposes if the place of effective management or control is within the PRC. The implementation rules to the EIT Law provide that non-resident legal entities will be considered PRC residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting and properties, occurs within the PRC. Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, the Group does not believe that the legal entities organized outside of the PRC within the Group should be treated as residents for EIT law purposes. If the PRC tax authorities subsequently determine that the Group and its subsidiaries registered outside the PRC should be deemed resident enterprises, the Group and its subsidiaries registered outside the PRC will be subject to the PRC income taxes, at a statutory income tax rate of 25%. The Group is not subject to any other uncertain tax position.

According to PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or withholding agent. The statute of limitations will be extended to five years under special circumstances, which are not clearly defined (but an underpayment of tax liability exceeding RMB0.1 million, equivalent to US\$ 14,085, is specifically listed as a special circumstance). In the case of a related party transaction, the statute of limitations is ten years. There is no statute of limitations in the case of tax evasion. From inception to the calendar year of 2023, the Group is subject to examination of the PRC tax authorities.

In accordance with the EIT Law, dividends, which arise from profits of foreign invested enterprises ("FIEs") earned after January 1, 2008, are subject to a 10% withholding income tax. In addition, under the tax treaty between the PRC and Hong Kong, if the foreign investor is incorporated in Hong Kong and qualifies as the beneficial owner, the applicable withholding tax rate is reduced to 5%, if the investor holds at least 25% in the FIE, or 10%, if the investor holds less than 25% in the FIE. A deferred tax liability should be recognized for the undistributed profits of PRC subsidiaries unless the Group has sufficient evidence to demonstrate that the undistributed dividends will be reinvested and the remittance of the dividends will be postponed indefinitely.

Aggregate accumulated deficit of the Group's subsidiaries and VIEs located in the PRC was approximately US\$100,275,583, US\$93,610,221 and US\$95,168,175 as of December 31, 2021, 2022 and 2023, respectively. Aggregate accumulated deficit of the Group's subsidiaries located in Hong Kong was approximately US\$28,520,674, US\$23,511,725 and US\$22,043,369 as of December 31, 2021, 2022 and 2023, respectively. Accordingly, no deferred tax liability has been accrued for the PRC dividend withholding taxes that would be payable upon the distribution of those amounts to the Group as of December 31, 2021, 2022 and 2023.

## COOTEK (CAYMAN) INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**12. Income Taxes Expenses (Continued)**

Reconciliations of the differences between PRC statutory income tax rate and the Group's effective income tax rate for the years ended December 31, 2021, 2022 and 2023 are as follows:

	For the years ended December 31,					
	2021		2022		2023	
Statutory income tax rate	25 %	25 %	25 %	25 %	25 %	25 %
Valuation allowance	(5)%	(370)%	(96)%			
Additional tax deduction	11 %	(236)%	47 %			
Effect of different tax rate of subsidiary operation in other jurisdiction	(9)%	111 %	(12)%			
Non-Deductible expense	(22)%	471 %	36 %			
Effective tax rate	—	—	—			

**13. Ordinary Shares**

During the year ended December 31, 2022, the Group issued 1,195,980,950 Class A ordinary shares with a weighted average conversion price of US\$0.0042 per share upon conversion of March 2021 convertible notes.

Effective May 9, 2022, the Company changed the ratio of ADSs to its Class A ordinary shares (the "ADS Ratio") from the current ADS Ratio of one (1) ADS to fifty (50) Class A ordinary shares to a new ADS Ratio of one (1) ADS to six hundred and fifty (650) Class A ordinary shares.

No Class A ordinary shares were issued during the year ended December 31, 2023.

**14. Treasury Shares**

Treasury shares represent shares repurchased by the Group that are no longer outstanding and are held by the Group. For the year ended December 31, 2020 and 2021, under the repurchase plan, the Group had repurchased an aggregate of 83,854,891 and 24,237,100 Class A ordinary shares on the open market for a total cash consideration of US\$ 9,480,179 and US\$ 1,322,195, respectively, which were accounted for as the cost of the treasury shares. The repurchase plan was terminated on May 17, 2021.

As of December 31, 2020, 135,205,591 treasury shares have been cancelled. As of December 31, 2021, 68,748,150 treasury shares have been reissued for the conversion of convertible notes and commitment fee for the issuance of convertible notes to the convertible note holders. No additional shares were repurchased during 2022 and 2023.

**15. Share-based Compensation**

In August 2012, the Group's board of directors adopted the share incentive plan ("2012 Option Plan"). Under the 2012 Option Plan, the Group's shareholders have authorized the issuance of up to 75,268,817 ordinary shares underlying all options (including incentive share options, or ISOs), restricted shares and restricted share units granted to a participant under the plan, or the awards. The 2012 Option Plan was amended in October 2012 to increase the maximum aggregate number of ordinary shares to 155,631,013 Shares. The 2012 Option Plan was amended in July 2014 to increase the maximum aggregate number of ordinary shares to 266,153,637 Shares.

In August 2018, the Group's board of directors adopted the 2018 Share Incentive Plan ("2018 Plan"). The maximum aggregate number of shares which may be issued under the 2018 Plan shall initially be 2.0% of the total number of shares issued and outstanding immediately following the completion of IPO, plus an annual increase on the first day of each of the first five (5) complete fiscal years after the completion of IPO and during the term of this plan commencing with the fiscal year beginning January 1, 2019, by an amount equal to 2.0% of the total number of shares issued and outstanding on the last day of the immediately preceding fiscal year (excluding issued shares reserved for future option exercise and restricted share unit vesting).

COOTEK (CAYMAN) INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Share-based Compensation (Continued)

*Share Options*

The options have a contractual term of ten years. The vesting date starts on the grant date or the commencement date of a participant's employment agreement. The options vest 20% or 25% on each of the four or five anniversary dates of the vesting date and upon continued employment. In the event of termination of a participant's employment, the unvested options shall be terminated immediately. The participant's right to exercise the vested options shall be terminated 2 or 3 months after the termination of the employment.

The Group uses the binomial option pricing model and the following assumptions to estimate the fair value of the options at the date of granted. No options were granted during the year ended December 31, 2023.

	Year ended December 31	
	2021	2022
Average risk-free rate of interest	1.47%	1.88%
Expected volatility	41.8%	41.6%
Dividend yield	0%	0%
Contractual term	10 years	10 years
Fair value of the underlying shares on the date of option grants	0.009-0.0508	0.0071

On November 6, 2018, the Board of Directors approved an option modification to reduce the exercise price of certain options granted to employees. All other terms of the share options granted remain unchanged. The modification resulted in incremental compensation cost of US\$285,661, of which US\$8,623, nil and nil was recorded during the years ended December 31, 2021, 2022 and 2023, respectively. Due to the termination of employment, the Group will not recognize the rest of unvested amount of the modified options.

The risk-free rate of interest is based on the US Treasury yield curve as of valuation date. Volatility is estimated based on annualized standard deviation of daily stock price return of comparable companies for the period before valuation date and with similar span as the expected expiration term. The Group has never declared or paid any cash dividends on its capital stock, and the Group does not anticipate any dividend payments in the foreseeable future.

A summary of the aggregate option activity and information regarding options outstanding as of December 31, 2023 is as follows:

	Number of options	Weighted average exercise price US\$	Weighted average remaining contractual term	Aggregate intrinsic value US\$	Weighted average grant date fair value US\$
Outstanding on January 1, 2023	266,047,366	0.03	4.93	9,554	0.04
Granted	—				
Forfeited	(42,114,713)	0.0002			0.04
Exercised	—				
Outstanding on December 31, 2023	223,932,653	0.03	3.39	—	0.05
Options exercisable on December 31, 2023	212,595,852	0.04	3.20	—	0.04
Vested or expected to vest as of December 31, 2023	223,932,653	0.03	3.39	—	0.05

The weighted average grant date fair values of options granted during the years ended December 31, 2021 and 2022 were US\$0.03 and US\$0.01, respectively. No options were granted during the year ended December 31, 2023.



## COOTEK (CAYMAN) INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 15. Share-based Compensation (Continued)

*Share Options (Continued)*

For the year ended December 31, 2021, 10,571,200 of options were exercised with an aggregate intrinsic value of US\$66,014. For the year ended December 31, 2022, 2,097,750 of options were exercised with an aggregate intrinsic value of US\$145. For the year ended December 31, 2023, no options were exercised.

For the years ended December 31, 2021, 2022 and 2023, excluding the incremental compensation cost resulted from the modification discussed above, the Group recognized share-based compensation expense of US\$2,359,228, US\$1,354,233 and US\$704,462, respectively. As of December 31, 2023, there was US\$185,753 in total unrecognized compensation cost related to non-vested stock options, which is expected to be recognized over a weighted-average period of 1.10 years.

*Restricted Share Units*

In 2021, 2022 and 2023, the Group granted nil, 5,714,200 and nil Restricted Share Units (“RSUs”). The RSUs have a contractual term of ten years and vest 25% on each anniversary over four years from the grant date. The vesting of these RSUs is conditioned on continued employment. Compensation expense based on fair value is amortized over the requisite service period of award using the straight line vesting attribution method.

