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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM 20-F/A  
(Amendment No. 1)**

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**(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, 2019.

OR

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

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

OR

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

Date of event requiring this shell company report. \_\_\_\_\_

Commission file number: 001-36450

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**JD.com, Inc.**

(Exact name of Registrant as specified in its charter)

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N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

20th Floor, Building A, No. 18 Kechuang 11 Street  
Yizhuang Economic and Technological Development Zone  
Daxing District, Beijing 101111  
People's Republic of China  
(Address of principal executive offices)

Sidney Xuande Huang, Chief Financial Officer  
Telephone: +86 10 8911-8888

Email: ir@jd.com

20th Floor, Building A, No. 18 Kechuang 11 Street  
Yizhuang Economic and Technological Development Zone  
Daxing District, Beijing 101111  
People's Republic of China

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

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

Title of Each Class	Trading Symbol	Name of Each Exchange On Which Registered
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**American depository shares (one American  
depository  
share representing two Class A ordinary shares,  
par value  
US\$0.00002 per share)**  
**Class A ordinary shares, par value  
US\$0.00002 per share\***

**JD**

**The Nasdaq Stock Market LLC  
(The Nasdaq Global Select Market)  
The Nasdaq Stock Market LLC  
(The Nasdaq Global Select Market)**

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

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

**None**  
(Title of Class)

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

**None**  
(Title of Class)

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

2,483,366,264 Class A ordinary shares (excluding the 36,904,874 Class A ordinary shares issued to the depository bank for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under the Share Incentive Plan) and 453,672,011 Class B ordinary shares, par value US\$0.00002 per share, as of December 31, 2019.

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).  Yes  No

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

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

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.  Yes  No

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.  Yes  No

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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### **EXPLANATORY NOTE**

This Amendment No. 1 on Form 20-F/A (the “Amendment”) is being filed by JD.com, Inc. (the “Company,” “we,” “our,” or “us”) to amend the Company’s Annual Report on Form 20-F for the fiscal year ended December 31, 2019, originally filed with the U.S. Securities Exchange Commission on April 15, 2020 (the “Original Filing”). The Company is filing this Amendment to include the financial statements and related notes of Dada Nexus Limited (“Dada”), Bitauto Holdings Limited (“Bitauto”) and Tuniu Corporation (“Tuniu”), as required by Rule 3-09 of Regulation S-X under the Securities Exchange Act of 1934, as amended (“Rule 3-09”).

Rule 3-09 requires, among other things, that separate financial statements for unconsolidated subsidiaries and investees accounted for by the equity method to be included in the Form 20-F when such entities are individually significant. We have determined that our equity method investments in Dada, Bitauto and Tuniu, each of which is not consolidated in our financial statements, were significant under Rule 1-02(w) and Rule 3-09 of Regulation S-X in relation to our financial results for the year ended December 31, 2017, and our equity method investments in Dada was also significant under Rule 1-02(w) and Rule 3-09 of Regulation S-X in relation to our financial results for the year ended December 31, 2018. This Amendment is therefore filed to supplement the Original Filing with the inclusion of the financial statements and related notes of Dada, Bitauto and Tuniu as of December 31, 2017, 2018 and 2019 and for the years ended December 31, 2017, 2018 and 2019 (the “Financial Statements of Dada, Bitauto and Tuniu”).

This Form 20-F/A consists solely of the cover page, this explanatory note, the Financial Statements of Dada, Bitauto and Tuniu, certifications by our chief executive officer and chief financial officer, and the consents of the independent auditor of each of Dada, Bitauto and Tuniu. This Amendment does not affect any other parts of, or exhibits to, the Original Filing, nor does it reflect events occurring after the date of the Original Filing. Accordingly, this Amendment should be read in conjunction with the Original Filing and with our filings with the U.S. Securities and Exchange Commission subsequent to the Original Filing.

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### **Item 19. Exhibits**

<u>Exhibit Number</u>	<u>Description of Document</u>
1.1	<a href="#"><u>Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated herein by reference to Exhibit 3.2 to the registration statement on Form F-1 (File No. 333-193650), as amended, initially filed with the Securities and Exchange Commission on January 30, 2014)</u></a>
2.1	<a href="#"><u>Registrant's Specimen American Depository Receipt (included in Exhibit 2.3)</u></a>
2.2	<a href="#"><u>Registrant's Specimen Certificate for Class A Ordinary Shares (incorporated herein by reference to Exhibit 4.2 to the registration statement on Form F-1 (File No. 333-193650), as amended, initially filed with the Securities and Exchange Commission on January 30, 2014)</u></a>
2.3	<a href="#"><u>Deposit Agreement dated May 21, 2014 among the Registrant, the depositary and holder of the American Depository Receipts (incorporated herein by reference to Exhibit 4.3 to the registration statement on Form S-8 (File No. 333-198578), filed with the Securities and Exchange Commission on September 5, 2014)</u></a>
2.4	<a href="#"><u>Indenture, dated as of April 29, 2016, between the Registrant and The Bank of New York Mellon, as trustee (incorporated herein by reference to Exhibit 4.1 to the registration statement on Form F-3 (File No. 333-235338) filed by the Registrant with the Securities and Exchange Commission on December 3, 2019)</u></a>
2.5	<a href="#"><u>First Supplemental Indenture, dated April 29, 2016, between the Registrant and The Bank of New York Mellon, as trustee (incorporated herein by reference to Exhibit 4.1 to the current report on Form 6-K (File No. 001-36450) furnished to the Securities and Exchange Commission on April 29, 2016)</u></a>
2.6	<a href="#"><u>Form of US\$500,000,000 3.125% Notes Due 2021 (included in Exhibit 2.5)</u></a>
2.7	<a href="#"><u>Form of US\$500,000,000 3.875% Notes Due 2026 (included in Exhibit 2.5)</u></a>
2.8	<a href="#"><u>Second Supplemental Indenture, dated January 14, 2020, between the Registrant and The Bank of New York Mellon, as trustee (incorporated herein by reference to Exhibit 4.1 to the current report on Form 6-K (File No. 001-36450) furnished to the Securities and Exchange Commission on January 14, 2020)</u></a>
2.9	<a href="#"><u>Form of US\$700,000,000 3.375% Notes due 2030 (included in Exhibit 2.8)</u></a>
2.10	<a href="#"><u>Form of US\$300,000,000 4.125% Notes due 2050 (included in Exhibit 2.8)</u></a>
2.11†	<a href="#"><u>Description of American Depository Shares of the Registrant</u></a>

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<u>Exhibit Number</u>	<u>Description of Document</u>
2.12†	<a href="#"><u>Description of Class A Ordinary Shares of the Registrant</u></a>
2.13	Description of the Registrant's US\$500,000,000 3.125% Notes Due 2021 (incorporated herein by reference to (i) the section titled "Description of Debt Securities" in the Registrants' registration statement on <a href="#"><u>Form F-3</u></a> (File No. 333-210795) filed with the Securities and Exchange Commission on April 18, 2016 and (ii) the section titled "Description of the Notes" in the prospectus supplement, in the form filed by the Registrant with the Securities and Exchange Commission on April 22, 2016 pursuant to <a href="#"><u>Rule 424(b)</u></a> under the Securities Act of 1933, as amended)
2.14	Description of the Registrant's US\$500,000,000 3.875% Notes Due 2026 (incorporated herein by reference to (i) the section titled "Description of Debt Securities" in the Registrants' registration statement on <a href="#"><u>Form F-3</u></a> (File No. 333-210795) filed with the Securities and Exchange Commission on April 18, 2016 and (ii) the section titled "Description of the Notes" in the prospectus supplement, in the form filed by the Registrant with the Securities and Exchange Commission on April 22, 2016 pursuant to <a href="#"><u>Rule 424(b)</u></a> under the Securities Act of 1933, as amended)
2.15	Description of the Registrant's US\$700,000,000 3.375% Notes due 2030 (incorporated herein by reference to (i) the section titled "Description of Debt Securities" in the Registrants' registration statement on <a href="#"><u>Form F-3</u></a> (File No. 333-235338) filed with the Securities and Exchange Commission on December 3, 2019 and (ii) the section titled "Description of the Notes" in the prospectus supplement, in the form filed by the Registrant with the Securities and Exchange Commission on January 8, 2020 pursuant to <a href="#"><u>Rule 424(b)</u></a> under the Securities Act of 1933, as amended)
2.16	Description of the Registrant's US\$300,000,000 4.125% Notes due 2050 (incorporated herein by reference to (i) the section titled "Description of Debt Securities" in the Registrants' registration statement on <a href="#"><u>Form F-3</u></a> (File No. 333-235338) filed with the Securities and Exchange Commission on December 3, 2019 and (ii) the section titled "Description of the Notes" in the prospectus supplement, in the form filed by the Registrant with the Securities and Exchange Commission on January 8, 2020 pursuant to <a href="#"><u>Rule 424(b)</u></a> under the Securities Act of 1933, as amended)
4.1	<a href="#"><u>Share Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the registration statement on Form F-1 (File No. 333-200450), as amended, initially filed with the Securities and Exchange Commission on November 21, 2014)</u></a>
4.2	<a href="#"><u>Form of Indemnification Agreement between the Registrant and its directors and executive officers (incorporated herein by reference to Exhibit 10.2 to the registration statement on Form F-1 (File No. 333-193650), as amended, initially filed with the Securities and Exchange Commission on January 30, 2014)</u></a>

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<u>Exhibit Number</u>	<u>Description of Document</u>
4.3	<a href="#"><u>Form of Employment Agreement between the Registrant and its executive officers (incorporated herein by reference to Exhibit 10.3 to the registration statement on Form F-1 (File No. 333-193650), as amended, initially filed with the Securities and Exchange Commission on January 30, 2014)</u></a>
4.4	<a href="#"><u>English translation of the Amended and Restated Loan Agreement between Beijing Jingdong Century Trade Co., Ltd. and the shareholders of Beijing Jingdong 360 Degree E-Commerce Co., Ltd. dated November 20, 2017 (incorporated herein by reference to Exhibit 4.4 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on April 27, 2018)</u></a>
4.5	<a href="#"><u>English translation of the Amended and Restated Equity Pledge Agreement between Beijing Jingdong Century Trade Co., Ltd. and the shareholders of Beijing Jingdong 360 Degree E-Commerce Co., Ltd. dated June 15, 2016 (incorporated herein by reference to Exhibit 4.5 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on May 1, 2017)</u></a>
4.6	<a href="#"><u>English translation of the Power of Attorney by the shareholders of Beijing Jingdong 360 Degree E-Commerce Co., Ltd. dated June 15, 2016 (incorporated herein by reference to Exhibit 4.6 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on May 1, 2017)</u></a>
4.7	<a href="#"><u>English translation of the Second Amended and Restated Exclusive Technology Consulting and Service Agreement between Beijing Jingdong Century Trade Co., Ltd. and Beijing Jingdong 360 Degree E-Commerce Co., Ltd., dated June 15, 2016 (incorporated herein by reference to Exhibit 4.7 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on April 15, 2019)</u></a>
4.8	<a href="#"><u>English translation of the Amended and Restated Intellectual Property Rights License Agreement between Beijing Jingdong Century Trade Co., Ltd. and Beijing Jingdong 360 Degree E-Commerce Co., Ltd. dated December 25, 2013 (incorporated herein by reference to Exhibit 10.8 to the registration statement on Form F-1 (File No. 333-193650), as amended, initially filed with the Securities and Exchange Commission on January 30, 2014)</u></a>
4.9	<a href="#"><u>English translation of the Amended and Restated Business Cooperation Agreement between Beijing Jingdong Century Trade Co., Ltd., Shanghai Shengdayuan Information Technology Co., Ltd. and Beijing Jingdong 360 Degree E-Commerce Co., Ltd. dated May 29, 2012 (incorporated herein by reference to Exhibit 10.9 to the registration statement on Form F-1 (File No. 333-193650), as amended, initially filed with the Securities and Exchange Commission on January 30, 2014)</u></a>

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<u>Exhibit Number</u>	<u>Description of Document</u>
4.10	<a href="#"><u>English translation of the Amended and Restated Exclusive Purchase Option Agreement between Beijing Jingdong Century Trade Co., Ltd., Beijing Jingdong 360 Degree E-Commerce Co., Ltd. and the shareholders of Beijing Jingdong 360 Degree E-Commerce Co., Ltd. dated June 15, 2016 (incorporated herein by reference to Exhibit 4.10 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on May 1, 2017)</u></a>
4.11	<a href="#"><u>English translation of the Business Operations Agreement between Beijing Jingdong Century Trade Co., Ltd., Beijing Jingdong 360 Degree E-Commerce Co., Ltd. and the shareholders of Beijing Jingdong 360 Degree E-Commerce Co., Ltd. dated November 20, 2017 (incorporated herein by reference to Exhibit 4.11 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on April 27, 2018)</u></a>
4.12	<a href="#"><u>English translation of the Amended and Restated Loan Agreement between Beijing Jingdong Century Trade Co., Ltd. and the shareholders of Jiangsu Yuanzhou E-Commerce Co., Ltd. dated June 15, 2016 (incorporated herein by reference to Exhibit 4.12 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on May 1, 2017)</u></a>
4.13	<a href="#"><u>English translation of the Amended and Restated Equity Pledge Agreement between Beijing Jingdong Century Trade Co., Ltd. and the shareholders of Jiangsu Yuanzhou E-Commerce Co., Ltd. dated June 15, 2016 (incorporated herein by reference to Exhibit 4.13 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on May 1, 2017)</u></a>
4.14	<a href="#"><u>English translation of the Power of Attorney by the shareholders of Jiangsu Yuanzhou E-Commerce Co., Ltd. dated June 15, 2016 (incorporated herein by reference to Exhibit 4.14 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on May 1, 2017)</u></a>
4.15	<a href="#"><u>English translation of the Second Amended and Restated Exclusive Technology Consulting and Service Agreement between Beijing Jingdong Century Trade Co., Ltd. and Jiangsu Yuanzhou E-Commerce Co., Ltd. dated June 15, 2016 (incorporated herein by reference to Exhibit 4.15 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on April 15, 2019)</u></a>

