

The9 LTD
Form 20-F
April 07, 2017
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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 12(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, 2016.

OR

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

For the transition period from _____ to _____

OR

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

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Date of event requiring this shell company report _____

Commission file number: 001-34238

THE9 LIMITED

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

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Building No. 3, 690 Bibo Road

Zhang Jiang Hi-Tech Park

Pudong New Area, Pudong

Shanghai 201203

People s Republic of China

(Address of principal executive offices)

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Shanghai 201203

People s Republic of China

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|--|
| American Depositary Shares, each representing one ordinary share, par value US\$0.01 per share | Nasdaq Global Market |

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

None

(Title of Class)

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

None

(Title of Class)

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

57,283,929 ordinary shares, par value US\$0.01 per share, as of December 31, 2016.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

U.S. GAAP

International Financial Reporting Standards as issued

Other

by the International Accounting Standards Board

* If "Other" has been checked in response to the previous question, indicate by check mark which financial statement Item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

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

by a court. Yes No

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INTRODUCTION

In this annual report, unless otherwise indicated, (1) the terms we, us, our company, our and The9 refer to The9 Limited and, as the context may require, its subsidiaries and our consolidated affiliated entities, (2) the terms affiliated entities and affiliated PRC entities refer to our consolidated affiliated PRC entities, including, among others, Shanghai The9 Information Technology Co., Ltd., or Shanghai IT, in which we do not have direct equity interests but over which we effectively control through a series of contractual arrangements as described under Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Arrangements with Affiliated PRC Entities, (3) the terms shares and ordinary shares refer to our ordinary shares, and ADSs refers to our American depository shares, each of which represents one ordinary share, (4) China and PRC refer to the People's Republic of China, and solely for the purpose of this annual report, excluding Taiwan, Hong Kong and Macau, (5) all references to RMB and Renminbi are to the legal currency of China and all references to U.S. dollars, dollars, US\$ and \$ are to the legal currency of the United States, (6) all discrepancies in any table between the amounts identified as total amounts and the sum of the amounts listed therein are due to rounding, and (7) all translations from RMB to U.S. dollars and from U.S. dollars to RMB in this annual report were made at a rate of RMB6.9430 to US\$1.00, based on the H.10 weekly statistical release of the Federal Reserve Bank of New York as of December 30, 2016. Such translations have been provided for the convenience of the reader only and should not be construed as representations that the RMB amounts represent, or have been or could be converted into, United States dollars at that or any other rate.

PART I

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

Item 3. KEY INFORMATION

A. Selected Financial Information

The following table presents selected consolidated financial information for our company. You should read the following information in conjunction with Item 5. Operating and Financial Review and Prospects below. The selected consolidated statement of operations data for the years ended December 31, 2014, 2015 and 2016 and the selected consolidated balance sheet data as of December 31, 2015 and 2016 have been derived from our audited consolidated financial statements and should be read in conjunction with those statements, which are included in this annual report beginning on page F-1. The selected consolidated statement of operations data for the years ended December 31, 2012 and 2013 and the selected consolidated balance sheet data as of December 31, 2012, 2013 and 2014 have been derived from our audited consolidated financial statements, which are not included in this annual report. The consolidated financial statements were prepared and presented in accordance with United States generally accepted accounting principles, or U.S. GAAP.

For the Year Ended December 31,

| | 2012 | 2013 | 2014 | 2015 | 2016 | |
|---|--|-----------|-----------|-----------|-----------|----------------------|
| | RMB | RMB | RMB | RMB | RMB | US\$(¹) |
| | <i>(in thousands, except for per share and per ADS data)</i> | | | | | |
| Consolidated Statement of Operation Data | | | | | | |
| Revenues | 163,581 | 106,627 | 64,840 | 46,610 | 56,286 | 8,107 |
| Sales taxes | (9,147) | (1,851) | (563) | (199) | (86) | (12) |
| Net revenues | 154,434 | 104,776 | 64,277 | 46,411 | 56,200 | 8,095 |
| Cost of revenue | (69,416) | (107,803) | (85,783) | (67,744) | (48,519) | (6,988) |
| Gross profit (loss) | 85,018 | (3,027) | (21,506) | (21,333) | 7,681 | 1,107 |
| Operating expenses | (677,529) | (527,341) | (139,404) | (303,604) | (306,892) | (44,202) |
| Other operating income (expenses) | 120 | 120 | 75 | (1,563) | 3,605 | 519 |
| Loss from operations | (592,391) | (530,248) | (160,835) | (326,500) | (295,606) | (42,576) |