A summary of the RSUs activity for the year ended December 31, 2023 is as follows:

	Number of restricted shares	Weighted average grant date fair value US\$
Unvested restricted shares outstanding at January 1, 2023	26,732,873	0.17
Granted	—	
Vested	—	
Forfeited	(5,469,900)	0.03
Unvested restricted shares outstanding at December 31, 2023	21,262,973	0.21
Expected to vest at December 31, 2023	21,262,973	0.21

The share-based compensation expense related to RSUs of US\$1,348,468, US\$466,395 and US\$103 were recognized by the Group for the years ended December 31, 2021, 2022 and 2023, respectively.

As of December 31, 2023, there was no unrecognized compensation costs, net of actual forfeitures, related to unvested restricted shares.

COOTEK (CAYMAN) INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Net (loss) income per Ordinary Share

Net (loss) income per ordinary share was computed by dividing net loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding for the years ended December 31, 2021, 2022 and 2023:

	For the years ended		
	December 31,		
	2021	2022	2023
	US\$	US\$	US\$
<b>Numerator:</b>			
Net (loss) income —basic and diluted	(13,877,363)	515,014	(2,595,941)
Deemed dividend in relation to the convertible note	(1,368,866)	—	—
Net (loss) income attributable to ordinary shareholders	(15,246,229)	515,014	(2,595,941)
<b>Shares (Denominator):</b>			
Weighted average number of ordinary shares outstanding			
Basic	3,303,168,725	4,591,748,099	4,837,255,456
Diluted	3,303,168,725	4,592,307,849	4,837,255,456
Net (loss) income per share—basic and diluted			
Basic	(0.005)	0.0001	(0.0005)
Diluted	(0.005)	0.0001	(0.0005)

As of December 31, 2021, 2022 and 2023, diluted net (loss) income per share does not include the following instruments as their inclusion would be antidilutive:

	For the years ended December 31,		
	2021	2022	2023
Share options	328,286,866	266,047,366	223,932,653
Restricted shares units	23,653,423	26,173,123	21,262,973
Shares of convertible notes	182,060,731	30,113,147	—
Total	534,001,020	322,333,636	245,195,626

17. Commitments and contingencies

Commitments

The Group did not have other significant capital commitments or significant guarantees as of December 31, 2022 and 2023, respectively.

Contingencies

Management records and discloses legal contingencies in accordance with ASC Topic 450, *Contingencies*. The Group establishes reserves for these contingencies at the best estimate, or if no one number within the range of possible losses is more probable than any other, the Group records a liability at the low end of the range of losses. Contingencies affecting the Group primarily relate to legal and regulatory matters, which are inherently difficult to evaluate and are subject to significant changes. A provision is recorded when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Group monitors the stage of progress of its litigation matters to determine if any adjustments are required. The Group's management does not expect any liability from the disposition of such claims and litigation individually or in aggregate would have a material adverse impact on the Group's consolidated financial position, results of operations and cash flows.

## COOTEK (CAYMAN) INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**18. Segment Information**

The Group has only one reportable segment since the Group does not distinguish revenues, costs and expenses between segments in its internal reporting, and reports costs and expenses by nature as a whole.

The Group's chief operating decision maker, who has been identified as the Chairman of the Board of Directors and Chief Technology Officer and Acting Chief Financial Officer, reviews the consolidated results when making decisions about allocating resources and assessing performance of the Group as a whole. The Group does not distinguish among markets or segments for the purpose of internal reports.

Information about the Group's non-current assets is presented based on the geographical location of the assets as follows:

	As of December 31,	
	2022	2023
	US\$	US\$
PRC	2,122,560	1,028,592
USA	34,623	7,449
Total	2,157,183	1,036,041

**19. Mainland China Contribution Plan**

Full time employees of the Group in the PRC participate in a government-mandated defined contribution plan, pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. The PRC labor regulations require the Group to accrue for these benefits based on certain percentages of the employees' salaries. The total contributions for such employee benefits were US\$8,863,323, US\$3,251,420 and US\$2,148,785 for the years ended December 31, 2021, 2022 and 2023, respectively.

**20. Restricted Net Assets**

As a result of the PRC laws and regulations and the requirement that distributions by PRC entities can only be paid out of distributable profits computed in accordance with PRC GAAP, the PRC entities are restricted from transferring a portion of their net assets to the Group. Amounts restricted include paid-in capital, additional paid-in capital and the statutory reserves of the Group's PRC subsidiaries, affiliates and VIEs. As of December 31, 2023, the total restricted net assets were US\$90,992,700.

**21. Subsequent Event**

In January 2024, the Group entered into a credit facility agreement with a commercial bank under which the Group can draw down up to US\$2.5 million by January 2025. The interest rate for the agreement is LPR minus 0.25%. From January 1 to April 26, 2024, the Group has drawn down the credit facility of US\$2.5 million and has made no repayment as of the date of this annual report.

In April 2024, the Group fully repaid the US\$0.7 million short-term bank loan under the credit facility agreement entered into with a commercial bank in April 2023.

## SCHEDULE I—ADDITIONAL FINANCIAL INFORMATION OF PARENT COMPANY

## COOTEK (CAYMAN) INC.

## CONDENSED BALANCE SHEETS

	As of December 31,	
	2022	2023
	US\$	US\$
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	629,925	5,189
Prepaid expenses and other current assets	3,362	3,362
<b>Total current assets</b>	<u>633,287</u>	<u>8,551</u>
Advances to subsidiaries and VIEs	26,525,876	798,364
<b>TOTAL ASSETS</b>	<u>27,159,163</u>	<u>806,915</u>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>		
<b>Current liabilities:</b>		
Accrued expenses and other current liabilities	136,129	136,129
Convertible notes	1,754,656	—
Accrued salary and benefits	421,975	283,000
Other current liabilities	448,816	741,658
<b>Total current liabilities</b>	<u>2,761,576</u>	<u>1,160,787</u>
Advances from subsidiaries and VIEs	23,094,839	—
Other non-current liabilities	171,912	35,783
<b>TOTAL LIABILITIES</b>	<u>26,028,327</u>	<u>1,196,570</u>
<b>SHAREHOLDERS' DEFICIT:</b>		
Ordinary shares	48,372	48,372
Additional paid-in capital	217,540,733	218,245,298
Accumulated deficit	(214,327,424)	(216,923,365)
Accumulated other comprehensive loss	(2,130,845)	(1,759,960)
Total shareholders' (deficit) / equity	<u>1,130,836</u>	<u>(389,655)</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' (DEFICIT)/ EQUITY</b>	<u>27,159,163</u>	<u>806,915</u>

## SCHEDULE I—ADDITIONAL FINANCIAL INFORMATION OF PARENT COMPANY

## COOTEK (CAYMAN) INC.

## CONDENSED STATEMENTS OF OPERATIONS

	For the years ended December 31,		
	2021 US\$	2022 US\$	2023 US\$
Net revenues	—	—	—
Cost of revenues	(304,356)	—	—
Gross loss	(304,356)	—	—
<b>Operating expenses:</b>			
General and administrative expenses	(4,516,554)	(4,073,068)	(1,468,711)
Research and development expenses	(2,762,190)	(1,088,077)	(39,909)
Sales and marketing expenses	(103,324)	(50,198)	—
Other operating income, net	136,129	154,682	136,129
Total operating expenses	(7,245,939)	(5,056,661)	(1,372,491)
Loss from operations	(7,550,295)	(5,056,661)	(1,372,491)
Interest expenses, net	(5,527,327)	(1,337,031)	(7,490)
Fair value change of derivatives	1,108,648	553,707	—
Foreign exchange gains (losses), net	—	(4)	(1)
<b>Loss before income taxes and equity in earnings of subsidiaries</b>	<b>(11,968,974)</b>	<b>(5,839,989)</b>	<b>(1,379,982)</b>
<b>Net loss before equity in earnings of subsidiaries</b>	<b>(11,968,974)</b>	<b>(5,839,989)</b>	<b>(1,379,982)</b>
Equity in (loss) income of subsidiaries and share of (loss) income from VIEs	(1,908,389)	6,355,003	(1,215,959)
<b>Net (loss) income attributed to CooTek (Cayman) Inc.</b>	<b>(13,877,363)</b>	<b>515,014</b>	<b>(2,595,941)</b>

SCHEDULE I—ADDITIONAL FINANCIAL INFORMATION OF PARENT COMPANY

COOTEK (CAYMAN) INC.