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<u>Exhibit Number</u>	<u>Description of Document</u>
4.16	<a href="#"><u>English translation of the Amended and Restated Intellectual Property Rights License Agreement between Beijing Jingdong Century Trade Co., Ltd. and Jiangsu Yuanzhou E-Commerce Co., Ltd. dated December 18, 2013 (incorporated herein by reference to Exhibit 10.15 to the registration statement on Form F-1 (File No. 333-193650), as amended, initially filed with the Securities and Exchange Commission on January 30, 2014)</u></a>
4.17	<a href="#"><u>English translation of the Amended and Restated Exclusive Purchase Option Agreement between Beijing Jingdong Century Trade Co., Ltd., Jiangsu Yuanzhou E-Commerce Co., Ltd. and the shareholders of Jiangsu Yuanzhou E-Commerce Co., Ltd. dated June 15, 2016 (incorporated herein by reference to Exhibit 4.17 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on May 1, 2017)</u></a>
4.18	<a href="#"><u>English translation of the Business Operations Agreement between Beijing Jingdong Century Trade Co., Ltd., Jiangsu Yuanzhou E-Commerce Co., Ltd. and the shareholders of Jiangsu Yuanzhou E-Commerce Co., Ltd. dated August 25, 2016 (incorporated herein by reference to Exhibit 4.18 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on May 1, 2017)</u></a>
4.19	<a href="#"><u>English translation of Strategic Cooperation Agreement between the Registrant and Bitauto Holdings Limited, dated January 9, 2015 (incorporated herein by reference to Exhibit 99.3 to Schedule 13D (File No. 005-85981) filed with the Securities and Exchange Commission on February 26, 2015)</u></a>
4.20	<a href="#"><u>Amended and Restated Investor Rights Agreement by and among Bitauto Holdings Limited, JD.com Global Investment Limited, Dongting Lake Investment Limited, Morespark Limited and Baidu Holdings Limited dated June 17, 2016 (incorporated herein by reference to Exhibit 99.6 to Schedule 13D/A (File No. 005-85981) filed with the Securities and Exchange Commission on June 21, 2016)</u></a>
4.21†	<a href="#"><u>English translation of Executed Form of the Equity Pledge Agreement between a wholly-owned subsidiary of the Registrant and the shareholders of the Chinese variable interest entity of the Registrant, as currently in effect</u></a>
4.22†	<a href="#"><u>English translation of Executed Form of the Power of Attorney by the shareholders of the Chinese variable interest entity of the Registrant, as currently in effect</u></a>
4.23†	<a href="#"><u>English translation of Executed Form of the Exclusive Technology Consulting and Service Agreement between a wholly-owned subsidiary of the Registrant and a Chinese variable interest entity of the Registrant, as currently in effect</u></a>
4.24†	<a href="#"><u>English translation of Executed Form of the Business Operations Agreement between a wholly-owned subsidiary of the Registrant, a Chinese variable interest entity of the Registrant, and the shareholders of the Chinese variable interest entity of the Registrant, as currently in effect</u></a>

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Exhibit Number	<u>Description of Document</u>
4.25†	<a href="#"><u>English translation of Executed Form of the Exclusive Purchase Option Agreement between a wholly-owned subsidiary of the Registrant, a Chinese variable interest entity of the Registrant, and the shareholders of the Chinese variable interest entity of the Registrant, as currently in effect</u></a>
4.26†	<a href="#"><u>English translation of Executed Form of the Loan Agreement between a wholly-owned subsidiary of the Registrant and the shareholders of the Chinese variable interest entity of the Registrant, as currently in effect</u></a>
4.27	<a href="#"><u>Investor Rights Agreement between the Registrant and Newheight Holdings Ltd., dated June 20, 2016 (incorporated herein by reference to Exhibit 4.35 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on May 1, 2017)</u></a>
4.28†	<a href="#"><u>Framework Agreement by and among the Registrant, Beijing Jingdong Financial Technology Holding Co., Ltd. and other parties listed therein, dated March 1, 2017, as amended</u></a>
4.29	<a href="#"><u>Intellectual Property License and Software Technology Services Agreement between the Registrant and Beijing Jingdong Financial Technology Holding Co., Ltd., dated March 1, 2017 (incorporated herein by reference to Exhibit 4.37 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on May 1, 2017)</u></a>
4.30	<a href="#"><u>Investor Rights Agreement by and among Vipshop Holdings Limited, Windcreek Limited, Tencent Mobility Limited and other parties listed therein, dated December 29, 2017 (incorporated herein by reference to Exhibit 99.4 to our report on Schedule 13D filed with the Securities and Exchange Commission with respect to Vipshop Holdings Limited on January 8, 2018)</u></a>
4.31	<a href="#"><u>English summary of Strategic Cooperation Agreement regarding Dalian Wanda Commercial Properties Co., Ltd. by and among Dalian Wanda Group Co., Ltd., Dalian Wanda Commercial Properties Co., Ltd., Tencent Technology (Shenzhen) Co., Ltd. and Beijing Jingdong Century Trading Co., Ltd., dated January 27, 2018 (incorporated herein by reference to Exhibit 4.41 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on April 27, 2018)</u></a>
4.32	<a href="#"><u>Shareholders Agreement of Jingdong Express Group Corporation, dated March 7, 2018 (incorporated herein by reference to Exhibit 4.43 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on April 27, 2018)</u></a>

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<u>Exhibit Number</u>	<u>Description of Document</u>
4.33	<a href="#"><u>US\$1,000,000,000 Term and Revolving Credit Facilities Agreement dated between the Registrant and other parties thereto, dated December 21, 2017 (incorporated herein by reference to Exhibit 4.44 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on April 27, 2018)</u></a>
4.35	<a href="#"><u>Investor Rights Agreement, by and between the Registrant and Google LLC, dated as of June 18, 2018 (incorporated herein by reference to Exhibit 4.40 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on April 15, 2019)</u></a>
4.36	<a href="#"><u>Subscription Agreement, by and between the Registrant and Google LLC, dated as of June 18, 2018 (incorporated herein by reference to Exhibit 4.41 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on April 15, 2019)</u></a>
4.37	<a href="#"><u>Subscription Agreement relating to the offering of limited partnership interests in JD Logistics Properties Core Fund, L.P. (incorporated herein by reference to Exhibit 4.42 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on April 15, 2019)</u></a>
4.38	<a href="#"><u>Share Purchase Agreement, by and between Jingdong E-Commerce (Logistics) Hong Kong Corporation Limited, as sellers, and JD Star Development X (HK) Limited, as purchaser, dated as of February 27, 2019 (incorporated herein by reference to Exhibit 4.43 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on April 15, 2019) <i>(Portions of this exhibit have been omitted pursuant to Rule 406 under the Securities Act)</i></u></a>
4.39	<a href="#"><u>Share Subscription Agreement, dated May 10, 2019, by and between the Registrant and Huang River Investment Limited (incorporated herein by reference to Exhibit 9 to Form Schedule 13D/A filed by Tencent Holdings Limited with the Securities and Exchange Commission on May 15, 2019)</u></a>
4.40	<a href="#"><u>English Translation of Strategic Cooperation Agreement, dated as of May 10, 2019, among Shenzhen Tencent Computer Systems Co., Ltd., JD.com, Inc. and Chongqing Jingdong Haijia E-Commerce Co., Ltd. (incorporated herein by reference to Exhibit 10.2 to the registration statement on Form F-3 (File No.: 333-235338) filed by the Registrant with the Securities and Exchange Commission on December 3, 2019)</u></a>
8.1†	<a href="#"><u>List of Principal Subsidiaries and Consolidated Variable Interest Entities</u></a>
11.1	<a href="#"><u>Code of Business Conduct and Ethics of the Registrant (incorporated herein by reference to Exhibit 99.1 to the registration statement on Form F-1 (File No. 333-193650), as amended, initially filed with the Securities and Exchange Commission on January 30, 2014)</u></a>

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<u>Exhibit Number</u>	<u>Description of Document</u>
12.1*	<a href="#"><u>Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u></a>
12.2*	<a href="#"><u>Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u></a>
13.1**	<a href="#"><u>Certification by Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>
13.2**	<a href="#"><u>Certification by Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>
15.1†	<a href="#"><u>Consent of Deloitte Touche Tohmatsu Certified Public Accountants LLP</u></a>
15.2†	<a href="#"><u>Consent of PricewaterhouseCoopers Zhong Tian LLP</u></a>
15.3†	<a href="#"><u>Consent of Zhong Lun Law Firm</u></a>
15.4*	<a href="#"><u>Consent of Deloitte Touche Tohmatsu Certified Public Accountants LLP regarding the opinion in Exhibit 99.1</u></a>
15.5*	<a href="#"><u>Consent of PricewaterhouseCoopers Zhong Tian LLP regarding the opinion in Exhibit 99.2</u></a>
15.6*	<a href="#"><u>Consent of PricewaterhouseCoopers Zhong Tian LLP regarding the opinion in Exhibit 99.3</u></a>
16.1	<a href="#"><u>Letter from PricewaterhouseCoopers Zhong Tian LLP to the Securities and Exchange Commission, dated December 3, 2019 (incorporated herein by reference to Exhibit 16.1 to the registration statement on Form F-3 to the registration statement on Form F-3 (File No.: 333-235338) filed by the Registrant with the Securities and Exchange Commission on December 3, 2019)</u></a>
99.1*	<a href="#"><u>Consolidated Financial Statements of Dada Nexus Limited as of December 31, 2017, 2018 and 2019 and for the years ended December 31, 2017, 2018 and 2019</u></a>
99.2*	<a href="#"><u>Consolidated Financial Statements of Bitauto Holdings Limited as of December 31, 2018 and 2019 and for the years ended December 31, 2017, 2018 and 2019</u></a>

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<u>Exhibit Number</u>	<u>Description of Document</u>
99.3*	<a href="#"><u>Consolidated Financial Statements of Tuniu Corporation as of December 31, 2018 and 2019 and for the years ended December 31, 2017, 2018 and 2019</u></a>
101.INS†	Inline XBRL Instance Document—this instance document does not appear in the Interactive Data File because its XBRL tags are not embedded within the Inline XBRL document
101.SCH†	Inline XBRL Taxonomy Extension Schema Document
101.CAL†	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF†	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB†	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE†	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document)

† Filed on April 15, 2020

\* Filed herewith

\*\* Furnished herewith

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**SIGNATURES**

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

JD.com, Inc.

By: /s/ Richard Qiangdong Liu

Name: Richard Qiangdong Liu

Title: Chairman and Chief Executive Officer

Date: May 29, 2020

**Certification by the Principal Executive Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Richard Qiangdong Liu, certify that:

1. I have reviewed this annual report on Form 20-F, as amended by Amendment No. 1 thereto, of JD.com, Inc. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: May 29, 2020

By: /s/ Richard Qiangdong Liu  
 Name: Richard Qiangdong Liu  
 Title: Chief Executive Officer

**Certification by the Principal Financial Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Sidney Xuande Huang, certify that:

1. I have reviewed this annual report on Form 20-F, as amended by Amendment No. 1 thereto, of JD.com, Inc. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: May 29, 2020

By: /s/ Sidney Xuande Huang  
 Name: Sidney Xuande Huang  
 Title: Chief Financial Officer

**Certification by the Principal Executive Officer  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of JD.com, Inc. (the “Company”) on Form 20-F for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on April 15, 2020, as amended by Amendment No. 1 thereto (the “Report”), I, Richard Qiangdong Liu, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; 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: May 29, 2020

By: /s/ Richard Qiangdong Liu  
Name: Richard Qiangdong Liu  
Title: Chief Executive Officer

**Certification by the Principal Financial Officer  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of JD.com, Inc. (the “Company”) on Form 20-F for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on April 15, 2020, as amended by Amendment No. 1 thereto (the “Report”), I, Sidney Xuande Huang, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; 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: May 29, 2020

By: /s/ Sidney Xuande Huang  
Name: Sidney Xuande Huang  
Title: Chief Financial Officer

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-229957 and No. 333-198578) and Form F-3 (No. 333-235338) of JD.com, Inc. of our report dated March 13, 2020 relating to the financial statements of Dada Nexus Limited, appearing in Exhibit 99.1 to the Annual Report on Form 20-F/A (Amendment No. 1) of JD.com, Inc. for the year ended December 31, 2019.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP  
Shanghai, the People's Republic of China  
May 29, 2020

**Consent of Independent Registered Public Accounting Firm**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-229957 and No. 333-198578) and Form F-3 (No. 333-235338) of JD.com, Inc. of our report dated April 27, 2020 relating to the financial statements and the effectiveness of internal control over financial reporting of Bitauto Holdings Limited, which appears in this Form 20-F/A (Amendment No. 1).