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| | For the Year Ended December 31, | | | | | |
|---|--|-----------|-----------|-----------|-----------|----------------------|
| | 2012 | 2013 | 2014 | 2015 | 2016 | |
| | RMB | RMB | RMB | RMB | RMB | US\$(¹) |
| | <i>(in thousands, except for per share and per ADS data)</i> | | | | | |
| Consolidated Statement of Operation Data | | | | | | |
| Impairment on available-for-sale investment | | | | | (244,798) | (35,258) |
| Impairment on other investment | | (47,971) | | | (2,807) | (404) |
| Interest income | 21,786 | 8,376 | 3,415 | 775 | 161 | 23 |
| Interest expenses | | | | (6,397) | (56,472) | (8,135) |
| Fair value change on warrants liability | | | | (7,129) | 48,057 | 6,922 |
| Gain (loss) on disposal of equity investee and available-for-sale investment | 15,726 | | 33,154 | | (1,217) | (175) |
| Other income (expenses), net | 4,644 | 9,302 | (963) | (1,917) | (9,952) | (1,433) |
| Loss before income tax expense and share of loss in equity method investments | (550,235) | (560,541) | (125,229) | (341,168) | (562,634) | (81,036) |
| Impairment loss on investments | (3,244) | | | | | |
| Income tax benefit (expense) | | | | | 6,079 | 876 |
| Share of loss in equity investments | (6,347) | (2,376) | (3,713) | (13,014) | (110,535) | (15,921) |
| Net loss for the year | (559,826) | (562,917) | (128,942) | (354,182) | (667,090) | (96,081) |
| Net loss attributable to: | | | | | | |
| Noncontrolling interest | (45,824) | (36,655) | (21,443) | (16,656) | (58,584) | (8,438) |
| Redeemable noncontrolling interest | | | (20,877) | (32,698) | (14,724) | (2,121) |
| The9 Limited | (514,002) | (526,262) | (86,622) | (304,828) | (593,782) | (85,522) |
| Change in redemption value of redeemable noncontrolling interest | | | 21,077 | 79,806 | 82,890 | 11,939 |
| Net loss attributable to holders of ordinary shares | (514,002) | (526,262) | (107,699) | (384,634) | (676,672) | (97,461) |
| Other comprehensive income (loss): | | | | | | |
| Unrealized loss on available-for-sale investment | (57) | (16) | | | | |
| Currency translation adjustments | (980) | (689) | (1,204) | 5,009 | (1,755) | (253) |
| Total comprehensive loss | (560,863) | (563,622) | (130,146) | (349,173) | (668,845) | (96,334) |
| Comprehensive loss attributable to: | | | | | | |
| Noncontrolling interest | (46,118) | (35,084) | (22,995) | (16,913) | (58,584) | (8,438) |
| Redeemable noncontrolling interest | | | (20,877) | (32,698) | (14,724) | (2,121) |
| The9 Limited | (514,745) | (528,538) | (86,274) | (299,562) | (595,537) | (85,775) |
| Change in redemption value of redeemable noncontrolling interest | | | 21,077 | 79,806 | 82,890 | 11,939 |

| | | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|----------|
| | (514,745) | (528,538) | (107,351) | (379,368) | (678,427) | (97,714) |
| Net loss attributable to holders of ordinary shares per share | | | | | | |
| Basic | (20.98) | (22.71) | (4.65) | (16.55) | (28.34) | (4.08) |
| Diluted | (20.98) | (22.71) | (4.65) | (16.55) | (28.34) | (4.08) |
| Net loss attributable to holders of ordinary shares per ADS ⁽²⁾ | | | | | | |
| Basic | (20.98) | (22.71) | (4.65) | (16.55) | (28.34) | (4.08) |
| Diluted | (20.98) | (22.71) | (4.65) | (16.55) | (28.34) | (4.08) |

| | As of December 31, | | | | | |
|--|-----------------------|---------|---------|---------|---------|----------------------|
| | 2012 | 2013 | 2014 | 2015 | 2016 | |
| | RMB | RMB | RMB | RMB | RMB | US\$(¹) |
| | <i>(in thousands)</i> | | | | | |
| Consolidated Balance Sheet Data | | | | | | |
| Cash and cash equivalents | 554,279 | 156,987 | 181,482 | 49,011 | 38,878 | 5,600 |
| Non-current assets | 447,730 | 328,617 | 261,477 | 460,837 | 262,854 | 37,859 |
| Total assets | 1,112,345 | 546,679 | 517,331 | 538,095 | 350,892 | 50,539 |