CONDENSED STATEMENTS OF CASH FLOWS

	For the years ended December 31,		
	2021 US\$	2022 US\$	2023 US\$
<b>Operating activities:</b>			
Net (loss) income	(13,877,363)	515,014	(2,595,941)
Equity in loss (income) of subsidiaries, VIEs and VIEs' subsidiaries	1,908,389	(6,355,003)	1,215,959
Adjustment to reconcile net loss to net cash provided by (used in) operating activities:			
Share-based compensation	3,716,319	1,820,628	704,565
Amortization of issuance cost and debt discounts related to convertible notes	5,647,339	1,337,671	51,797
Change in fair value of derivatives	(1,108,648)	(553,707)	—
Changes in assets and liabilities:			
Accrued expenses and other current liabilities	288,562	(29,867)	292,842
Other receivables, deposits and other assets	(432,374)	459,731	—
Accrued salary and benefits	—	421,975	(138,975)
Other non-current liabilities	(159,769)	(151,393)	(136,129)
<b>Net cash used in operating activities</b>	<b>(4,017,545)</b>	<b>(2,534,951)</b>	<b>(605,882)</b>
<b>Investing activities:</b>			
Advances to subsidiaries and VIEs	(37,795,461)	(9,783,250)	(4,819,580)
Repayment of advances to subsidiary	19,145,170	16,251,000	6,607,179
<b>Net cash provided by (used in) investing activities</b>	<b>(18,650,291)</b>	<b>6,467,750</b>	<b>1,787,599</b>
<b>Financing activities:</b>			
Cash paid for deferred issuance costs	(159,624)	—	—
Proceeds from issuance of ordinary shares upon exercise of options	81,339	311	—
Proceeds from issuance of convertible notes net of issuance cost and debt discounts paid to Investors of US\$2.7 million	27,175,000	—	—
Repayment of convertible notes	(4,181,918)	(3,745,956)	(1,806,453)
Proceeds from issuance of ordinary shares upon follow-on public offering	1,390,000	—	—
Payment of share repurchase	(1,322,195)	—	—
<b>Net cash (used in) provided by financing activities</b>	<b>22,982,602</b>	<b>(3,745,645)</b>	<b>(1,806,453)</b>
Net (decrease) increase in cash, cash equivalents and restricted cash	314,766	187,154	(624,736)
Cash, cash equivalents and restricted cash at beginning of year	128,005	442,771	629,925
Cash, cash equivalents and restricted cash at end of year	442,771	629,925	5,189

**SCHEDULE I—COOTEK (CAYMAN) INC CONDENSED FINANCIAL STATEMENTS**

**Notes to Schedule I**

1. Schedule I has been provided pursuant to the requirements of Rule 12-04(a) and 5-04(c) of Regulation S-X, which require condensed financial information as to the financial position, changes in financial position and results of operations of a parent company as of the same dates and for the same periods for which audited consolidated financial statements have been presented when the restricted net assets of consolidated subsidiaries exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year.

2. The condensed financial information has been prepared using the same accounting policies as set out in the consolidated financial statements except that the equity method has been used to account for investments in its subsidiaries and VIEs and VIEs' subsidiaries. For the parent company, the Company records its investments in subsidiaries VIEs and VIEs subsidiaries under the equity method of accounting as prescribed in ASC 323, Investments—Equity Method and Joint Ventures.

3. Certain information and footnote disclosures normally included in financial statements prepared in accordance with US GAAP have been condensed or omitted. The footnote disclosures provide certain supplemental information relating to the operations of the Company and, as such, these statements should be read in conjunction with the notes to the accompanying consolidated financial statements.

4. As of December 31, 2022 and 2023, there were no material contingencies, significant provisions of long-term obligations, mandatory dividend or redemption requirements of redeemable stocks or guarantees of the Company.

### Terms of Use Agreement

These Terms of Use (the “Agreement”) govern the relationship between you (“User,” “you” or “your”) and AppLovin Corporation, a Delaware corporation, or AppLovin (Singapore) Pte. Ltd., a Singapore company, if applicable (collectively, “AppLovin,” “we” or “our,” and together with “User,” the “Parties,” and each a “Party”) and apply to your use of the Services (as defined below). For purposes of this Agreement, and depending upon how you use the Services, you have contracted with the following AppLovin entity:

- **Advertisers in the United States** — If your principal place of business is in the United States of America or its territories, you have entered into this Agreement with AppLovin Corporation.
- **Advertisers in all Non-U.S. Regions** — If your principal place of business is outside of the United States of America or its territories, you have entered into this Agreement with AppLovin (Singapore) Pte. Ltd., except for the Data Processing Agreement incorporated into this Agreement, which you have entered into with AppLovin Corporation as the parent corporation for AppLovin (Singapore) Pte. Ltd.
- **Publishers in Singapore** — If your principal place of business is in Singapore, you have entered into this Agreement with AppLovin (Singapore) Pte. Ltd., except for the Data Processing Agreement incorporated into this Agreement, which you have entered into with AppLovin Corporation as the parent corporation for AppLovin (Singapore) Pte. Ltd.
- **Publishers worldwide, excluding Singapore** — If your principal place of business is in any other country or region except Singapore, you have entered into this Agreement with AppLovin Corporation.

Please read this Agreement and our [Privacy Policy](#) carefully before using the Services. By accessing the AppLovin platform, currently located at [www.applovin.com](http://www.applovin.com) and on other pages (the “Platform”), or registering, enabling, or using any of the Services (as defined in Section 1 below), you become a User and agree to be bound by this Agreement. **If you do not agree to this Agreement, you must not use (or you must stop using) the Platform or the Services.** Your access to and use of the Platform or the Services may also be subject to additional terms or agreements between us and you.

If you have entered into this Agreement on behalf of a company or other entity, you represent that you have been duly authorized with the authority to enter into this Agreement on behalf of that company or other entity, and you expressly represent that the company or other entity agrees to be bound by this Agreement. In that case, the term “you” refers to the third party or parties on a joint and several basis. If you have entered into this Agreement on an individual basis, you represent that you are the age of legal majority or older in your jurisdiction (aged 18 and over) and have the legal capacity to enter into and be bound by this Agreement.

As described below, the Platform, the Services, and the Software may fall within United States export controls. You may not use the Platform or the Services if United States law or other applicable law preclude you from receiving products, including services or the Software, from the United States or from using the Platform, the Services, or the Software. Registration for and use of the Platform or the Services where prohibited will be void.

**SECTION 14 OF THIS AGREEMENT CONTAINS AN INFORMAL DISPUTE RESOLUTION PROCESS, A BINDING AGREEMENT TO ARBITRATION, AND A CONSOLIDATED, CLASS**

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**ACTION, AND REPRESENTATIVE ACTION WAIVER, AND SECTION 9 CONTAINS WARRANTY DISCLAIMERS AND A LIMITATION OF OUR LIABILITY. BY USING THE PLATFORM OR THE SERVICES, YOU AGREE TO THESE PROVISIONS.**

**1. The Services; Changes to the Services or this Agreement**

AppLovin operates a suite of tools for developers and other businesses to automate and optimize the marketing and monetization of their platforms, products, or services by enabling the placement of different types of advertisements on digital properties (including mobile apps, websites, and connected TV devices) and distributing our customers' mobile apps, platforms, products, or services to end users using various technologies, including AI-powered tools and the Software (collectively, the "Services"). AppLovin may offer additional services or revise any of the Services, at its discretion, and this Agreement will apply to all additional services or revised Services. As explained below, AppLovin also reserves the right to stop offering any of the Services and to immediately suspend or terminate your access to any of the Services.

**Registration and Account Information** — You need to register and create an account to access the Platform and the Services (or some portion of them) for your own (i.e., individual or entity) use only. You must provide us with accurate, complete, and up-to-date account information. In addition, you may not authorize others to use your account, and you may not assign or otherwise transfer your account or this Agreement to any other person or entity. You also understand that you must keep your account information secure and that you should not disclose your account credentials to anyone. You alone remain solely responsible for all activities that occur under your account, regardless of whether you know about them or not.

**Updates or Changes to the Platform or the Services**—We may from time-to-time update, improve, enhance, conduct testing, and further develop the Platform or the Services (for example, in the form of bug fixes, enhancements, security patches, new software modules, or new versions). You understand that these improvements, enhancements, or tests may impact your or end users' experience. In addition, we may add or remove functionalities or features of the Platform or the Services at any time, and we may modify, suspend, restrict, terminate, or stop the Platform or the Services (or any portion of them) at any time. We may also suspend, restrict, delete, or remove access to the Platform or the Services (or any portion of them) or your account at any time.

**Notifications and Messages from the Platform or the Services** — We may from time-to-time send you notifications or messages regarding the Platform, the Services, and the Software. By using the Services, you consent to receive these messages from us, our affiliates, or providers.

**Changes to this Agreement**—We may modify or update this Agreement (including the [Publisher Policies](#), [Demand Policies](#), [EULA](#), [Privacy Policy](#), [Platform DPA](#), and [Demand Partner DPA](#) incorporated into and made a part of this Agreement). If we modify or update this Agreement, we will post the revised Agreement, which will generally become effective 30 days later. In addition, we may notify you directly via email and/or through the Platform or the Services. By continuing to use the Platform, the Services, or the Software after those modifications or updates become effective, you agree to be bound by the revised Agreement. If you do not agree to be bound by the revised Agreement, then you must not use the Platform, the Services, and the Software anymore.

*Retention* — By creating a business account, you agree that your account and related data will be retained for the required periods under applicable law.