/s/ PricewaterhouseCoopers Zhong Tian LLP  
Beijing, the People's Republic of China  
May 29, 2020

**Consent of Independent Registered Public Accounting Firm**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-229957 and No. 333-198578) and Form F-3 (No. 333-235338) of JD.com, Inc. of our report dated May 22, 2020 relating to the consolidated financial statements, financial statement schedule I, and the effectiveness of internal control over financial reporting of Tuniu Corporation, which appears in this Form 20-F/A (Amendment No. 1).

/s/ PricewaterhouseCoopers Zhong Tian LLP  
Shanghai, the People's Republic of China  
May 29, 2020

**DADA NEXUS LIMITED**  
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**To the Shareholders and the Board of Directors of Dada Nexus Limited:**

We have audited the accompanying consolidated balance sheets of Dada Nexus Limited (the "Company"), its subsidiaries, its variable interest entity ("VIE") and VIE's subsidiaries (collectively, the "Group") as of December 31, 2017, 2018 and 2019, and the related consolidated statements of operations and comprehensive loss, changes in shareholders' deficit, and cash flows, for each of the three years in the period ended December 31, 2019 and the related notes and the financial statement schedule included in Schedule I (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2017, 2018 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

**Convenience Translation**

Our audits also comprehended the translation of Renminbi amounts into United States dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2. Such United States dollar amounts are presented solely for the convenience of readers in the United States of America.

**Basis for Opinion**

These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on the Group'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 Group 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 Group 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 Group'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.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP

Shanghai, the People's Republic of China

March 13, 2020

We have served as the Group's auditor since 2019.

**DADA NEXUS LIMITED**

**CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31, 2017, 2018 and 2019**  
(Amounts in thousands, except share data and otherwise noted)

	<u>Note</u>	As of December 31,				
		2017 RMB	2018 RMB	2019 RMB	US\$ (Note 2)	
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents		1,559,537	2,744,006	1,154,653	165,856	
Restricted cash		359,731	—	1,480	213	
Short-term investments	4	324,746	721,380	957,370	137,518	
Accounts receivable, net of allowance for doubtful accounts of nil, RMB316 and nil as of December 31, 2017, 2018 and 2019, respectively	5	6,946	30,344	38,234	5,492	
Inventories, net	6	5,886	7,887	3,886	558	
Amount due from related parties	19	48,760	159,363	308,682	44,339	
Prepayments and other current assets	7	54,704	96,978	100,354	14,415	
<b>Total current assets</b>		<b>2,360,310</b>	<b>3,759,958</b>	<b>2,564,659</b>	<b>368,391</b>	
Property and equipment, net	8	12,863	22,545	42,044	6,039	
Goodwill		957,605	957,605	957,605	137,551	
Intangible assets, net	9	1,069,702	900,632	715,877	102,829	
Other non-current assets		11,584	6,117	5,930	852	
<b>Total non-current assets</b>		<b>2,051,754</b>	<b>1,886,899</b>	<b>1,721,456</b>	<b>247,271</b>	
<b>TOTAL ASSETS</b>		<b>4,412,064</b>	<b>5,646,857</b>	<b>4,286,115</b>	<b>615,662</b>	
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>						
Current liabilities (including amounts of the consolidated VIE without recourse to the Company. See Note 2.2):						
Short-term loan	10	354,499	—	—	—	
Accounts payable		7,145	8,662	9,924	1,425	
Payable to riders		265,015	280,097	381,341	54,776	
Amount due to related parties	19	38,290	54,302	82,800	11,893	
Accrued expenses and other current liabilities	11	258,115	229,940	366,285	52,617	
<b>Total current liabilities</b>		<b>923,064</b>	<b>573,001</b>	<b>840,350</b>	<b>120,711</b>	
Deferred tax liabilities	17	80,272	52,733	43,701	6,277	
<b>Total non-current liabilities</b>		<b>80,272</b>	<b>52,733</b>	<b>43,701</b>	<b>6,277</b>	
<b>TOTAL LIABILITIES</b>		<b>1,003,336</b>	<b>625,734</b>	<b>884,051</b>	<b>126,988</b>	
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**DADA NEXUS LIMITED**

**CONSOLIDATED BALANCE SHEETS (CONTINUED)**  
**AS OF DECEMBER 31, 2017, 2018 and 2019**  
**(Amounts in thousands, except share data and otherwise noted)**

	Note	2017 RMB	2018 RMB	2019 RMB	As of December 31, US\$ (Note 2)
<b>MEZZANINE EQUITY</b>	14				
Series A Convertible Redeemable Preferred Shares (US\$0.0001 par value, 77,000,000 shares authorised, issued and outstanding as of December 31, 2017, 2018 and 2019, respectively)		14,064	15,260	16,606	2,385
Series B Convertible Redeemable Preferred Shares (US\$0.0001 par value, 37,748,300 shares authorised, issued and outstanding as of December 31, 2017, 2018 and 2019, respectively)		172,655	187,316	203,810	29,275
Series C Convertible Redeemable Preferred Shares (US\$0.0001 par value, 44,286,448 shares authorised, issued and outstanding as of December 31, 2017, 2018 and 2019, respectively)		720,028	781,399	850,436	122,157
Series D Convertible Redeemable Preferred Shares (US\$0.0001 par value, 95,524,122 shares authorised, 64,001,162 shares issued and outstanding as of December 31, 2017, 2018 and 2019, respectively)		2,041,281	2,209,604	2,398,958	344,589
Series E Convertible Redeemable Preferred Shares (US\$0.0001 par value, 128,637,939 shares authorised; 93,580,586 shares issued and outstanding as of December 31, 2017, 2018 and 2019, respectively)		2,935,726	3,085,171	3,319,863	476,868
Series F Convertible Redeemable Preferred Shares (US\$0.0001 par value, 116,857,842 shares authorised, issued and outstanding as of December 31, 2018 and 2019)		—	3,519,261	3,803,353	546,317
<b>TOTAL MEZZANINE EQUITY</b>		<b>5,883,754</b>	<b>9,798,011</b>	<b>10,593,026</b>	<b>1,521,591</b>
<b>SHAREHOLDERS' DEFICIT</b>					
Ordinary shares (US\$0.0001 par value, 1,616,803,191, 1,499,945,349 and 1,499,945,349 shares authorized, 355,105,296, 362,197,963 and 369,290,629 shares issued and outstanding as of December 31, 2017, 2018 and 2019, respectively)	15	227	232	237	34
Additional paid-in capital		1,513,420	1,052,954	309,102	44,400
Subscription receivable		(35)	(35)	(35)	(5)
Accumulated deficit		(4,091,770)	(5,970,145)	(7,639,926)	(1,097,407)
Accumulated other comprehensive income		103,132	140,106	139,660	20,061
<b>TOTAL SHAREHOLDERS' DEFICIT</b>		<b>(2,475,026)</b>	<b>(4,776,888)</b>	<b>(7,190,962)</b>	<b>(1,032,917)</b>
<b>TOTAL LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS' DEFICIT</b>		<b>4,412,064</b>	<b>5,646,857</b>	<b>4,286,115</b>	<b>615,662</b>

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

**DADA NEXUS LIMITED**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 and 2019

(Amounts in thousands, except share and per share data and otherwise noted)

	<u>Note</u>	Years ended December 31,			
		2017 RMB	2018 RMB	2019 RMB	US\$ (Note 2)
<b>Net revenues</b> (including related party revenues of RMB691,002, RMB1,032,455 and RMB1,967,723 for the years ended December 31, 2017, 2018 and 2019, respectively)		1,217,965	1,922,015	3,099,698	445,244
<b>Costs and expenses</b>					
Operations and support		(1,592,664)	(2,044,139)	(2,845,872)	(408,784)
Selling and marketing		(723,463)	(1,223,345)	(1,414,540)	(203,186)
General and administrative		(249,172)	(282,539)	(281,376)	(40,417)
Research and development		(191,977)	(270,163)	(333,844)	(47,954)
Other operating expenses		(48,860)	(97,179)	(49,669)	(7,135)
<b>Total costs and expenses</b>		<b>(2,806,136)</b>	<b>(3,917,365)</b>	<b>(4,925,301)</b>	<b>(707,476)</b>
Other operating income		1,408	18,875	75,884	10,900
<b>Loss from operations</b>		<b>(1,586,763)</b>	<b>(1,976,475)</b>	<b>(1,749,719)</b>	<b>(251,332)</b>
<b>Other income/(expenses)</b>					
Interest income		31,408	53,111	84,276	12,105
Interest expenses		(8,908)	(3,122)	—	—
Foreign exchange gain/(loss)		(4,253)	7,151	(13,370)	(1,920)
Fair value change in foreign currency forward contract		22,846	13,463	—	—
Fair value change in warrant liabilities		82,467	—	—	—
<b>Total other income</b>		<b>123,560</b>	<b>70,603</b>	<b>70,906</b>	<b>10,185</b>
<b>Loss before income tax benefits</b>		<b>(1,463,203)</b>	<b>(1,905,872)</b>	<b>(1,678,813)</b>	<b>(241,147)</b>
Income tax benefits	17	14,113	27,497	9,032	1,297
<b>Net loss and net loss attributable to the Company</b>		<b>(1,449,090)</b>	<b>(1,878,375)</b>	<b>(1,669,781)</b>	<b>(239,850)</b>
Accretion of convertible redeemable preferred shares	14	(374,246)	(511,646)	(795,015)	(114,197)
<b>Net loss available to ordinary shareholders</b>		<b>(1,823,336)</b>	<b>(2,390,021)</b>	<b>(2,464,796)</b>	<b>(354,047)</b>
<b>Net loss per ordinary share:</b>	16				
Basic		(5.13)	(6.64)	(6.80)	(0.98)
Diluted		(6.21)	(6.64)	(6.80)	(0.98)
<b>Weighted average shares used in calculating net loss per ordinary share:</b>					
Basic		355,105,296	360,002,151	362,644,898	362,644,898
Diluted		293,803,781	360,002,151	362,644,898	362,644,898
<b>Net loss</b>		<b>(1,449,090)</b>	<b>(1,878,375)</b>	<b>(1,669,781)</b>	<b>(239,850)</b>
<b>Other comprehensive income/(loss)</b>					
Foreign currency translation adjustments		(108,449)	36,974	(446)	(64)
<b>Total comprehensive loss</b>		<b>(1,557,539)</b>	<b>(1,841,401)</b>	<b>(1,670,227)</b>	<b>(239,914)</b>

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

**DADA NEXUS LIMITED**

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT  
FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 and 2019**  
(Amounts in thousands, except share data and otherwise noted)

	<u>Note</u>	<u>Ordinary shares (par value US \$0.0001)</u>	<u>Additional paid-in capital</u>	<u>Subscription receivables</u>	<u>Accumulated deficit</u>	<u>Accumulated other comprehensive income</u>	<u>Total shareholders' deficit</u>
		<u>Numbers of Shares</u>	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>
<b>Balance as of January 1, 2017</b>		<b>355,105,296</b>	<b>227</b>	<b>1,826,825</b>	<b>(35)</b>	<b>(2,642,680)</b>	<b>211,581</b>
Share-based compensation	13	—	—	60,841	—	—	60,841
Net loss		—	—	—	(1,449,090)	—	(1,449,090)
Accretion of convertible redeemable preferred shares	14	—	—	(374,246)	—	—	(374,246)
Foreign currency translation adjustments		—	—	—	—	(108,449)	(108,449)
<b>Balance as of December 31, 2017</b>		<b>355,105,296</b>	<b>227</b>	<b>1,513,420</b>	<b>(35)</b>	<b>(4,091,770)</b>	<b>103,132</b>
Issuance of ordinary shares for vested restricted share units	15	7,092,667	5	(5)	—	—	—
Share-based compensation	13	—	—	51,185	—	—	51,185
Net loss		—	—	—	(1,878,375)	—	(1,878,375)
Accretion of convertible redeemable preferred shares	14	—	—	(511,646)	—	—	(511,646)
Foreign currency translation adjustments		—	—	—	—	36,974	36,974
<b>Balance as of December 31, 2018</b>		<b>362,197,963</b>	<b>232</b>	<b>1,052,954</b>	<b>(35)</b>	<b>(5,970,145)</b>	<b>140,106</b>
Issuance of ordinary shares for vested restricted share units	15	7,092,666	5	(5)	—	—	—
Share-based compensation	13	—	—	51,168	—	—	51,168
Net loss		—	—	—	(1,669,781)	—	(1,669,781)
Accretion of convertible redeemable preferred shares	14	—	—	(795,015)	—	—	(795,015)
Foreign currency translation adjustments		—	—	—	—	(446)	(446)
<b>Balance as of December 31, 2019</b>		<b>369,290,629</b>	<b>237</b>	<b>309,102</b>	<b>(35)</b>	<b>(7,639,926)</b>	<b>139,660</b>
							<b>(7,190,962)</b>

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 and 2019**  
**(Amounts in thousands and otherwise noted)**