## **2. Your Use of the Platform and the Services**

***Advertisers' Use of the Platform and the Services***—Advertisers, media buyers, ad agencies, demand-side platforms, e-commerce platforms, channel partners, or merchants, or other providers of advertisements (collectively, “Advertisers” or an “Advertiser”) may provide content, including text links, banners, videos, artwork, and graphics (“Advertisements”), and AppLovin may collect content, including text links, videos, artwork, and other files, for display on any Property.

If you use the Services as an Advertiser or as any other entity that bids on advertising inventory or serves Advertisements through the Services, you must comply with the AppLovin Policies for Demand Partners (the “Demand Policies”) and shall not contribute, submit, or make available through the Services, or use the Services in connection with, any Advertisements or content that violate the Demand Policies.

In addition, you hereby grant AppLovin a perpetual, irrevocable, sublicensable, non-exclusive, worldwide, and royalty-free right and license to copy, adapt, reproduce, distribute, display, publicly perform, and otherwise use Advertisements and other content, including any intellectual property rights contained on these materials, for the purpose of providing the Services, including serving the Advertisements and distributing Advertisers’ platforms, products, or services to end users. In addition, you grant AppLovin a perpetual, irrevocable, sublicensable, non-exclusive, worldwide, and royalty-free right and license to use and retain data collected from you for purposes of improving the Services, including our AI-powered technologies and Software.

***Publishers' Use of the Platform and the Services***—Developers and other businesses (collectively, “Publishers” or a “Publisher”) may list digital properties, including mobile applications, websites, connected TV devices, and other platforms or services (each a “Property,” and collectively “Properties”), and make them available for Advertisements (as defined above).

If you use the Services as a Publisher, you must comply with the AppLovin Policies for Publishers (the “Publisher Policies”) and shall not contribute, submit, or make available through the Services, or use the Services in connection with, any Property or content that violates the Publisher Policies. As set forth below and in the Publisher Policies, Publishers may not generate or engage in, or authorize or encourage any third party to generate or engage in, invalid activity, invalid traffic, fraudulent impressions of, or fraudulent clicks on, any Advertisement (as defined above) through any means. AppLovin will determine what constitutes valid impressions, clicks, requests, valid traffic, and valid activity, and payments to you as a Publisher may be withheld or adjusted if you engage in any actual or suspected violation of this Agreement or the Publisher Policies.

In addition, you hereby grant AppLovin all the necessary rights and permissions to: (a) use your Property’s or Properties’ intellectual property rights provided during the Services for the purpose of fulfilling AppLovin’s obligations; (b) access, index, store, and cache requests made from Property or Properties to the Services, including by automated means; and (c) access your Property or Properties to provide the Services, including placing or displaying Advertisements. In addition, you grant AppLovin a perpetual, irrevocable, sublicensable, non-exclusive, worldwide, and royalty-free right and license to use

and retain data collected from you for purposes of improving the Platform and the Services, including our AI-powered technologies and Software.

**Eligibility to Use the Platform and the Services** — You agree to use the Platform and the Services consistent with this Agreement and all laws and regulations, including United States export controls. In addition, you may not use the Platform, the Services, or the Software if you or any of your affiliates or, to your knowledge, any director, officer, manager, or employee of such entities: (i) cannot receive products, including services or the Software, from the United States (because for example you live in a country embargoed by the United States) or have been the target of sanctions by any governmental entity; (ii) cannot access or use the Platform, the Services, or the Software in compliance with this Agreement under the applicable laws of your jurisdiction; and (iii) have previously been suspended from the Services.

**Your Access to and Use of Our Software** — You may have access to software development kits (SDKs), applications programming interfaces (APIs), pixels, other integrations, documentation, tools and assemblies, libraries, scripts, object code, sample source code, and similar developer material made available by AppLovin specifically for purposes of your access to and use of the Platform and the Services (the “Software”). This Agreement and the [End User License Agreement](#) (the “EULA”) govern your use of the Software owned by AppLovin and provided to you only for purposes of your access to and use of the Platform and the Services.

**Third-Party SDKs or Other Software Integrations** — Your use of any third-party SDKs, APIs, pixels, connections, or similar software in connection with the Services will be governed by the terms of any agreement applicable to those integrations, connections, or software. We have no responsibility for any aspect of these third-party integrations, connections, or software, including any ad serving or data processing that may occur through them. You and the third-party provider must ensure compliance with all applicable laws and regulations, including those concerning privacy and data protection, age-related restrictions, labeling and disclaimer requirements, advertising guidelines, and any similar requirements.

### **3. Our Retained Proprietary Rights; Restrictions on Your Use**

Except for the limited license granted herein, we and our licensors retain all legal right, title, and interest in and to the Platform and the Services, including all of the intellectual property associated with the Platform and the Services, the technologies and the Software used to provide the Platform or the Services, the advertisements created by AppLovin (the “AppLovin Ads”), any improvements or derivative products or services, and all other aspects of the Platform and the Services. We reserve all rights not expressly granted to you.

**Restrictions on Your Access and Use** — You agree not to access or use the Platform or the Services (or any part of them) other than as permitted by this Agreement. You agree not to modify, create derivative works based on, decompile, reverse engineer or disassemble, or otherwise attempt to extract source code from, the Platform or the Services (or any part of them). In addition, you may not (a) copy, distribute, rent, lease, lend, sublicense, transfer or make the Platform or the Services available to any third party; (b) attempt to defeat, avoid, by-pass, remove, deactivate or otherwise circumvent any software protection mechanisms in the Platform or the Services; (c) modify, remove, or obscure any proprietary notices or legends that appear on the Platform or the Services or during the use and operation thereof; (d) sell, assign, license, disclose, or otherwise transfer or make available the Platform or the Services, any copies of the Platform or the Services, or any information derived from the Platform or the Services in any form

to any third parties; or (e) remove or alter any proprietary notices or marks on the Platform or the Services.

This Agreement does not grant you or any other party any right, title, or interest in the Platform or the Services, any content in the Platform or the Services (including any AppLovin Ads), or in our or our licensors' trademarks, logos, and other intellectual property. We reserve all rights not expressly granted to you.

***Our Use of Your Feedback*** — If you make suggestions regarding any features, functionality, or performance of the Platform, the Services, or the Software that AppLovin adopts for any of its products or services, such features, functionality, and performance shall be deemed automatically assigned to AppLovin under this Agreement and become our sole and exclusive property.

#### **4. Data Privacy and Data Sharing**

***Data Processing Agreement*** — To the extent that any Personal Data (as defined under applicable data protection laws) is shared hereunder, the processing of such Personal Data shall be governed by the terms set forth in the Platform Data Processing Agreement (the "Platform DPA") for AppDiscovery Advertisers, Audience+ Advertisers, and MAX Publishers; and Demand Partner Data Processing Agreement (the "Demand Partner DPA") for ALX Demand Side Partners, respectively, which are incorporated into and made a part of this Agreement. As described above, you have entered into the Platform DPA or Demand Partner DPA, as applicable, with AppLovin Corporation.

***Data Sharing Representations and Warranties*** — You represent and warrant, as applicable, that:

- You will comply with all applicable laws, rules, and regulations relating to the collection, use, and sharing of information about any end user who interacts with the Services.
- You will ensure that you will have, at all times, a clearly labeled and easily accessible privacy policy that complies with all applicable laws and specifically provides end users with clear information about SDKs, cookies, device-specific information, location information, and other information stored on, accessed on, or collected from end users' devices in connection with the Services.
- You will ensure (where required by law) that each end user consents to the storing and accessing of cookies, device-specific information, location information, or other information on the end user's device by AppLovin in connection with the Services, and upon AppLovin's request, provide us with written evidence of such consent, including the date of the consent and the consent language presented to the end user.
- You will ensure that you have adequate rights and have obtained all necessary permissions and consents required under applicable laws to disclose Personal Data to AppLovin for purposes consistent with this Agreement, including improving the Services.
- You shall, at all times and in accordance with the requirements of applicable data protection laws, make available, maintain, and make operational on your properties: (i) a mechanism for obtaining such consent from end users; and (ii) a mechanism to honor end users' data subject rights (opt-out of sale for interest-based advertising, deletion, access, etc.).

**AppLovin Privacy Policy** — Our [Privacy Policy](#) describes how we collect, use, disclose, share, and otherwise process information and material provided by you. By accessing and using the Platform or the Services, you affirm that you have reviewed and acknowledge the terms of the [Privacy Policy](#).

## **5. Prohibition on Advertisements to and Personal Information from Children and Apps Exclusively Designed for or Exclusively Directed to Children**

You acknowledge and agree that you will not use the Services in connection with any Property or Advertisement exclusively designed for or exclusively directed to children as defined and required by applicable laws, or for any Property or Advertisement that could implicate the Children’s Online Privacy Protection Act of 1998 (15 U.S.C. 6501, et seq.) (“COPPA”), laws of similar effect in any applicable jurisdiction, as well as any applicable app store policies. You shall be solely responsible for ensuring that any Property or Advertisements comply with all age-related laws and applicable app store policies, including COPPA or laws of similar effect in any applicable jurisdiction.

As explained above, in the [Privacy Policy](#), the [Publisher Policies](#), and the [Demand Policies](#), children may not use the Services and AppLovin does not knowingly collect personal information from children or serve advertisements to children. In addition, you may not provide AppLovin with personal information of children, and you may not use the Services for any Property or Advertisements exclusively designed for or exclusively directed to children or to target or retarget children.

Please note that, in the European Union and various other locations, applicable law generally defines children as those under the age of 18. In the United Kingdom, the State of California, and various other locations, applicable law generally defines children as those under the age of 16. You may not use the Services to serve interest-based advertising to children as defined under any applicable laws. In addition, as explained in the [Publisher Policies](#) and [Demand Policies](#), you must include and honor all appropriate age-related and other flags.

If you believe we served an advertisement to a child or might have personal information from or about a child, or if you believe a User may be exclusively designed for or exclusively directed to children, or may be knowingly passing personal information from children to us, please contact us via email at [dataprotection@applovin.com](mailto:dataprotection@applovin.com).

## **6. Fees and Payments**

### **a. Fees from Advertisers’ Use of the Services**

**Invoices to Advertisers** — For purposes of your use of the Services, AppLovin will provide you with access to an online reporting system. You acknowledge and understand that AppLovin will invoice you for Advertisements served through the Services exclusively based on the numbers in AppLovin’s online reporting system. Unless otherwise indicated, payment will be due within thirty (30) days of the invoice date, and all amounts will be payable in U.S. Dollars regardless of your primary place of business.

**Past Due Accounts** — If your payment method fails or any account(s) becomes past due, AppLovin may take steps to collect past due amounts using any available mechanisms, including netting or offsetting any past due amounts from payments to you as a Publisher or due to you under any other agreement, referring the balance to collections, or pursuing the balance through other available means. You agree to pay all expenses associated with any such mechanism, including reasonable attorneys’ fees, court costs, or

collections' fees, plus interest accruing on any past due amounts at the lesser of 1% per month or the lawful maximum.

#### **b. Payments to Publishers**

**Payments to Publishers** — For purposes of your use of the Services, AppLovin will provide you with access to an online reporting system. You acknowledge and understand that AppLovin will pay you monthly earnings for valid impressions filled by AppLovin, calculated exclusively based on AppLovin's accounting and the numbers in AppLovin's online reporting system, and subject to the minimum applicable payment threshold (communicated through the Services). Payments to you will be calculated by AppLovin based on valid impressions shown on your Property and the pricing associated with those impressions, which could take the form of cost per mille (CPM) or a percentage of Net Revenue (as defined below) as determined by AppLovin.

- **Invalid Activity** — For purposes of calculating these payments, AppLovin will, in its sole discretion, determine what constitutes valid impressions, clicks, requests, valid traffic, and valid activity. Invalid activity includes: (i) spam, invalid impressions, or invalid clicks on Advertisements generated by any person, bot, automated program, or similar device, including through any clicks or impressions originating from your IP addresses, computers under your control, or similar self-click schemes; (ii) clicks solicited or impressions generated by payment of money and false representation; (iii) clicks or impressions co-mingled with a significant amount of the activity described in (i) and (ii) above; or (iv) any breach of this Agreement or the Publisher Policies.
- **Net Revenue** — For purposes of calculating these payments, "Net Revenue" means revenues actually received by AppLovin from the sale, use, or other disposition of Advertisements displayed on your Property, less Taxes (as defined below), less any agency commissions, buyer fees, carrier and/or partner fees, and less any allowances actually made or taken for returns, cash discounts, or promotional allowances, but excluding other revenues indirectly earned, if applicable, for consulting, planning and targeting, copywriting, site building, account management, or technical modifications or technical innovations that may be charged by AppLovin to third parties from time to time. The portion of Net Revenue received by User will generally be determined on the first Monday of each calendar month, on which day those revenues accrued to your account thirty (30) or more days earlier shall become eligible to be paid.

Subject to the foregoing and the minimum applicable payment threshold, AppLovin will pay your monthly earnings according to the payment details entered into your AppLovin account. Depending upon those payment details, you may be responsible for certain bank fees associated with the transmission of payments from your AppLovin account. As set forth above, to help ensure proper payment, you remain solely responsible for providing and maintaining accurate contact and payment information associated with your account.

**Our Right to Withhold, Adjust, or Offset Payments** — We may withhold, adjust, or offset payments to you based upon any amounts you owe to AppLovin under this Agreement or any other agreement, any amounts refunded or credited to Advertisers, any amounts arising from invalid activity, or if you engage in any actual or suspected violation of this Agreement or the Publisher Policies, in any case as determined by AppLovin in its sole discretion.

**Payments from Other Networks** — Your monthly earnings for impressions filled through the Services by other networks, as may be reflected in AppLovin’s online reporting system, will be paid in accordance with the policies and practices of those other networks.

### **c. Miscellaneous Provisions**

**Taxes** — You will pay any direct or indirect local, state, federal or foreign taxes, levies (including any equalization levy), duties, or similar governmental assessments of any nature, including but not limited to VAT, GST, excise, sales, use, consumption, and withholding taxes (collectively, “Taxes”) or other charges in connection with its use of the Platform, the Services, or the Software, including any Taxes AppLovin is legally obligated to charge. AppLovin’s fees do not include Taxes and you agree to pay, in addition to such fees, all applicable Taxes imposed by any taxing authority in connection with your use of the Services. You shall pay the full amount owed to AppLovin, inclusive of and without deduction for, any invoiced Taxes. You may provide AppLovin with an exemption certificate or equivalent information acceptable to the relevant taxing authority, in which case AppLovin will not charge or collect the Taxes covered by such certificate. Where a Publisher supplies a Property or Properties to AppLovin which is subject to any Taxes, Publisher shall be responsible for remitting the Taxes to the proper authorities. Where applicable, Publisher agrees to GST self-billing for Singapore GST purposes and agrees to remit all GST output tax to the proper authorities, as required by law, as shown on each AppLovin self-billed invoice. Upon request, Publisher shall provide AppLovin with its GST registration number.

**Changes to Fees or Charges** — AppLovin reserves the right to change its fees and to institute new charges at any time, upon prior notice, and to invoice for fees and/or make payments for earnings from any of our affiliates.

### **7. Confidentiality Obligations**

**AppLovin Confidential Information** — “AppLovin Confidential Information” includes: (a) all Software, technology, and documentation relating to the Platform and the Services and any other non-public technical or business information; (b) the existence of, and information about, beta features in the Services (or any aspect of them); (c) the terms of any order with AppLovin, pricing information related to the Services, and any statistics provided by AppLovin concerning your use of the Platform and the Services; and (d) any other information made available to you by AppLovin that either has been marked as confidential or would ordinarily be considered confidential given the nature of the information or the relevant circumstances. AppLovin Confidential Information does not include information (i) that you already knew prior to your use of the Services or the Platform, (ii) that becomes public through no fault of yours or breach by you of this Agreement, (iii) that you independently developed without use of AppLovin Confidential Information, or (iv) that you rightfully obtained from a third party without restriction on use or disclosure.

**Use and Disclosure Restrictions** — You agree not to use AppLovin Confidential Information except as permitted under this Agreement or any other agreement, terms, or policies that govern your access and use of the Platform and the Services. You further agree not to disclose AppLovin Confidential Information without our prior written consent. In addition, without our prior written consent, you will not post, copy, modify, transmit, disclose, show in public, create any derivative works from, distribute, make commercial use of, or reproduce any (i) AppLovin Confidential Information or (ii) copyrighted material, trademarks, or other proprietary information accessible through the Platform or the Services. These restrictions do not prevent you from disclosing AppLovin Confidential Information: (a) pursuant to a

court order or other lawful process, provided that you first give AppLovin sufficient advanced notice of such disclosure pursuant to any such order or other lawful process; and (b) on an as-needed confidential basis to your legal or financial advisors.

## **8. Report Advertisements, Properties, or Content; Trademark & DMCA Policy**

**Report Properties, Advertisements, or Content** — If someone may have violated this Agreement, misused the Platform or the Services, used the Services for inappropriate or unlawful Properties, Advertisements, or content, or engaged in other inappropriate or unlawful activity, or if you have any other issue you would like to raise with us, please visit [AppLovin Support](#) or submit your questions and requests to the [AppLovin Support Team](#).

**Trademark & DMCA/Copyright Policy** — We respect the intellectual property rights of others and ask that you do the same. We respond to notices of alleged trademark or copyright infringement, consistent with the US Digital Millennium Copyright Act or laws of similar effect. For more information, please review our [Copyright Page](#). We reserve the right, in our sole discretion and without notice, to terminate your access to the Platform and the Services if we determine that you may be a “repeat infringer.”

## **9. Warranty Disclaimers and Limitation of Our Liability**

Some jurisdictions do not allow the exclusion of certain warranties or the limitation of certain liabilities. In those jurisdictions, the exclusions and limitations below shall apply only to the extent permitted by the laws of these jurisdictions.