	Years ended December 31,			
	2017 RMB	2018 RMB	2019 RMB	US\$ (Note 2)
<b>Cash flows from operating activities:</b>				
Net loss	(1,449,090)	(1,878,375)	(1,669,781)	(239,850)
<i>Adjustments to reconcile net loss to net cash used in operating activities</i>				
Depreciation and amortization	209,061	212,241	215,664	30,978
Share-based compensation	60,841	51,185	51,168	7,350
Foreign exchange (gain)/loss	4,253	(7,151)	13,370	1,920
Loss/ (gain) from disposal of property and equipment	—	3,639	(1,442)	(207)
Allowance/(reversal) for doubtful accounts	—	316	(316)	(45)
Valuation allowance for inventories	—	1,632	—	—
Impairment provision for other non-current assets	—	5,432	—	—
Impairment provision for property and equipment	—	8,481	—	—
Fair value change in foreign currency forward contract	(22,846)	(13,463)	—	—
Fair value change in warrant liabilities	(82,467)	—	—	—
<i>Changes in operating assets and liabilities:</i>				
Accounts receivable	(6,943)	(23,714)	(7,574)	(1,088)
Inventories	(3,549)	(3,634)	4,001	575
Amount due from related parties	(15,902)	(110,603)	(149,319)	(21,448)
Prepayments and other current assets	(14,167)	(42,273)	(3,261)	(469)
Other non-current assets	(5,639)	35	187	27
Accounts payable	987	1,516	1,262	181
Amount due to related parties	(82,943)	16,012	28,498	4,093
Payable to riders	104,548	15,082	101,244	14,543
Accrued expenses and other current liabilities	107,069	(28,174)	127,493	18,312
Deferred tax liabilities	(14,837)	(27,539)	(9,032)	(1,297)
<b>Net cash used in operating activities</b>	<b>(1,211,624)</b>	<b>(1,819,355)</b>	<b>(1,297,838)</b>	<b>(186,425)</b>
<b>Cash flows from investing activities:</b>				
Disposal of short-term investments	2,348,604	7,489,577	4,444,043	638,347
Purchase of short-term investments	(2,445,084)	(7,909,057)	(4,680,033)	(672,245)
Proceeds from disposal of foreign currency forward contract	—	36,310	—	—
Purchase of property and equipment and intangible assets	(12,128)	(32,861)	(31,762)	(4,562)
Cash paid for purchase of other non-current assets	(2,000)	—	—	—
Proceeds from disposal of property and equipment	—	649	292	42
<b>Net cash used in investing activities</b>	<b>(110,608)</b>	<b>(415,382)</b>	<b>(267,460)</b>	<b>(38,418)</b>
<b>Cash flows from financing activities:</b>				
Proceeds from (Cash paid for) short-term loan	354,499	(354,499)	—	—
Proceeds from issuance of convertible redeemable preferred shares	983,820	3,412,300	—	—
Cash paid for share issuance costs	—	(9,689)	—	—
<b>Net cash provided by financing activities</b>	<b>1,338,319</b>	<b>3,048,112</b>	<b>—</b>	<b>—</b>
<b>Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash</b>	<b>(74,393)</b>	<b>11,363</b>	<b>(22,575)</b>	<b>(3,240)</b>
<b>Net increase (decrease) in cash, cash equivalents and restricted cash</b>	<b>(58,306)</b>	<b>824,738</b>	<b>(1,587,873)</b>	<b>(228,083)</b>
Cash and cash equivalents and restricted cash, beginning of the year	1,977,574	1,919,268	2,744,006	394,152
Cash and cash equivalents and restricted cash, end of the year	<b>1,919,268</b>	<b>2,744,006</b>	<b>1,156,133</b>	<b>166,069</b>

**DADA NEXUS LIMITED**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 and 2019**  
**(Amounts in thousands and otherwise noted)**

The following table provides a reconciliation of cash and cash equivalents, and restricted cash reported within the Consolidated Balance Sheets that sum to the total of the same such amounts shown in the Consolidated Statements of Cash Flows.

	As of December 31,			
	2017 RMB	2018 RMB	2019 RMB	US\$ (Note 2)
Cash and cash equivalents	1,559,537	2,744,006	1,154,653	165,856
Restricted cash	359,731	—	1,480	213
<b>Total cash, cash equivalents, and restricted cash</b>	<b>1,919,268</b>	<b>2,744,006</b>	<b>1,156,133</b>	<b>166,069</b>
Years ended December 31,				
	2017 RMB	2018 RMB	2019 RMB	US\$ (Note 2)
<b>Supplemental disclosure for cash flow information</b>				
Cash paid for interest	5,514	6,516	—	—
Cash paid for income taxes	724	42	—	—
<b>Supplemental disclosure of non-cash investing and financing activities:</b>				
Accretion of convertible redeemable preferred shares	374,246	511,646	795,015	114,197
Payables related to property and equipment and intangible assets	—	—	(8,852)	(1,272)

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

# DADA NEXUS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except share and per share data)

### 1. ORGANIZATION AND NATURE OF OPERATIONS

#### Description of Business

Dada Nexus Limited (the “Company”) was incorporated under the laws of the Cayman Islands on July 8, 2014. The Company through its wholly-owned subsidiaries, variable interest entity (“VIE”) and VIE’s subsidiaries (collectively, the “Group”) primarily provides delivery service and marketplace service to its customers through its mobile platforms, websites and mini programs. The Group’s principal operations and geographic markets are in the People’s Republic of China (“PRC”).

As of December 31, 2019, the Company’s major subsidiaries and consolidated VIE are as follows:

<u>Name of Company</u>	<u>Place of incorporation</u>	<u>Date of incorporation /acquisition</u>	<u>Percentage of direct or indirect economic ownership</u>	<u>Principal activities</u>
<b>Subsidiaries</b>				
Dada Group (HK) Limited (“Dada HK”)	Hong Kong	July 24, 2014	100%	Investment holding
Dada Glory Network Technology (Shanghai) Co., Ltd. (“Dada Glory”)	PRC	November 7, 2014	100%	Providing services in connection with on-demand delivery platform (“Dada Now”)
Shanghai JD Daojia Yuanxin Information Technology Co., Ltd. (“Shanghai JDDJ”)	PRC	April 26, 2016	100%	Providing services in connection with on-demand retail platform (“JDDJ”)
<b>VIE</b>				
Shanghai Qusheng Internet Technology Co. Ltd. (“Shanghai Qusheng”)	PRC	July 2, 2014	100%	Holding of value-added telecommunications services license of Dada Now and maintaining Dada Now website
<b>VIE’s Subsidiary</b>				
Shanghai JD Daojia Youheng E-Commerce Information Technology Co., Ltd. (“JDDJ Youheng”)	PRC	December 3, 2015	100%	Holding of value-added telecommunications services license of JDDJ and maintaining JDDJ website

### 2. PRINCIPAL ACCOUNTING POLICIES

#### 2.1 Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for the years presented.

#### 2.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries, VIE and VIE’s subsidiaries in which it has a controlling financial interest. The results of the subsidiaries, VIE and VIE’s subsidiaries are consolidated from the date on which the Company obtained control and continue to be consolidated until the date that such control ceases. All intercompany balances and transactions between the Group, its subsidiaries, VIE and VIE’s subsidiaries have been eliminated in consolidation.

## **2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

### **2.2 Basis of consolidation (Continued)**

#### **VIE Arrangements**

In order to comply with the PRC laws and regulations which prohibit or restrict foreign control of companies involved in provision of internet content and other restricted businesses, the Group operates its websites and other restricted businesses in the PRC through Shanghai Qusheng, whose equity interests are held by certain management members and shareholders of the Group (“Nominee Shareholders”), and its wholly-owned subsidiary, JDDJ Youheng. On November 14, 2014, Dada Glory entered into a series of contractual agreements with Shanghai Qusheng and its shareholders, which were amended on September 23, 2015 and February 20, 2017, respectively. The following is a summary of the agreements which allow Dada Glory to exercise effective control over Shanghai Qusheng:

#### *Share Pledge Agreements*

Pursuant to the share pledge agreements, each of the shareholders of the VIE has pledged the security interest in their respective equity interests in the VIE, representing 100% equity interests in the VIE in aggregate to Dada Glory, to guarantee performance by the shareholders of their obligations under the powers of attorney, the exclusive business cooperation agreement and the exclusive option agreement, as well as the performance by the VIE of its obligations under the exclusive business cooperation agreement and the exclusive option agreement. In the event of a breach by the VIE or any of its shareholders of contractual obligations under these contractual arrangements, Dada Glory, as pledgee, will have the right to take possession of and dispose of the pledged equity interests in the VIE and will have priority in receiving the proceeds from such disposal. The shareholders of the VIE also covenant that, without the prior written consent of Dada Glory, they shall not transfer or agree to other's transfer of the pledged equity interests, create or allow any new pledge or any other encumbrance on the pledged equity interests. The equity interest pledge agreement will remain effective until the contractual obligations are fully fulfilled and terminated. During the equity pledge period, Dada Glory is entitled to all dividends and other distributions generated by the VIE.

#### *Exclusive Business Cooperation Agreement*

Pursuant to the exclusive business cooperation agreement between Dada Glory and the VIE, Dada Glory has the exclusive right to provide the VIE with complete business support and technical and consulting services, including but not limited to technical services, network support, business consultations, intellectual property licenses, equipment or leasing, marketing consultancy, system integration, product research and development, and system maintenance. Without Dada Glory's prior written consent, the VIE may not accept any consultations and/or services regarding the matters contemplated by this agreement provided by any third party during the term of the agreement. The VIE agrees to pay Dada Glory service fees at an amount equals to 100% of the net income generated by the VIE, which should be paid on a monthly basis. Dada Glory has the exclusive ownership of all the intellectual property rights created as a result of the performance of the exclusive business cooperation agreement. To guarantee the VIE's performance of its obligations thereunder, the shareholders of the VIE have pledged all of their equity interests in the VIE to Dada Glory pursuant to the share pledge agreement. The exclusive business cooperation agreement has an initial term of 10 years and shall be extended if confirmed in writing by Dada Glory prior to the expiration. The extended term shall be determined by Dada Glory, and the VIE shall accept such extended term unconditionally.

## **2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

### **2.2 Basis of consolidation (Continued)**

#### **VIE Arrangements (Continued)**

##### *Exclusive Option Agreements*

Pursuant to the exclusive option agreements, each of the shareholders of the VIE has irrevocably granted Dada Glory, or any person designated by Dada Glory, an exclusive option to purchase all or part of its equity interests in the VIE. Dada Glory may exercise such options at a price equal to the lowest price as permitted by applicable PRC laws at the time of transfer of equity. The VIE and the shareholders of the VIE covenant that, without Dada Glory's prior written consent, they will not, among other things, (i) supplement, change or amend the VIE's articles of association and bylaws, (ii) increase or decrease the VIE's registered capital or change its structure of registered capital, (iii) create any pledge or encumbrance on their equity interests in the VIE, other than those created under the equity interest pledge agreement, (iv) sell, transfer, mortgage, or dispose of their legal or beneficial interests in and any assets of the VIE and any legal or beneficial interests, (v) enter into any material contract by the VIE, except in the ordinary course of business, or (vi) merge or consolidate the VIE with any other entity. The exclusive option agreement has an initial term of ten years, and at the end of the initial term shall be renewed for a further term as specified by Dada Glory or terminated by Dada Glory in its sole discretion.

##### *Powers of Attorney*

Pursuant to the power of attorney, each of the shareholders of the VIE has executed a power of attorney to irrevocably authorize Dada Glory, or any person designated by Dada Glory, to act as its attorney-in-fact to exercise all of its rights as a shareholder of the VIE, including, but not limited to, the right to (i) propose, convene and attend shareholders' meetings, (ii) vote on any resolution on behalf of the shareholders that require the shareholders to vote under PRC law and the VIE's articles of association, such as the sale, transfer, pledge and disposal of all or part of a shareholder's equity interest in the VIE, and (iii) designate and appoint the VIE's legal representative, director, supervisor, chief executive officer and other senior management members on behalf of the shareholders. The powers of attorney will remain effective until such shareholder ceases to be a shareholder of the VIE or otherwise instructed by Dada Glory.

U.S. GAAP provides guidance on the identification of VIE and financial reporting for entities over which control is achieved through means other than voting interests. The Group evaluates each of its interests in an entity to determine whether or not the investee is a VIE and, if so, whether the Group is the primary beneficiary of such VIE. In determining whether the Group is the primary beneficiary, the Group considers if the Group (1) has power to direct the activities that most significantly affect the economic performance of the VIE, and (2) receives the economic benefits of the VIE that could be significant to the VIE. If deemed the primary beneficiary, the Group consolidates the VIE.

The irrevocable powers of attorney described above have conveyed all shareholder rights held by the VIE's shareholders to Dada Glory, including the right to appoint board members who nominate the general managers of the VIE to conduct day-to-day management of the VIE's businesses, and to approve significant transactions of the VIE. The exclusive option agreements provide Dada Glory with a substantive kick-out right of the VIE shareholders through an exclusive option to purchase all or any part of the shareholders' equity interest in the VIE at the lowest price permitted under the PRC laws then in effect. In addition, through the exclusive business cooperation agreement, Dada Glory has established the right to receive benefits from the VIE that could potentially be significant to the VIE, and through the share pledge agreement, Dada Glory has, in substance, an obligation to absorb losses of the VIE that could potentially be significant to the VIE. As these contractual arrangements allow the Group to effectively control the VIE and to derive substantially all of the economic benefits from it, the Group has consolidated the VIE.