**Warranty Disclaimers** — You access and use the Platform, the Services, and the Software at your own sole risk. We provide the Platform, the Services, and the Software on an “as is” and “as available” basis, and explicitly disclaim all warranties of any kind to the full extent permitted by applicable law.

- We make no representations or warranties of any kind, express or implied, as to the operation of the Platform, the Services, or the Software, the Advertisements, Properties, or content included on or otherwise made available through the Services, or any other information, content, materials, or other services included on or otherwise made available through the Platform and the Services. In addition, we may suspend, withdraw, or restrict the availability of all or any part of the Platform, the Services, or the Software (including “beta” features or tools) at any time and for any reason.
- You expressly agree that you use the Platform, the Services, and the Software at your sole risk. To the full extent permissible by law, we disclaim all warranties, express or implied, about the Platform, the Services, and the Software, including implied warranties of merchantability, fitness for a particular purpose, quiet enjoyment, non-infringement or availability, and any warranties arising out of course of dealing or usage of trade. No advice or information, whether oral or written, obtained from us or elsewhere will create any warranty or condition not expressly stated in this Agreement.
- We do not warrant that the Platform, the Services, or the Software will meet your requirements or be available on an uninterrupted, secure, or error-free basis (meaning free of viruses or other harmful components), that defects will be corrected, or that you will not encounter any connectivity problems or other technical issues.



- We make no warranty regarding the quality, accuracy, or appropriateness of any Advertisement, Property, or content included on or otherwise made available through the Platform or the Services. You acknowledge and agree that AppLovin has no control over (or responsibility for) any content that may be submitted or published by any advertiser (including Advertisements) or any content that may be available or published on any Property (or otherwise).
- **YOU ACCESS AND USE THE PLATFORM, THE SERVICES, AND THE SOFTWARE AT YOUR SOLE RISK. WE EXPLICITLY DISCLAIM ANY WARRANTIES OF ANY KIND, EITHER EXPRESS OR IMPLIED, ABOUT THE PLATFORM, THE SERVICES, AND THE SOFTWARE.**

*Limitation of Our Liability and Cap on Damages* — To the full extent permissible by law, you acknowledge and agree that neither we nor any other party involved in creating or delivering the Platform, the Services, or the Software (including our affiliates, corporate parents, advertisers, and distribution partners), will be liable:

- **For any personal injury or indirect, incidental, punitive, special, exemplary, consequential, liquidated, or punitive damages, including lost profits, loss of data or goodwill, service interruption, computer damage, system failure, or the cost of substitute services, in anyway whatsoever (and under any theory in any applicable jurisdiction, including warranty, contract, and tort or negligence) arising out of or in connection with this Agreement or your use of, access to, or inability to use or access the Platform, the Services, or the Software even if we have been advised of the possibility of such damages; or**
- **For the conduct of any third parties, including other users of the Platform, the Services, or the Software, or operators of external platforms, websites, or resources, and end users.**

**THE RISK OF USING THE PLATFORM, THE SERVICES, AND THE SOFTWARE RESTS ENTIRELY WITH YOU, AS DOES THE RISK OF ANY FORM OF INJURY FROM THE SERVICES OR THE CONDUCT OF THIRD PARTIES.**

In addition, to the full extent permissible by law, the aggregate (or total) liability of us (and any other party involved in creating, producing, or delivering the Platform, the Services, or the Software, including our affiliates and corporate parents) to you arising out of or relating to this Agreement, your relationship with us, or your use of or access to the Platform, the Services, and the Software will not exceed the lesser of (a) ten thousand U.S. dollars (US\$10,000) or (b) the total amount paid or payable to you or payable by you in the three (3) month period immediately before you first assert any claim. These limitations and exclusions regarding damages apply even if any remedy fails to provide adequate compensation. Notwithstanding anything in the foregoing, if no amount has been paid or become payable to you or payable by you in the three (3) month period immediately before you first assert any claim, our aggregate (total) liability in any form of action whatsoever in connection with this Agreement, your relationship with us, or your use of or access to the Platform, the Services, and the Software will be the total sum of twenty U.S. dollars (US\$20).

#### **10. Your Indemnification of Us**

You will indemnify and hold AppLovin, its officers, managers, directors, employees, affiliates, and subsidiaries, and each of their respective legal representatives, successors, and assigns, harmless (and, at AppLovin's request, defend AppLovin) against any and all claims, demands, losses, costs, liabilities, and expenses (including reasonable attorneys' fees) relating to or arising out of (a) your use of the Platform or the Services, (b) your violation of any term of this Agreement, including your representations and warranties, (c) your violation of any third-party rights, or (d) your violation of any applicable laws, rules, or regulations, including those concerning privacy and data protection.

At AppLovin's option, you will assume control of the defense, but AppLovin retains the right to elect to take over the defense at any time. You may not enter into a settlement covered by this indemnification clause without AppLovin's prior written consent. If AppLovin elects to assume control of the defense, you agree to cooperate fully in that defense.

#### **11. Ending Your Relationship with the Services (and vice versa)**

**Termination by Us** — We may suspend or terminate this Agreement, your account(s), or your access to and use of the Platform, the Services, and the Software (or any portion of them) at any time, for any reason or no reason, and without notice or explanation to you. In addition, we reserve the right to remove your account information or data from the Platform, the Services, the Software, and any other records at any time, for any reason or no reason, and without notice or explanation to you.

**Termination by You** — You may terminate this Agreement at any time by following the instructions on the Platform or in other documentation, or by sending a notice of cancellation to [AppLovin Support](#).

**Survival and Effect of Termination** — Upon suspension or termination of this Agreement, your account(s), or your access to and use of the Platform, the Services, and the Software (or any portion of them), your right to use the Platform, the Services, and the Software will immediately cease and you must promptly remove all Software and pay any amounts owed to AppLovin pursuant to the applicable invoices. In addition, all provisions of this Agreement which by their nature should survive will survive, including, without limitation, confidentiality provisions, fees and payments, indemnification, warranty disclaimers, limitations of our liability, and dispute resolution provisions.

#### **12. Your Representations and Warranties to AppLovin**

**Representations and Warranties by Publishers** — If you access and use the Platform, the Services, or the Software as a Publisher, you represent and warrant that: (i) you own each Property that you use in connection with the Services or that you have the legal authority and authorization to act on behalf of the owner of such Property for purposes of this Agreement; (ii) you have all necessary rights, power, and authority to enter into this Agreement and to perform the acts required hereunder; (iii) any data supplied or disclosed to AppLovin under or in connection with the Platform, the Services, or the Software shall be controlled, collected, and transferred in accordance with any applicable data protection laws and regulations; (iv) any data supplied or disclosed to AppLovin includes all necessary rights, licenses, consents, and permissions for AppLovin to receive, use, share, and transfer such data as set forth in this Agreement; and (v) you and each of your Properties will comply with the [Publisher Policies](#).

In addition, you represent and warrant that each of your Properties and any material displayed on those Properties: (a) comply with all applicable laws, statutes, ordinances, and regulations, including consumer protection, commerce, advertising, and product laws; (b) do not breach and have not breached any third-

party rights, including intellectual property rights, rights of publicity or privacy, or rights, duties, or obligations under consumer protection, commerce, product liability, advertising, tort, or contract theories; and (c) comply with the [Publisher Policies](#).

**Representations and Warranties by Advertisers** — If you access and use the Platform, the Services, or the Software as an Advertiser, you represent and warrant that: (i) you own each Advertisement you designate in connection with the Services or that you have the legal authority and authorization to act on behalf of the owner of such Advertisement for the purposes of this Agreement; (ii) you have all necessary rights, power, and authority to enter into this Agreement and to perform the acts required hereunder; (iii) any data supplied or disclosed to AppLovin under or in connection with the Platform, the Services, or the Software shall be controlled, collected, and transferred in accordance with any applicable data protection laws and regulations; (iv) any data supplied or disclosed to AppLovin includes all necessary rights, licenses, consents, and permissions for AppLovin to receive, use, share, and transfer such data as set forth in this Agreement; and (v) you and each of your Advertisements will comply with the [Demand Policies](#).

In addition, you represent and warrant that each of your Advertisements and any material displayed therein: (a) comply with all applicable laws, statutes, ordinances, and regulation, including consumer protection, commerce, advertising, and product laws; (b) do not breach and have not breached any third-party rights, including intellectual property rights, rights of publicity or privacy, or rights, duties, or obligations under consumer protection, commerce, product liability, advertising, tort, or contract theories; (c) do not include viruses and any other form of contaminants of any nature; and (d) comply with the [Demand Policies](#).

### **13. Governing Law and Venue for Legal Disputes Not Subject to Arbitration**

This Agreement, and all claims or defenses based on, arising out of, or related to this Agreement or the relationship of the Parties under this Agreement, including those arising from or related to the negotiation, execution, performance, or breach of this Agreement, shall be governed by, and enforced in accordance with, the internal laws of the State of California, without reference to its choice of law rules or any principle calling for application of the law of any other jurisdiction.

Except as provided below, any disputes not subject to the Agreement to Arbitration set forth in this Agreement shall be heard only in the state or federal courts located in Santa Clara County, California, unless we mutually agree to some other location. Each of us consents to venue and personal jurisdiction in Santa Clara County, California, for purposes of any such action.