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.2 Basis of consolidation (Continued)

#### VIE Arrangements (Continued)

##### Risks in relation to the VIE structure

The Company believes that the contractual arrangements amongst Dada Glory, Shanghai Qusheng and their respective shareholders are in compliance with PRC law and are legally enforceable. The shareholders of Shanghai Qusheng are also shareholders of the Company and therefore have no current interest in seeking to act contrary to the contractual arrangements. However, Shanghai Qusheng and their shareholders may fail to take certain actions required for the Company's business or to follow the Company's instructions despite their contractual obligations to do so. Furthermore, if Shanghai Qusheng or their shareholders do not act in the best interests of the Company under the contractual arrangements and any dispute relating to these contractual arrangements remains unresolved, the Company will have to enforce its rights under these contractual arrangements through the operations of PRC law and courts and therefore will be subject to uncertainties in the PRC legal system. All of these contractual arrangements are governed by PRC law and provided for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. As a result, uncertainties in the PRC legal system could limit the Company's ability to enforce these contractual arrangements, which may make it difficult to exert effective control over Shanghai Qusheng, and its ability to conduct the Company's business may be adversely affected.

The following amounts and balances of the consolidated VIE were included in the Group's consolidated financial statements after the elimination of intercompany balances and transactions:

	As of December 31,		
	2017 RMB	2018 RMB	2019 RMB
Cash and cash equivalents	953	28	36
Short-term investments	1,000	590	337
Accounts receivable, net	1,574	4,808	—
Prepayments and other current assets	1,342	2,394	3,607
Property and equipment, net	60	7	32
Intangible assets, net	105	107	14,018
Other non-current assets	1	—	—
<b>Total assets</b>	<b>5,035</b>	<b>7,934</b>	<b>18,030</b>
Amount due to related parties	32	32	—
Accrued expenses and other current liabilities	2,512	2,580	8,664
<b>Total liabilities</b>	<b>2,544</b>	<b>2,612</b>	<b>8,664</b>

	Years ended December 31,		
	2017 RMB	2018 RMB	2019 RMB
Net Revenues	9,843	6,621	3,183
Net loss	(24,915)	(15,263)	(38,674)
Net cash provided by/(used in) operating activities	(974)	(925)	14,612
Net cash used in investing activities	—	—	(14,604)
Net cash provided by financing activities	1,763	—	—

## **2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

### **2.2 Basis of consolidation (Continued)**

#### **VIE Arrangements (Continued)**

The VIE contributed approximately 0.8%, 0.3% and 0.1% of the Group's consolidated net revenues for the years ended December 31, 2017, 2018 and 2019, respectively. As of December 31, 2017, 2018 and 2019, the VIE accounted for an aggregate of approximately 0.1%, 0.1% and 0.4%, respectively, of the consolidated total assets, and approximately 0.3%, 0.4% and 1.0%, respectively, of the consolidated total liabilities.

There are no terms in any arrangements, considering both explicit arrangements and implicit variable interests that require the Group or its subsidiaries to provide financial support to the VIE. However, if the VIE was ever to need financial support, the Group or its subsidiaries may, at its option and subject to statutory limits and restrictions, provide financial support to its VIE through loans to the shareholders of the VIE or entrustment loans to the VIE.

The Group believes that there are no assets held in the consolidated VIE that can be used only to settle obligations of the VIE, except for paid-in capital, additional paid-in capital ("APIC") and the PRC statutory reserves. As the consolidated VIE is incorporated as a limited liability company under the PRC Company Law, creditors of the VIE do not have recourse to the general credit of the Group for any of the liabilities of the consolidated VIE.

Relevant PRC laws and regulations restrict the VIE from transferring a portion of their net assets, equivalent to the balance of their paid-in capital, APIC and PRC statutory reserve, to the Group in the form of loans and advances or cash dividends.

### **2.3 Use of estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. On an ongoing basis, the Group's management reviews these estimates based on information that is currently available. Changes in facts and circumstances may cause the Group to revise its estimates. Significant accounting estimates reflected in the Group's financial statements mainly include the useful lives of property and equipment and intangible assets, assumptions used to measure the impairment of goodwill, property and equipment and intangible assets, assumptions impacting the valuation of ordinary shares, share options and warrant liabilities, and realization of deferred tax assets.

### **2.4 Functional currency and foreign currency translation**

The Group uses Renminbi ("RMB") as its reporting currency. The functional currency of the Company is the United States dollar ("US\$" or "USD"). The functional currency of the Company's subsidiaries, VIE and VIE's subsidiaries is RMB or USD as determined based on the economic facts and circumstances.

Transactions denominated in other than the functional currencies are re-measured into the functional currency of the entity at the exchange rates prevailing on the transaction dates. Foreign currency denominated financial assets and liabilities are re-measured at the balance sheet date exchange rate. The resulting exchange differences are included in the comprehensive loss.

Assets and liabilities of the Company and its subsidiaries with functional currency other than RMB are translated into RMB at fiscal year-end exchange rates. Income and expense items are translated at average exchange rates during the fiscal year. Translation adjustments arising from these are reported as foreign currency translation adjustments and are shown as a component of other comprehensive loss.

## **2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

### **2.5 Convenience translation**

The Group's business is primarily conducted in China and almost all of its revenues are denominated in RMB. However, periodic reports made to shareholders will include current period amounts translated into USD using the then current exchange rates, for the convenience of the readers. Translations of balances in the consolidated balance sheets, consolidated statements of operations and comprehensive loss and consolidated statements of cash flows from RMB into USD as of and for the year ended December 31, 2019 are solely for the convenience of the readers and were calculated at the rate of US\$1.00=RMB6.9618 representing the noon buying rate set forth in the H.10 statistical release of the U.S. Federal Reserve Board on December 31, 2019. No representation is made that the RMB amounts could have been, or could be, converted, realized or settled into USD at that rate on December 31, 2019, or at any other rate.

### **2.6 Cash and cash equivalents**

Cash and cash equivalents primarily consist of cash on hand and cash in bank which is highly liquid and unrestricted as to withdrawal and use.

### **2.7 Restricted cash**

The Group's restricted cash mainly represents (i) the deposits pledged for short-term bank loans; and (ii) cash received from consumers and reserved in bank supervised accounts for payments to retailers on the on-demand retail platform.

### **2.8 Short-term investments**

Short-term investments include (i) wealth management products issued by commercial banks or other financial institutions with non-guaranteed principal and variable interest rates indexed to the performance of underlying assets within one year; (ii) a foreign currency forward contract sold by a commercial bank; and (iii) time deposits with original maturities longer than three months but less than one year. The Group classifies wealth management products as trading securities given the securities are purchased for the purpose of selling them in the near term. Changes in fair values of wealth management products and foreign currency forward contracts are included in interest income and fair value change in foreign currency forward contract in the consolidated statements of operations and comprehensive loss, respectively.

### **2.9 Accounts receivable, net**

Accounts receivable mainly consists of amount due from the Group's customers, which is recorded net of allowance for doubtful accounts. The Group performs ongoing credit evaluation of its customers, and assesses allowance for doubtful accounts based on the age of the receivables and factors surrounding the credit risk of specific customers.

### **2.10 Inventories, net**

Inventories, consisting of products available for sale, are stated at the lower of cost or market value. Cost of inventory is determined using the weighted average cost method. Adjustments are recorded to write down the cost of inventory to the estimated market value due to slow-moving merchandise and damaged goods, which is determined based upon factors such as historical and forecasted consumer demand, and promotional environment.

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.11 *Property and equipment, net*

Property and equipment is stated at cost less accumulated depreciation and impairment. Property and equipment is depreciated at rates sufficient to write off its costs less impairment and residual value, if any, over the estimated useful lives on a straight-line basis. The estimated useful lives are as follows:

<u>Category</u>	<u>Estimated useful lives</u>
Computer equipment	3 years
Office facilities	3-5 years
Vehicles	8 years
Software	3-5 years
Leasehold improvement	Over the shorter of the expected useful life or the lease term

Repairs and maintenance costs are charged to operating expenses as incurred, whereas the costs of renewals and betterment that extends the useful lives of property and equipment are capitalized as additions to the related assets. Retirements, sales and disposals of assets are recorded by removing the costs, accumulated depreciation and impairment with any resulting gain or loss recognized in the other operating income or expenses of consolidated statements of operations and comprehensive loss.

### 2.12 *Intangible assets, net*

Intangible assets purchased are recognized and measured at cost upon acquisition. Intangible assets arising from the Group's acquisition of JDDJ business from JD.com, Inc. ("JD") including Business Cooperation Agreement ("BCA"), Non-Compete Commitment ("NCC"), technology, trademark and domain name are recognized and measured at fair value based on a valuation upon acquisition. The Group made estimates and judgments in determining the fair value of JDDJ business, BCA and NCC with assistance from an independent valuation firm. Following the initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The identifiable intangible assets acquired are amortized on a straight-line basis over the respective useful lives as follows:

<u>The identifiable intangible assets</u>	<u>Amortization Years</u>
BCA	7
NCC	7
Technology	3.7
Trademark and Domain Name	9-9.7

### 2.13 *Goodwill*

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired as a result of the Group's acquisitions of JDDJ business from JD occurred in 2016 and there is no change to the carrying amount of the goodwill for the years ended December 31, 2017, 2018 and 2019. Goodwill is not amortized but is reviewed at least annually for impairment or earlier, if any indication of impairment exists.

The Group adopted Financial Accounting Standards Board ("FASB") revised guidance on "Testing of Goodwill for Impairment". Under this guidance, the Group has the option to choose whether it will apply the qualitative assessment first and then the quantitative assessment, if necessary, or to apply the quantitative assessment directly. If the Group chooses to apply a qualitative assessment first, it starts the goodwill impairment test by assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the Group determines that it is more likely not the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is mandatory. Otherwise, no further testing is required. The quantitative impairment test consists of a comparison of the fair value of goodwill with its carrying value. If the Group chooses to apply a quantitative assessment, it performs the goodwill impairment test by quantitatively comparing the fair values of a reporting units to its carrying amount.

## **2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

### **2.13 Goodwill (*Continued*)**

The Group has determined it has only one reporting unit and applied quantitative assessment in its annual goodwill impairment analysis on December 31 of every year. No goodwill impairment was recorded for 2017, 2018 and 2019 as the fair value of the reporting unit significantly exceeded its carrying value at each assessment date.

Application of a goodwill impairment test requires significant management judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. The judgment in estimating the fair value of reporting units includes estimating future cash flows, determining appropriate discount rates and making other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit.

### **2.14 Other non-current assets**

Other non-current assets mainly consist of long-term lease deposits, a convertible loan to a private company, and equity investments without readily determinable fair values. Beginning on January 1, 2018, the Group's equity investments without readily determinable fair values, which do not qualify for 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 (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. The Group recognized RMB3,432 and RMB2,000 of impairment losses to write off the loan receivable and an equity investment without a readily determinable fair value, respectively, for the year ended December 31, 2018.

### **2.15 Warrant liabilities**

Warrant classified as liabilities is initially recorded at fair value with gains and losses arising from changes in fair value recognized in the consolidated statements of operations and comprehensive loss during the period in which such instruments are outstanding.

### **2.16 Fair value measurement**

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 transacts and considers assumptions that market participants use when pricing the asset or liability.

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. The hierarchy is as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Observable, market-based inputs, other than quoted prices, in active markets for identical assets or liabilities.

Level 3: Unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

## **2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

### **2.16 Fair value measurement (*Continued*)**

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.

### **2.17 Revenue recognition**

The Group derives its revenues principally from merchants', individual senders' and retailers' use of the Group's core platforms in connection with on-demand retail platform services and on-demand delivery services. Revenue is stated net of value added tax ("VAT"), discounts and return allowances.

On January 1, 2018, using the modified retrospective method, the Group adopted ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," including related amendments and implementation guidance within ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 (collectively, including ASU 2014-09, "ASC 606"), issued by FASB.

The impact of adopting the new revenue standard was not material to the consolidated financial statements and there was no adjustment to the beginning accumulated deficit on January 1, 2018. Results for the reporting period beginning on January 1, 2018 are presented under ASC 606, while prior period amounts have not been adjusted and continue to be reported in accordance with ASC 605.

#### *Services*

The Group arranges for on-demand delivery services to be provided through Dada Now platform where it assists the customer, a merchant or an individual sender, in finding a rider to complete a delivery requested by the customer. The Group concludes that it acts as an agent in these transactions as it is not responsible for fulfilling the promise to provide the delivery services, nor does the Group have the ability to control the related services. The Group does not have the ability to control the services provided by riders due to the following: (i) The Group does not pre-purchase or otherwise obtain control of the riders' services prior to their transfer to the customers; (ii) The Group does not guarantee an order could be taken by a rider; (iii) the Group cannot direct the riders to accept, decline or disregard a transaction request and (iv) The Group's platform services do not include the delivery services provided to the customers by the riders. The service fee earned by the Group is the difference between the amount paid by the customer based on an upfront quoted fare and the amount earned by the rider based on expected delivery time, distance and other factors, which are both fixed at the time a transaction is entered into with a customer. The Group may record a loss from a transaction when an upfront quoted fare offered to the customer is less than the amount the Group is committed to being paid to the rider. The revenue is recognized on a net basis at the point of delivery of merchandise. The loss on this type of transactions is recorded in operations and support costs in the consolidated statements of operations and comprehensive loss, as it is not related to any other current, previous or future transactions with the customer and in substance, is an expense paid to riders. The losses included in operations and support costs were RMB365,186, RMB133,241 and RMB96,131 for the years ended December 31, 2017, 2018 and 2019, respectively.

## **2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

### **2.17 Revenue recognition (Continued)**

#### *Services (Continued)*

The Group also provides on-demand retail platform services on JDDJ platform. The service revenues primarily consist of commission fees charged to retailers for participating in the Group's online marketplace, where the Group acts as an agent and its performance obligation is to facilitate the retailers' online sales of their goods and services through JDDJ. The Group is not primarily obligated to the consumers, does not take inventory risk, and does not have latitude over pricing of the merchandise. Upon successful sales, the Group charges the retailer a fixed rate commission fee based on the sales amount. Commission fee revenues are recognized on a net basis at the point of delivery of merchandise.

In addition, the Group fulfills the delivery needs of retailers on JDDJ and other business customers on Dada Now by utilizing the Group's network of registered riders on Dada Now. Under this type of services, the Group enters into agreements with retailers and other business customers, which enforce the Group's acceptance of all the related delivery requests at the prices stipulated in the agreements. The Group has determined that it acts as a principal in these transactions as the Group is primarily responsible for the delivery of merchandise and has the ability to control the related services. The Group has the ability to control the services provided by riders as it is responsible for and guarantees identifying and directing riders that meet the quality criteria stipulated in the agreements to complete the deliveries requested by retailers or other business customers. Additionally, the Group has ultimate control over the amounts paid by the customers. Although in this type of services, the riders still have the ability to accept, decline or disregard a delivery assignment, it is the Group's responsibility to find a replacement and complete the delivery timely. Revenues resulting from these services are recognized on a gross basis at a fixed rate or a pre-determined amount for each completed delivery, with the amounts paid to the riders recorded in operations and support costs.

Other services provided by the Group comprise packaging services provided to retailers on JDDJ and online marketing services provided to brand owners on JDDJ, and front-end warehouses services. Revenue is recognized when service is rendered.

#### *Goods Sales*

The Group operates its own e-commerce business and sells delivery equipment and other merchandise on Dada Now. The Group also sells merchandise through unmanned retail shelves. Revenue is recognized on a gross basis as the Group is acting as a principal in these transactions, is responsible for fulfilling the promise to provide the specified merchandise and also has pricing discretion. The Group recognizes revenues net of discounts and return allowances when the goods are delivered to the customers.

## **2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

### **2.17 Revenue recognition (Continued)**

#### *Incentive programs*

##### *Customer incentives*

The Group offers various incentive programs to merchants, individual senders and business customers in the form of coupons or volume-based discounts that are recorded as reduction of revenue as the Group does not receive a distinct good or service in consideration.

##### *Rider incentives*

The Group offers various incentive programs to riders, primarily in the form of volume-based incentives. The riders are not the Group's customers as they do not pay for their use of the Group's platform in any form. Therefore, for transactions where the Group acts as an agent and recognizes revenue on a net basis, the related rider incentives are recorded as a reduction of revenue. The incentive amount in excess of the related revenue is included in operations and support costs. For transactions where the Group acts as a principal and recognizes revenue on a gross basis, the related rider incentives are included in operations and support costs. For the years ended December 31, 2017 and 2018 and 2019, incentives to riders recorded in operations and support costs were RMB127,392 and RMB223,664 and RMB192,243, respectively, including incentives attributable to transactions where the Group as a principal of RMB58,579, RMB155,007 and RMB158,763, respectively.

##### *Consumer incentives*

The consumer incentives are offered to promote the Group's platform in the form of promotion coupon on the JDDJ, which are valid only during a limited period of time. These incentives are provided at the Group's discretion and are not contractually required by the retailers. These incentives also do not reduce the overall pricing of the services provided by the Group. As the Group has no performance obligation to consumers who are not the Group's customers, incentives to consumers are recognized as selling and marketing expenses. For the years ended December 31, 2017, 2018 and 2019, consumer incentives that were recorded as selling and marketing expenses were RMB362,137, RMB782,479 and RMB937,713, respectively.

All the incentives granted can be categorized into (i) incentives granted concurrent with a purchase transaction and (ii) incentives granted not concurrent with a purchase transaction. When the incentive is granted concurrent with a purchase transaction, expenses or reduction of revenue are accrued, in the most likely amount to be earned, as the related transactions are recorded. Since such incentives are generally earned over a very short period of time, there is limited uncertainty when estimating the expenses to be accrued or variable consideration to be recorded as a reduction of revenue. When the incentive (i.e., a coupon) is granted not concurrent with a purchase transaction, expenses or reduction of revenue are recognized upon the redemption of such incentive.

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.17 Revenue recognition (Continued)

#### *Disaggregation of revenues*

For the years ended December 31, 2017, 2018 and 2019, all of the Group's revenues were generated in the PRC. The disaggregated revenues by revenue streams were as follows:

	Years ended December 31,		
	2017 RMB	2018 RMB	2019 RMB
<b>Dada Now:</b>			
Services	830,534	1,062,552	1,954,834
Sales of goods	38,746	48,887	41,951
<b>Subtotal</b>	<b>869,280</b>	<b>1,111,439</b>	<b>1,996,785</b>
<b>JDDJ:</b>			
Services(1)	317,558	754,162	1,102,913
<b>Others</b>			
Services(2)	27,949	23,402	—
Sales of goods(3)	3,178	33,012	—
<b>Subtotal</b>	<b>31,127</b>	<b>56,414</b>	<b>—</b>
<b>Total</b>	<b>1,217,965</b>	<b>1,922,015</b>	<b>3,099,698</b>

#### Notes:

- (1) Includes net revenues from delivery services provided to retailers on JDDJ of RMB208,816, RMB448,014 and RMB588,752, and commission fee revenues from retailers on JDDJ of RMB85,944, RMB225,884 and RMB347,870 for the years ended December 31, 2017, 2018 and 2019, respectively.
- (2) Includes net revenue from front-end warehouses business which was immaterial and terminated in 2019.
- (3) Includes net revenues from unmanned retail shelves business which was immaterial and terminated in 2019.

#### *Contract balances*

The remaining unsatisfied performance obligation as of December 31, 2017, 2018 and 2019 was immaterial.

Timing of revenue recognition may differ from the timing of invoicing to customers. Accounts receivable represents amounts invoiced and revenues recognized prior to invoicing when the Group has satisfied its performance obligation and has the unconditional right to payment.

The Group receives advance payments from customers pursuant to the agreements with certain customers before the services or products are provided, which is recorded as advance for marketing services or goods sale included in the accrued expenses and other current liabilities on the consolidated balance sheets. The opening and closing balances of the Group's advances from customers are as follows:

	<b>Advances from Customers</b>
	RMB
Opening Balance as of January 1, 2017	1,498
Decrease, net	(1,167)
Ending Balance as of December 31, 2017	331
Increase, net	3,061
Ending Balance as of December 31, 2018	3,392
Increase, net	11,965
Ending Balance as of December 31, 2019	15,357

The opening balances of RMB1,498, RMB331 and RMB3,392 were recognized in the years ended December 31, 2017, 2018 and 2019, respectively.

## **2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

### **2.17 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.

### **2.18 Operations and support**

Operations and support costs primarily consist of (i) riders' remuneration and incentives to fulfil the Group's delivery orders, (ii) expenses incurred in providing customer and rider care services or the service fee charged by external customer service providers, (iii) expenses charged by outsourced delivery agencies, (iv) transaction fees charged by third-party payment platform, and (v) packaging cost as well as other operations and support costs directly attributed to the Group's principal operations.

### **2.19 Selling and marketing**

Selling and marketing expenses primarily consist of incentive payments to consumers, advertising and marketing expenses, payroll and related expenses for employees involved in selling and marketing functions, as well as the associated expenses of facilities and equipment, such as depreciation expenses, rental and others. The advertising and marketing expenses amounted to RMB156,317, RMB118,829 and RMB133,669 for the years ended December 31, 2017, 2018 and 2019, respectively.

### **2.20 Research and development**

Research and development expenses primarily consist of technology infrastructure expenses, payroll and related expenses for employees involved in platform development and internal system support, charges for the usage of the server and computer equipment, and editorial content.

### **2.21 Other operating expenses**

Other operating expenses primarily consist of purchase price of merchandise sold on Dada Now or through unmanned retail shelves.

### **2.22 Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing group are accounted for as operating leases. Payments made under operating leases net of any incentives received by the Group from the leasing group are charged to the consolidated statements of operations and comprehensive loss on a straight-line basis over the leasing periods.

### **2.23 Share-based compensation**

The Group accounts for share options granted to employees in accordance with ASC 718, "Stock Compensation". The Group grants options and restricted share units to the Group's employees, directors, and consultants. In accordance with the guidance, the Group determines whether a share-based compensation should be classified and accounted for as a liability award or an equity award.

## **2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

### **2.23 Share-based compensation (*Continued*)**

Options and restricted share units granted to employees, including directors, vest upon satisfaction of a service condition, which is generally satisfied over four years, and are measured at fair value as of the grant date. Options granted to non-employees with a service condition are accounted for based on the fair value of the equity instrument issued, as this has been determined to be more reliably measurable. Prior to January 1, 2019, the Group accounted for share-based awards issued to non-employees in accordance with ASC 505-50, "Equity-Based Payments to Non-Employees", under which the fair value of each option granted to non-employees was estimated on the date of grant using the same option valuation model used for options granted to employees, and then re-measured at each period end. The final measurement date of the fair value of the equity instrument issued was the date on which the non-employee's performance was completed. On January 1 2019, the Group adopted ASU 2018-07, "Compensation-Stock Compensation (Topic 718), Improvements to Non-employee Share-Based Payment Accounting", under which the accounting treatment of the stock compensation payments to non-employees is aligned with the requirements for share-based payments granted to employees. Upon adoption, only liability-classified awards that have not been settled and equity-classified awards for which a measurement date has not been established should be remeasured through a cumulative-effect adjustment to retained earnings as of January 1, 2019. The adoption of this new standard did not have a material impact on the Group's consolidated financial statements. Therefore, no cumulative-effect adjustment to retained earnings as of January 1, 2019 was made.

Additionally, the Group's incentive plan provides an exercisability clause where employees or non-employees can only exercise vested options upon the occurrence of the event that the Group's ordinary shares are publicly traded. The satisfaction of the performance condition becomes probable only upon the completion of the Group's initial public offering ("IPO") and therefore, the Group has not recorded any compensation expenses and will record the cumulative share-based compensation expenses for these options when it completes the IPO.

According to ASC 718, a change in any of the terms or conditions of equity-based awards shall be accounted for as a modification of the award. Therefore, the Group calculates incremental compensation cost of a modification as the excess of the fair value of the modified option over the fair value of the original option immediately before its terms are modified. For vested options, the Group would recognize incremental compensation cost on the date of modification and for unvested options, the Group would recognize, prospectively and over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award.

### **2.24 Earnings (Loss) per share**

Basic earnings (loss) per share are computed by dividing net income (loss) available to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

The Company's convertible redeemable preferred shares are participating securities as the preferred shares participate in undistributed earnings on an as-if-converted basis. Accordingly, the Group uses the two-class method of computing earnings per share, whereby undistributed net income is allocated on a pro rata basis to each participating share to the extent that each class may share net income for the period. Undistributed net loss is not allocated to preferred shares because they are not contractually obligated to participate in the loss of the Group.

Diluted earnings (loss) per ordinary share reflects the potential dilution that could occur if securities were exercised or converted into ordinary shares. The Group had convertible redeemable preferred shares, share options, restricted share units and warrants, which could potentially dilute basic earnings per share in the future. To calculate the number of shares for diluted income per share, the effect of the convertible redeemable preferred shares is computed using the as-if-converted method; the effect of the stock options, restricted share units and warrant are computed using the treasury stock method.

### **2.25 Government grants**

Government grants include cash subsidies received by the Group's entities in the PRC from local governments as incentives for operating business in certain local districts. Such subsidies allow the Group full discretion in utilizing the funds and are used by the Group for general corporate purpose. Cash subsidies are included in other operating income and recognized when received.

## **2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

### **2.26 *Taxation***

Deferred income taxes are recognized for temporary differences between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements, net operating loss carry forwards and credits. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current income taxes are provided in accordance with the laws of the relevant taxing authorities. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in which temporary differences are expected to be received or settled. The effect on deferred tax assets and liabilities of changes in tax rates is recognized in the consolidated statements of operations and comprehensive loss in the period of the enactment of the change.

### **2.27 *Segment reporting***

The Group uses management approach to determine operating segment. The management approach considers the internal organization and reporting used by the Group's chief operating decision maker ("CODM") for making decisions, allocation of resource and assessing performance.

The Group's CODM has been identified as the chief executive officer who reviews the consolidated results of operations when making decisions about allocating resources and assessing performance of the Group.

The Group's long-lived assets are all located in the PRC and all of the Group's revenues are derived from within the PRC. Therefore, no geographic information is presented.

### **2.28 *Comprehensive loss***

Comprehensive loss is defined as the change in equity of the Group during a period arising from transactions and other events and circumstances excluding transactions resulting from investments by shareholders and distributions to shareholders. Comprehensive loss is reported in the consolidated statements of operations and comprehensive loss. Accumulated other comprehensive loss, as presented on the accompanying consolidated balance sheets, represents accumulated foreign currency translation adjustments.