### **14. Informal Dispute Resolution Process; Agreement to Arbitration; Consolidated, Class Action, and Representative Action Waiver**

#### **Notice of Dispute and Required Informal Dispute Resolution Process**

Except as provided below, if any dispute arises between us concerning or relating to this Agreement, the Platform, the Services, the Software, or our relationship, we agree to work in good faith to resolve the dispute informally by providing a written notice of dispute (the “Notice of Dispute”) to the applicable Party. Any Notices of Dispute should be submitted to [AppLovin’s Support Team](#).

#### **Agreement to Arbitration; Exceptions to Agreement to Arbitration**

As set forth in the table below, the specific details of this Agreement to Arbitration, including the Governing Law, the Alternative Dispute Resolution Provider, the Applicable Rules, and the Designated Venue for any arbitral proceedings, each as defined in the tables below, depend upon your principal place of business and whether you are a Publisher or Advertiser.

If the Parties cannot informally resolve the dispute within sixty (60) days from receipt of the Notice of Dispute, the Parties agree to submit the dispute arising between them, including any claim or controversy arising out of or relating to this Agreement or the breach, termination, enforcement, interpretation, or validity thereof, including the determination of the scope, applicability, or enforceability of this Agreement to Arbitration, for determination through binding arbitration administered by the Alternative Dispute Resolution Provider pursuant to the Applicable Rules (each as defined in the tables below).

The Parties agree that all arbitration proceedings, including witness interviews, written statements or other submissions, hearings, and the arbitration decision, shall be conducted or rendered in English. At the beginning of any arbitration process under this Agreement, the Parties will select an arbitrator, fluent in English, by mutual agreement. Such an arbitrator shall be a retired judge or justice or another qualified and impartial person that the Parties decide upon, and any such arbitrator shall be subject to disqualification on the same grounds as would apply to a judge or justice in a court proceeding. If the Parties cannot agree on the selection of an arbitrator, the Parties will request a list of an odd number of potential arbitrators from the Alternative Dispute Resolution Provider and alternatively strike potential arbitrators, with AppLovin going first, until one potential arbitrator remains. The Parties agree that the arbitrator shall administer and conduct any arbitration in accordance with California law, including the California Code of Civil Procedure, and that the arbitrator shall apply substantive and procedural California law to any dispute or claim, without reference to rules or principles of conflicts of law. To the extent that the Applicable Rules conflict with California law, California law shall take precedence. The Parties agree that any arbitration under this Agreement shall be conducted exclusively in the Designated Venue. The Parties agree that the decision of the arbitrator shall be rendered within twelve (12) months of the commencement of the arbitration (unless extended by the arbitrator for good cause), and that the decision shall be in a reasoned written opinion based solely upon the law governing the claims and defenses pleaded. The arbitrator's decision regarding the claims shall be final and binding upon the Parties and shall be enforceable in any court having appropriate jurisdiction within the Designated Venue. The Parties will split equally the arbitrator's fees and other costs imposed by the Alternative Dispute Resolution Provider, but each Party shall be responsible for paying such Party's own attorneys' fees and costs related to the arbitration.

#### **Exceptions to Agreement to Arbitration**

This Section does not apply to the following types of claims or disputes, which you or we may bring in court in accordance with this Agreement:

- Your payment obligations under this Agreement or our right to offset or pursue past due accounts through collections or other means;
- Claims of infringement or other misuse of intellectual property rights;
- Claims for violation of any applicable confidentiality provisions;
- Claims for preliminary injunctive relief for any violations of this Agreement;

- Claims to request enforcement or recognition of any award or order in any appropriate jurisdiction; and
- Our right to suspend or terminate access to the Platform, the Services, or the Software.

**For Publishers whose principal place of business is in a country or territory other than Singapore, and Advertisers whose principal place of business is in the United States or its territories, the specific details of this Agreement to Arbitration are as follows:**

<u>Advertisers' or Publishers' Principal Place of Business</u>	<u>AppLovin Contracting Entity</u>	<u>Governing Law</u>	<u>Alternative Dispute Resolution Provider &amp; Applicable Rules</u>	<u>Designated Venue</u>
<p><b>Advertisers:</b> United States or its territories</p> <p><b>Publishers:</b> Worldwide, except Singapore</p>	AppLovin Corporation	California, as set forth above, without reference to its choice of law rules or any principle calling for application of the law of any other jurisdiction.	JAMS, administered by JAMS pursuant to the Comprehensive Arbitration Rules & Procedures (except as modified by this Agreement to Arbitration)	<p><b>Venue for Arbitration:</b> Santa Clara County, California for any arbitration proceedings, unless the parties agree to some other location.</p> <p>In addition, you and AppLovin Corporation agree to submit to the personal jurisdiction of any federal or state court in Santa Clara County, California in order to compel arbitration, to stay proceedings pending arbitration, or to confirm, modify, vacate, or enter judgment on any arbitral award.</p>

**For Advertisers whose principal place of business is outside of the United States, the specific details of this Agreement to Arbitration are as follows:**

<u>Advertisers' Principal Place of Business</u>	<u>AppLovin Contracting Entity</u>	<u>Governing Law</u>	<u>Alternative Dispute Resolution Provider &amp; Applicable Rules</u>	<u>Designated Venue</u>
Worldwide in all non-U.S. Regions, including Asia-Pacific countries or territories, those in the EEA, and the UK	AppLovin (Singapore) Pte. Ltd. <i>(except for the Data Processing Agreement incorporated into this Agreement, which you have entered into with AppLovin Corporation, as explained above)</i>	California, as set forth above, without reference to its choice of law rules or any principle calling for application of the law of any other jurisdiction.	International Centre for Dispute Resolution (ICDR), administered by the ICDR pursuant to the International Arbitration Rules (except as modified by this Agreement to Arbitration)	<p><b>Venue of Arbitration:</b> Singapore or another location as agreed by the Parties for any arbitration proceedings.</p> <p>In addition, you and AppLovin (Singapore) Pte. Ltd. agree to submit to the personal jurisdiction of the courts of Singapore in order to compel arbitration, to stay proceedings pending arbitration, or to confirm, modify, vacate, or enter judgment on any arbitral award.</p>

**For Publishers whose principal place of business is in Singapore, the specific details of this Agreement to Arbitration are as follows:**

<u>Publishers' Principal Place of Business</u>	<u>AppLovin Contracting Entity</u>	<u>Governing Law</u>	<u>Alternative Dispute Resolution Provider &amp; Applicable Rules</u>	<u>Designated Venue</u>
Singapore	AppLovin (Singapore) Pte. Ltd. <i>(except for the Data Processing Agreement incorporated into this Agreement, which you have entered into with AppLovin)</i>	California, as set forth above, without reference to its choice of law rules or any principle calling for application of the law of any	International Centre for Dispute Resolution (ICDR), administered by the ICDR pursuant to the International Arbitration Rules (except as	<p><b>Venue of Arbitration:</b> Singapore or another location as agreed by the Parties for any arbitration proceedings.</p> <p>In addition, you and AppLovin (Singapore) Pte. Ltd.</p>

<u>Publishers' Principal Place of Business</u>	<u>AppLovin Contracting Entity</u>	<u>Governing Law</u>	<u>Alternative Dispute Resolution Provider &amp; Applicable Rules</u>	<u>Designated Venue</u>
	<i>Corporation, as explained above)</i>	other jurisdiction.	modified by this Agreement to Arbitration)	agree to submit to the personal jurisdiction of the courts of Singapore in order to compel arbitration, to stay proceedings pending arbitration, or to confirm, modify, vacate, or enter judgment on any arbitral award.

**Consolidated, Class Action, and Representative Action Waiver**

For disputes arising between us and you, or any other User, you and we agree that we can only bring a claim against each other on an individual basis. NEITHER YOU NOR WE CAN BRING A CLAIM AS A PLAINTIFF OR CLASS MEMBER IN A CLASS ACTION, CLASS-WIDE ARBITRATION, CONSOLIDATED ACTION, OR REPRESENTATIVE ACTION. THE ARBITRATOR CANNOT COMBINE MORE THAN ONE PERSON'S CLAIM INTO A SINGLE CASE, AND CANNOT PRESIDE OVER ANY CONSOLIDATED, CLASS, OR REPRESENTATIVE ARBITRATION PROCEEDING, UNLESS WE BOTH AGREE OTHERWISE IN WRITING. NONETHELESS, IF ANY PORTION OF THIS CONSOLIDATED, CLASS ACTION, OR REPRESENTATIVE ACTION WAIVER IS DEEMED UNENFORCEABLE OR INVALID, THE ARBITRATOR SHALL HAVE AUTHORITY TO ISSUE ANY AND ALL REMEDIES AUTHORIZED BY LAW.