### **2.29 *Recent accounting pronouncements***

#### *New accounting pronouncements recently adopted*

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which supersedes the revenue recognition requirements in ASC 605, and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The Group early adopted the new revenue standard beginning January 1, 2018 using the modified retrospective transition method. The impact of adopting this ASU is immaterial to the consolidated financial statements and there is no adjustment to the beginning accumulated deficit on January 1, 2018.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which amends various aspects of the recognition, measurement, presentation, and disclosure for financial instruments. Under the new ASC, entities no longer use the cost method of accounting as it was applied before and the new ASC requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, a company can elect to measure equity investments that do not have readily determinable fair values at 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 "measurement alternative"). The Group early adopted this ASU beginning January 1, 2018, which had no material impact on its consolidated financial statements.

## **2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

### **2.29 Recent accounting pronouncements (*Continued*)**

#### *New accounting pronouncements recently adopted (*Continued*)*

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows—Classification of Certain Cash Receipts and Cash Payments, which clarifies the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. The Group early adopted this ASU beginning January 1, 2018, which had no material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows, Restricted Cash, which clarifies guidance on the classification and presentation of restricted cash in the statement of cash flows. The adoption of this accounting pronouncement impacts the presentation of restricted cash in the Group's consolidated statements of cash flows. The Group early adopted this ASU beginning January 1, 2018 in accordance with the retrospective transition method, including restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the consolidated statements of cash flows.

In June 2018, the FASB issued ASU 2018-07, Compensation—Stock Compensation (Topic 718), which simplifies the accounting for non-employee share-based payment transactions by expanding the scope of ASC Topic 718, Compensation—Stock Compensation, to include share-based payment transactions for acquiring goods and services from non-employees. Under the new standard, most of the guidance on stock compensation payments to non-employees would be aligned with the requirements for share-based payments granted to employees. This standard is effective for annual reporting periods beginning after December 15, 2018, including interim reporting periods within those annual reporting periods for public business entities, with early adoption permitted. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, The Group early adopted this ASU beginning January 1, 2019, which had no material impact on its consolidated financial statements.

#### *New accounting pronouncements not yet adopted*

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize leases on balance sheet and disclose key information about lease arrangements. The new standard establishes a right-of-use (“ROU”) model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with terms of longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. The standard is effective on January 1, 2019, with early adoption permitted, for public business entities that are SEC filers. And it is effective on January 1, 2020 for non-issuers and public business entities that meet the definition solely because their financial statements or financial information is included in a filing with the SEC. In July 2018, the FASB issued an update that provided an additional transition option that allows companies to continue applying the guidance under the lease standard in effect at that time in the comparative periods presented in the consolidated financial statements. Companies that elect this option would record a cumulative-effect adjustment to the opening balance of retained earnings on the date of adoption. In November 19, 2019, the FASB issued ASU 2019-10 to amend the effective date for ASU 2016-02 to be January 1, 2021 for non-issuers. The Group will early adopt this ASU on January 1, 2020 using the modified retrospective approach and will not restate comparative periods. The Group plans to elect the transition package of three practical expedients permitted within the new standard. In accordance with the package of practical expedients, the Group will not reassess initial direct costs, lease classification, or whether the Group's contracts contain or are leases. The Group will also make an accounting policy election to not recognize ROU assets and liabilities for leases with a term of 12 months or less, unless the leases include options to renew or purchase the underlying asset that are reasonably certain to be exercised. Based on the lease portfolio as of December 31, 2019, The Group plans to recognize a related ROU asset and operating lease liability on the Group's consolidated balance sheets of approximately RMB130 million, respectively. The Group does not anticipate material changes to consolidated statements of operations and comprehensive loss or consolidated statements of cash flows.

## **2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

### **2.29 Recent accounting pronouncements (*Continued*)**

#### *New accounting pronouncements not yet adopted (*Continued*)*

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 issuers and December 15, 2020 for non-issuers. Early adoption is permitted for all entities for annual periods beginning after December 15, 2018, and interim periods therein. In May 2019, the FASB issued ASU 2019-05, Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief. This update adds optional transition relief for entities to elect the fair value option for certain financial assets previously measured at amortized cost basis to increase comparability of similar financial assets. The updates should be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified retrospective approach). In November 19, 2019, the FASB issued ASU 2019-10 to amend the effective date for ASU 2016-13 to be fiscal years beginning after December 15, 2022 and interim periods therein. The Group is in the process of evaluating the impact on its consolidated financial statements upon adoption.

In January 2017, the FASB issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350), which simplifies the subsequent measurement of goodwill by removing the second step of the two-step impairment test. The amendment requires an entity to perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. A goodwill impairment will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 is effective for an issuer's annual or any interim goodwill impairments tests in fiscal years beginning after December 15, 2019 and will require adoption on a prospective basis. Public business entities that are not SEC filers should adopt the standard in fiscal years beginning after December 15, 2020. All other entities, including not-for-profit organizations, should adopt the standard in fiscal years beginning after December 15, 2021. Early adoption is permitted. The Group will early adopt this ASU on January 1, 2020 and does not expect the adoption of this ASU has a significant impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement which eliminates, adds and modifies certain disclosure requirements for fair value measurements. Under the guidance, public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The guidance is effective for all entities for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years, but entities are permitted to early adopt either the entire standard or only the provisions that eliminate or modify the requirements. The Group will adopt this ASU on January 1, 2020 and does not expect the adoption of this ASU has a significant impact on its consolidated financial statements.

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.29 Recent accounting pronouncements (Continued)

#### New accounting pronouncements not yet adopted (Continued)

In October 2018, the FASB issued ASU 2018-17, Consolidation (Topic 810), which amends two aspects of the related-party guidance in ASC 810. Specifically, the ASU (1) adds an elective private-company scope exception to the variable interest entity guidance for entities under common control, and (2) amends the guidance for determining whether a decision-making fee is a variable interest. The amendments require organizations to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety (as currently required in U.S. GAAP). Therefore, these amendments likely will result in more decision makers not consolidating VIEs. For entities other than private companies, ASU 2018-17 is effective for fiscal years beginning after December 15, 2019, including interim periods therein. For private companies, the ASU is effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted for all entities. This guidance will be adopted using a retrospective approach. The Group will early adopt this ASU on January 1, 2020 and does not expect the adoption of this ASU has a significant impact on its consolidated financial statements.

## 3. FAIR VALUE MEASUREMENTS

The Group's financial instruments include cash and cash equivalent, restricted cash, short-term investments, receivables, payables, prepayments and other current assets, short-term loan, amount due from and due to related parties and accrued expenses and other current liabilities. The carrying amounts of these short-term financial instruments approximate their fair value due to their short-term nature. The Group wrote off the convertible loan to a private company of RMB3,432 included in other noncurrent assets during 2018 based on its evaluation of the private company's financial condition.

As of December 31, 2017, 2018 and 2019, information about inputs into the fair value measurement of the Group's assets and liabilities that are measured at fair value on a recurring basis in periods subsequent to their initial recognition is as follows:

As of December 31,	Description	Fair Value	Fair Value Measurements at Reporting Date Using		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2017	Wealth management products	301,900	—	301,900	—
2017	Foreign currency forward contract	22,846	—	22,846	—
2018	Wealth management products	721,380	—	721,380	—
2019	Wealth management products	242,567	—	242,567	—

The Group measures certain assets, including equity investments without readily determinable fair values, 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 and management judgment including estimated future cash flows, appropriate discount rates and other assumptions. During the years ended December 31, 2017, 2018 and 2019, the Group recognized impairment of equity investments without readily determinable fair values in the amount of nil, RMB2,000 and nil, respectively.

### 3. FAIR VALUE MEASUREMENTS (CONTINUED)

Certain non-financial assets are measured at fair value on a nonrecurring basis, including property, plant, and equipment, goodwill and intangible assets and they are recorded at fair value only when impairment is recognized by applying unobservable inputs such as forecasted cash flows and discount rates to the discounted cash flow valuation methodology that are significant to the measurement of the fair value of these assets. During the years ended December 31, 2017, 2018 and 2019, the Group recognized impairment of property and equipment in the amount of nil, RMB8,481 and nil, respectively (Note 8).

See Note 12 for the fair value measurement of warrant liabilities.

### 4. SHORT-TERM INVESTMENT

	As of December 31,		
	2017 RMB	2018 RMB	2019 RMB
Wealth management products	301,900	721,380	242,567
Time deposits	—	—	714,803
Foreign currency forward	22,846	—	—
<b>Total</b>	<b>324,746</b>	<b>721,380</b>	<b>957,370</b>

The Group entered into a foreign currency forward contract on March 27, 2017 with a commercial bank to sell its restricted time deposits denominated in USD for RMB at a fixed exchange rate of 7.03 on March 23, 2018 with the notional amount of US\$52,380. The Group recorded gain on fair value changes of RMB22,846 and RMB13,463 for the years ended December 31, 2017 and 2018, respectively and settled the forward contract on March 23, 2018 with the carrying amount.

### 5. ACCOUNTS RECEIVABLE, NET

Accounts receivable and the related bad debt provision as of December 31, 2017, 2018 and 2019 are as follows:

	As of December 31,		
	2017 RMB	2018 RMB	2019 RMB
Accounts receivable	6,946	30,660	38,234
Less: Bad debt provision	—	(316)	—
<b>Total Accounts receivable, net</b>	<b>6,946</b>	<b>30,344</b>	<b>38,234</b>

Movement of bad debt provision for accounts receivable is as follows:

	As of December 31,		
	2017 RMB	2018 RMB	2019 RMB
Balance as of January 1	—	—	(316)
Provisions for doubtful accounts	—	(316)	—
Reversal of provisions for doubtful accounts	—	—	316
<b>Balance as of December 31</b>	<b>—</b>	<b>(316)</b>	<b>—</b>

## 6. INVENTORIES, NET

Inventories and the related provision as of December 31, 2017, 2018 and 2019 are as follows:

	As of December 31,		
	2017 RMB	2018 RMB	2019 RMB
Merchandise	5,886	9,519	4,184
Less: Inventory provision	—	(1,632)	(298)
<b>Total Inventories, net</b>	<b>5,886</b>	<b>7,887</b>	<b>3,886</b>

Movement of inventory provision as follows:

	As of December 31,		
	2017 RMB	2018 RMB	2019 RMB
Balance as of January 1	—	—	(1,632)
Provisions for impairment of merchandise	—	(1,632)	—
Written-off	—	—	1,334
<b>Balance as of December 31</b>	<b>—</b>	<b>(1,632)</b>	<b>(298)</b>

## 7. PREPAYMENT AND OTHER CURRENT ASSETS

	As of December 31,		
	2017 RMB	2018 RMB	2019 RMB
Funds receivable from third party mobile and online payment platforms	24,275	49,488	39,080
Advance to suppliers mainly for cloud computing service	16,911	17,198	24,045
Interest receivable from bank deposits and wealth management products	4,662	8,897	10,761
Deposits mainly for lease of premises	3,925	6,602	9,046
VAT receivable	2,299	12,747	6,334
Other receivables	2,632	2,046	11,088
<b>Prepayment and other current assets</b>	<b>54,704</b>	<b>96,978</b>	<b>100,354</b>

## 8. PROPERTY AND EQUIPMENT, NET

Property and equipment and its related accumulated depreciation are as follows:

	As of December 31,		
	2017 RMB	2018 RMB	2019 RMB
Office facilities	6,708	7,408	4,256
Software	1,908	4,035	9,289
Computer equipment	1,636	6,787	12,679
Vehicles	60	21	21
Leasehold improvement	10,515	28,853	37,896
<b>Total cost</b>	<b>20,827</b>	<b>47,104</b>	<b>64,141</b>
Less: Accumulated depreciation	(7,964)	(16,078)	(22,097)
Less: Impairment	—	(8,481)	—
<b>Property and equipment, net</b>	<b>12,863</b>	<b>22,545</b>	<b>42,044</b>

Depreciation expenses related to property and equipment were RMB4,886, RMB10,380 and RMB7,390 for the years ended December 31, 2017, 2018 and 2019, respectively.

For the year ended December 31, 2018, the Group recognized an impairment of RMB8,481 to write off certain assets which will not be used due to the termination of its unmanned retail shelves business. The revenue and cost associated with this business has been immaterial.

## 9. INTANGIBLE ASSETS, NET

Gross carrying amount, accumulated amortization and net book value of the intangible assets are as follows:

	As of December 31,		
	2017 RMB	2018 RMB	2019 RMB
BCA	437,626	459,661	467,229
NCC	544,793	572,224	581,645
Trademark and domain name	324,130	324,161	338,920
Technology	96,000	96,000	96,000
Less: Accumulated amortization	(332,847)	(551,414)	(767,917)
<b>Intangible assets, net</b>	<b>1,069,702</b>	<b>900,632</b>	<b>715,877</b>

Amortization expenses related to intangible assets were RMB204,175, RMB201,861 and RMB208,274 for the years ended December 31, 2017, 2018 and 2019, respectively.