YOU UNDERSTAND THAT, ABSENT THIS AGREEMENT TO ARBITRATION, YOU WOULD HAVE HAD A RIGHT TO LITIGATE THROUGH A COURT, TO HAVE A JUDGE OR JURY DECIDE YOUR CASE, AND TO BE PARTY TO A CONSOLIDATED, CLASS, OR REPRESENTATIVE ACTION. HOWEVER, YOU UNDERSTAND AND CHOOSE TO HAVE ANY CLAIMS DECIDED INDIVIDUALLY AND ONLY THROUGH ARBITRATION.

**Severability**

This Section applies to the full extent permitted by applicable law. If any competent authority deems any portion of this Section illegal or unenforceable, such provision will be severed and the remainder of this Section will be given full force and effect.

In addition, if any competent authority determines that applicable law precludes the arbitration of any claim, cause of action, or requested remedy, then that claim, cause of action, or requested remedy, and only that claim, cause of action, or requested remedy, will be severed from this Agreement to Arbitration and brought in a court of competent jurisdiction. If that occurs, then you and we agree that the severed

claims, causes of action, or requested remedies will be stayed until all arbitrable claims, causes of action, and requested remedies have been resolved by the arbitrator.

## 15. Miscellaneous Provisions

**Entire Agreement** — This Agreement, the [Privacy Policy](#), the [EULA](#), the [Platform DPA](#), [Demand Partner DPA](#), the [Publishers Policies](#), the [Demand Policies](#), and any insertion order(s) or similar agreement referencing this Agreement comprise the exclusive understanding and entire agreement between you and AppLovin regarding your access to and use of the Platform, the Services, and the Software, and they supersede and replace all prior understandings or agreements between us related to your access to and use of the Platform, the Services, and the Software (including any prior versions of this Agreement).

**No Waiver** — Our failure to enforce any right or provision of this Agreement will not be considered a waiver of such right or provision. The waiver of any such right or provision will be effective only if in writing and signed by our duly authorized representative. Except as expressly set forth in this Agreement, the exercise by either party of any of its remedies under this Agreement will be without prejudice to its other remedies under this Agreement or otherwise.

**Severability** — If for any reason a court of competent jurisdiction finds any provision of this Agreement invalid or unenforceable, that provision will be enforced to the maximum extent permissible, and the other provisions of this Agreement will remain in full force and effect.

**Construction** — For purposes of contract interpretation, the Parties acknowledge that the terms of this Agreement should not be strictly construed against either Party.

**Time Limitation on Claims** — You agree that any claim you may have arising out of or relating to this Agreement or your relationship with us must be filed within one (1) year after the purported claim arose. Otherwise, your claim will be permanently barred as untimely.

**Our Right of Assignment or Delegation** — You may not assign or transfer this Agreement, by operation of law or otherwise, without our prior written consent. We may freely assign or transfer this Agreement without restriction. Subject to the foregoing, this Agreement will bind and inure to the benefit of the parties, their successors, and permitted assigns.

**Force Majeure** — AppLovin will not be in breach of this Agreement nor liable for any failure or delay in performance of any obligations under this Agreement (and, if applicable, the date for performance of the obligations affected will be extended accordingly) as a result of any event outside the reasonable control of AppLovin affecting its ability to perform any of its obligations under this Agreement, including an act of God, fire, flood, lightning, pandemic, compliance with any law or governmental order, rule, regulation or direction (including sanctions), war, revolution, act of terrorism, riot or civil commotion, strikes, locks outs and industrial action, failure of supplies of power, fuel, communication, transport, equipment, raw materials, or other goods or services.

Last modified March 25, 2024



## List of Principal Subsidiaries and Variable Interest Entities of the Registrant\*

<b>Subsidiaries</b>	<b>Place of Incorporation</b>
Nova (Cayman) Inc.	Cayman Islands
TouchPal HK Co., Limited	Hong Kong
CooTek Hong Kong Limited	Hong Kong
Techdelic Investment Co., Limited	Hong Kong
TouchPal, Inc	United States
Smillage Inc.	United States
VitalTek, Inc.	United States
Shanghai Chule (CooTek) Information Technology Co., Ltd.	People's Republic of China
Shanghai Qianqi Technology Co., Ltd	People's Republic of China
<b>Variable Interest Entities</b>	<b>Place of Incorporation</b>
Shanghai Chubao (CooTek) Information Technology Co., Ltd	People's Republic of China
Molihong (Shenzhen) Internet Technology Co., Ltd.	People's Republic of China

\* Other entities of CooTek (Cayman) Inc. have been omitted from this list since, considered in the aggregate as a single entity, they would not constitute a significant subsidiary.

**Certification by the Principal Executive Officer**

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

I, Karl Kan Zhang, certify that:

1. I have reviewed this annual report on Form 20-F of CooTek (Cayman) Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 30, 2024

By: /s/ Karl Kan Zhang

Name: Karl Kan Zhang

Title: Chairman of the Board of Directors, Chief  
Technology Officer and Acting Chief Financial Officer

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**Certification by the Principal Financial Officer**

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

I, Karl Kan Zhang, certify that:

1. I have reviewed this annual report on Form 20-F of CooTek (Cayman) Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 30, 2024

By: /s/ Karl Kan Zhang

Name: Karl Kan Zhang

Title: Acting Chief Financial Officer

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**Certification by the Principal Executive Officer**

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

In connection with the Annual Report of CooTek (Cayman) Inc. (the "Company") on Form 20-F for the fiscal year ended December 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Karl Kan Zhang, Principal Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 30, 2024

By: /s/ Karl Kan Zhang

Name: Karl Kan Zhang

Title: Chairman of the Board of Directors, Chief Technology  
Officer and Acting Chief Financial Officer

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**Certification by the Principal Financial Officer**

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

In connection with the Annual Report of CooTek (Cayman) Inc. (the "Company") on Form 20-F for the fiscal year ended December 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Karl Kan Zhang, Acting Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 30, 2024

By: /s/ Karl Kan Zhang

Name: Karl Kan Zhang

Title: Acting Chief Financial Officer

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**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statement No. 333-229171 on Form S-8 of our report dated April 29, 2022, relating to the financial statements of CooTek (Cayman) Inc. appearing in this Annual Report on Form 20-F of CooTek (Cayman) Inc. for the year ended December 31, 2023.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP

Shanghai, China

April 30, 2024

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**Consent of Shandong Haoxin Certified Public Accountants Co., Ltd.**

We hereby consent to the incorporation by reference in the Registration Statements No. 333-229171 on Form S-8 of CooTek (Cayman) Inc. of our report dated April 30, 2024 relating to the financial statements, which appears in this Annual Report on Form 20-F of CooTek (Cayman) Inc. for the year ended December 31, 2023.

/s/ Shandong Haoxin Certified Public Accountants Co., Ltd.

Weifang, the People's Republic of China

April 30, 2024

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26/F, HKRI Centre One, HKRI Taikoo Hui  
 288 Shimen Road (No.1)  
 Shanghai 200041, P. R. China  
 T: (86-21) 5298-5488  
 F: (86-21) 5298-5492

April 30, 2024

CooTek (Cayman) Inc.  
 11F, T2, No.16, Lane 399, Xinlong Road  
 Minhang District  
 Shanghai  
 People's Republic of China

Dear Sir/Madam:

We hereby consent to the reference of our name under the headings “Item 3. Key Information—Permissions Required from the PRC Authorities for Our Operations,” “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure” and “Item 4. Information on the Company—C. Organizational Structure” in CooTek (Cayman) Inc.’s Annual Report on Form 20-F for the year ended December 31, 2023 (the “Annual Report”), which will be filed with the Securities and Exchange Commission (the “SEC”) on the date hereof, and further consent to the incorporation by reference of the summary of our opinion under this heading into the Company’s registration statements on Form S-8 (File No. 333-229171) that was filed on January 9, 2019. We also consent to the filing of this consent letter with the SEC as an exhibit to the Annual Report.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Very truly yours,

/s/ JunHe LLP

**Beijing Head Office**  
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 Fax: (86-571) 2689-8199

**Haikou Office**  
 Tel: (86-898) 3633-3401  
 Fax: (86-898) 3633-3402

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**Our ref** VSL/675748-000005/28813611v1

CooTek (Cayman) Inc.  
11F, T2, No. 16, Lane 399, Xinlong Road  
Minhang District, Shanghai, 201101  
People's Republic of China

30 April 2024

Dear Sirs

**CooTek (Cayman) Inc.**

We have acted as legal advisers as to the laws of the Cayman Islands to CooTek (Cayman) Inc., an exempted company incorporated in the Cayman Islands with limited liability (the "Company"), in connection with the filing by the Company with the United States Securities and Exchange Commission (the "SEC") of an annual report on Form 20-F for the year ended 31 December 2023 (the "Annual Report").

We hereby consent to the reference to our firm under the heading "Item 10. Additional Information—E. Taxation—Cayman Islands Taxation" in the Annual Report, and further consent to the incorporation by reference of the summary of our opinion under this heading into the Company's registration statements on Form S-8 (File No. 333-229171) that was filed on 9 January 2019.

We consent to the filing with the SEC of this consent letter as an exhibit to the Annual Report. In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Yours faithfully

/s/ Maples and Calder (Hong Kong) LLP

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