## 9. INTANGIBLE ASSETS, NET (CONTINUED)

The estimated aggregate amortization expenses for each of the five succeeding fiscal years and thereafter are as follows:

	Future amortization expenses RMB
For the years ending December 31,	
2020	187,224
2021	186,359
2022	186,359
2023	83,661
2024	35,818
Thereafter	36,456
<b>Total</b>	<b>715,877</b>

## 10. SHORT-TERM LOAN

	As of December 31,		
	2017 RMB	2018 RMB	2019 RMB
Short-term bank borrowings	354,499	—	—

In March 2017, the Group entered into a credit agreement with a PRC commercial bank, for which the total facility was amounted to RMB950,000 (the “Facility”) with a term of one year. In 2017, the Group withdrew five borrowings from the Facility for an aggregated principal amount of RMB354,499 which was collateralized by the bank deposit of US\$52,380 (RMB342,261) classified as restricted cash. The loan was repaid and the restriction on the bank deposit was released in 2018. The annual interest rate of the borrowings was approximately 3.92%, resulting in interest expenses of RMB8,908 and RMB3,122 for the years ended December 31, 2017 and 2018, respectively.

## 11. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	As of December 31,		
	2017 RMB	2018 RMB	2019 RMB
Salaries and welfare payables	52,225	51,287	87,137
Payables to retailers on JDDJ (1)	36,678	48,192	85,452
Advance for delivery service (2)	39,470	33,406	33,371
Accrued marketing expenses for JDDJ	27,696	26,510	34,918
Professional fee payables	3,890	14,497	26,274
Deposits from retailers and outsourced delivery agencies	7,362	21,065	24,596
Tax payables	77,394	7,753	20,591
Advance for online marketing services	—	858	14,021
Rental payables	31	7,333	10,584
Payables to external customer service providers	—	3,211	8,864
Payables for purchases of property and equipment	—	—	8,852
Interest payable	3,395	—	—
Others	9,974	15,828	11,625
<b>Total</b>	<b>258,115</b>	<b>229,940</b>	<b>366,285</b>

(1) Payables to retailers on JDDJ represent cash collected on behalf of retailers for goods sold through JDDJ.

(2) Advance for delivery service represents the prepayments for on-demand delivery services. The amount is refundable if no service is provided.

## 12. WARRANT LIABILITIES

In connection with the acquisition of JDDJ business on April 26, 2016, a warrant was issued to JD, which provided JD the right to purchase additional 35,151,665 Series E Preferred Shares with the pre-determined purchase price of US\$4.28 per share, was exercisable at any time and expired on the earlier of (i) 24 months after issuance and (ii) a Qualified Financing. A Qualified Financing means a bona fide private placement financing by the Company, which (i) values the Company at a pre-money valuation (excluding any amount of exercise price paid under this warrant) of at least US\$4,090,950 and (ii) upon completion, will result in gross proceeds to the Company of at least US\$100,000 in the aggregate (taking into account all closings of such financing if there is more than one closing).

The Group followed the authoritative guidance which requires liability classification for a warrant issued that is exercisable into convertible redeemable preferred shares. Liability classification requires the warrant to be re-measured to its fair value at the end of each reporting period. The Group utilized the service of an independent third party specialist to determine the fair value of the warrant, which took into consideration the fair value of the underlying preferred shares, a risk-free interest rate, and expected volatility. Certain inputs used in the model are unobservable. As a result, the valuation of the warrant was categorized as Level 3 in accordance with ASC 820, "Fair Value Measurement".

On December 28, 2017, the warrant was exercised by JD, upon which JD paid the subscription price of US\$150,403 (RMB983,820) for 35,151,665 Series E Preferred Shares.

The Group estimates its fair value using binomial model as of December 28, 2017 (immediate prior to the exercise of the warrant) using the following assumptions:

	<u>As of December 28, 2017</u>
Fair value per share as of valuation date	US\$ 4.47
Exercise price	US\$ 4.28
Risk free rate of interest	2.10%
Dividend yield	0.00%
Expected volatility	30%

The fair value of the warrant liability on exercise date was US\$15,800 (RMB103,240), and the fair value change in warrant liabilities for the year ended December 31, 2018 was US\$12,700 (RMB82,467).

The Group estimated expected volatility by reference to the historical share price volatility of comparable companies over a period close to the remaining life of the warrant. The Group estimated the risk-free interest rate based on the yield to maturity of the U.S. Treasury Bill on the valuation date, with the maturity period close to the remaining life of the warrant and adjusted by country risk differential between the U.S. and China. The dividend yield was estimated as zero based on the plan to retain profit for corporate expansion and no dividend will be distributed in the near future. The assumptions used in warrant fair value assessment represent the Group's best estimates, but these estimates involve inherent uncertainties and the application of judgment. If factors change or different assumptions are used, the fair value change of warrant could be materially different for any period.

### **13. SHARE-BASED COMPENSATION**

In February 2015, the Group adopted the 2015 Incentive Compensation Plan (“2015 Plan”), which permits the granting of share options, restricted share units and other equity incentives to employees, directors and consultants of the Group. The 2015 plan administrator is the Group’s board of directors. The board may also authorize one or more of the Group’s officers to grant awards under the plan. The Group has authorized 68,698,662 ordinary shares for issuance under the 2015 Plan.

#### **Employee options:**

Under the 2015 Plan, options granted to employees vest upon satisfaction of a service condition, which is generally satisfied over four years. Additionally, the 2015 Plan includes a condition where employees can only exercise vested options upon the occurrence of the Company’s ordinary shares becoming listed securities, which substantially creates a performance condition (“IPO Condition”) that has not been met. Therefore, since the adoption of the 2015 Plan, the Group has not recognized any stock-based compensation expenses for options granted, except for the repurchase of 1,199,608 share options which was recorded as a modification in 2016. The Group granted 3,057,177, 5,264,956 and 5,340,000 share options to its employees in 2017, 2018 and 2019, respectively. The options expire in ten years from the date of grant.

#### **Non-employee options:**

Under the 2015 Plan, the Group granted 2,000,000 share options to certain non-employees in 2015, which vest over a 4-year service period, including a condition where optionee can only exercise vested options when the Company’s ordinary shares become listed securities. Therefore, the Group has not recognized any stock-based compensation expenses for non-employee options granted, except for the repurchase of 716,431 share options which was recorded as a modification in 2016. The options expire in ten years from the date of grant. The Group did not grant any share options to non-employees in 2017, 2018 and 2019.

The Group adopted ASU 2018-07 on January 1, 2019 and the stock-based compensation expense for non-employee grants for which a measurement date had not been established was remeasured based on the estimated fair value of the Company’s ordinary share of US\$2.26 on January 1, 2019.

In determining the fair value of the stock options, the binomial option pricing model was applied. The key assumptions used to determine the fair value of the options at the respective grant dates in 2017, 2018 and 2019 were as follows:

	For the years ended December 31,		
	2017	2018	2019
Expected volatility	36%~40%	36%~38%	37%~40%
Risk-free interest rate (per annum)	3%~3.2%	3.5%~3.7%	2.4%~3.6%
Exercise multiples	2.2 and 2.8	2.2	2.2
Expected dividend yield	0.00%	0.00%	0.00%
Fair value of underlying ordinary shares	US\$ 1.36~1.67	US\$2.01~2.26	US\$2.26~3.87
Fair value of share option	US\$ 0.80~1.03	US\$1.35~1.59	US\$1.59~3.14

### 13. SHARE-BASED COMPENSATION (CONTINUED)

#### Non-employee options (Continued):

The Group estimated expected volatility by reference to the historical price volatilities of ordinary shares of comparable companies over a period close to the contract term of the options. The Group estimated the risk free interest rate based on the yield to maturity of U.S. government bonds at grant date with a maturity period close to the contract term of options, adjusted by country risk differential between U.S. and China. As the Group has had no option exercise history, it estimated exercise multiples based on empirical research on typical employee stock option exercising behavior. The dividend yield was estimated as zero based on the plan to retain profit for corporate expansion and no dividend will be distributed in the near future. The Group determined the fair value of ordinary shares underlying each share option grant based on estimated equity value and allocation of it to each element of its capital structure. The assumptions used in share-based compensation expenses recognition represent the Group's best estimates, but these estimates involve inherent uncertainties and the application of judgment. If factors change or different assumptions are used, the share-based compensation expenses could be materially different for any period.

The following table summarized the Group's share option activities under the Option Plans:

	<b>Number of options</b>	<b>Weighted average exercise price US\$</b>	<b>Weighted average remaining contract life</b>	<b>Weighted average grant date fair value US\$</b>	<b>Aggregate intrinsic value US\$</b>
<b>Outstanding at January 1, 2017</b>	<b>33,234,743</b>	<b>0.21</b>	<b>8.48</b>	<b>0.25</b>	<b>33,431</b>
Granted	3,057,177	0.80		0.98	
Forfeited	(3,830,251)	0.54		0.46	
<b>Outstanding at December 31, 2017</b>	<b>32,461,669</b>	<b>0.23</b>	<b>7.62</b>	<b>0.30</b>	<b>52,253</b>
Granted	5,264,956	0.80		1.37	
Forfeited	(1,567,512)	0.71		0.77	
<b>Outstanding at December 31, 2018</b>	<b>36,159,113</b>	<b>0.29</b>	<b>6.99</b>	<b>0.43</b>	<b>65,356</b>
Granted	5,340,000	0.80		2.64	
Forfeited	(2,355,630)	0.80		1.64	
<b>Outstanding at December 31, 2019</b>	<b>39,143,483</b>	<b>0.33</b>	<b>6.32</b>	<b>0.74</b>	<b>138,520</b>
Expect to vest at December 31, 2019	39,143,483	0.33	6.32	0.74	138,520
<b>Exercisable at December 31, 2019</b>	—	—	—	—	—

As of December 31, 2019, share-based compensation of US\$11,867 (RMB82,787) would be recognized immediately if the IPO Condition had been met. As of December 31, 2019, there were US\$29,067 (RMB202,359) of total unrecognized compensation expenses related to options.

### 13. SHARE-BASED COMPENSATION (CONTINUED)

#### Escrowed shares

On November 11, 2014 and April 20, 2015, in conjunction with the issuance of preferred shares, the Group entered into a share restriction agreement with the founder and the co-founder to secure their services, pursuant to which all of their 72,887,414 ordinary shares of the Company became subject to transfer restrictions. In addition, the restricted shares shall initially be unvested and subject to repurchase by the Group at par value upon voluntary or involuntary termination of employment (the “Repurchase Right”). The Repurchase Right terminates over 4 and 3.6 years, respectively, in 48 and 43 equal monthly instalments thereafter. The founder and the co-founder retain the voting rights of such restricted shares and any additional securities or cash received as the result of ownership of such shares, such as a share dividend, become subject to restriction in the same manner. The Group measured the fair values of the restricted shares as of November 11, 2014 and April 20, 2015 and recognized the amount as compensation expenses over the 48 and 43 months deemed service period on a straight-line basis.

	<u>Number of restricted shares</u>	<u>Weighted average grant date fair value US\$</u>
<b>Unvested at January 1, 2017</b>	<b>34,040,271</b>	<b>0.10</b>
Vested	(18,567,416)	0.10
<b>Unvested at December 31, 2017</b>	<b>15,472,855</b>	<b>0.10</b>
Vested	(15,472,855)	0.10
<b>Unvested at December 31, 2018</b>	<b>—</b>	<b>0.10</b>

In December 17, 2016, the Group paid US\$945 (RMB6,392) to repurchase the co-founder’s 441,588 ordinary shares that were released from the restriction (note 15). The fair value of the ordinary shares was US\$1.25 (RMB8.47) per share on the repurchase date. The amount of cash to repurchase the vested shares was charged to APIC, to the extent that the amount paid does not exceed the fair value of the vested shares, which is US\$552 (RMB3,730) and the excess of the fair value amounted US\$393 (RMB2,662) is recorded in general and administrative expenses as compensation cost.

Total share-based compensation expenses recognized for these restricted shares in 2017 and 2018 were US\$1,918 (RMB11,752) and US\$1,598 (RMB9,793), respectively. As of December 31, 2018, no unrecognized compensation expenses related to the restricted shares.

#### Restricted share units

On December 8, 2015, May 27, 2016 and December 4, 2018, the Group granted restricted share units of 14,185,333, 9,348,000 and 3,000,000, respectively, to employees including directors, subject to service vesting schedule of four years under the 2015 Plan. The estimated fair values on the grant date of each restricted share unit were US\$1.08 (RMB6.92), US\$1.16 (RMB7.60) and US\$2.26 (RMB14.55), respectively. In 2017, 2018 and 2019, 1,898,813, nil and nil restricted share units were forfeited, respectively, due to resignation of employees.

### 13. SHARE-BASED COMPENSATION (CONTINUED)

#### Restricted share units (Continued)

The following table summarized the Group's restricted share unit activities under the 2015 Plan:

	Number of restricted share units	Weighted average grant date fair value US\$
<b>Unvested at January 1, 2017</b>	<b>12,635,187</b>	<b>1.09</b>
Vested	(3,643,708)	1.08
Forfeited	(1,898,813)	1.16
<b>Unvested at December 31, 2017</b>	<b>7,092,666</b>	<b>1.08</b>
Granted	3,000,000	2.26
Vested	(3,608,833)	1.10
<b>Unvested at December 31, 2018</b>	<b>6,483,833</b>	<b>1.60</b>
Vested	(4,296,333)	1.29
<b>Unvested at December 31, 2019</b>	<b>2,187,500</b>	<b>2.26</b>
<b>Expected to vest at December 31, 2019</b>	<b>2,187,500</b>	

Restricted share units granted to employees are measured based on their grant-date fair values and recognized as compensation cost on a straight-line basis over the requisite service period. Total share-based compensation expenses recognized for these restricted share units in 2017, 2018 and 2019 were US\$4,124 (RMB28,586), US\$3,945 (RMB26,197) and US\$5,525 (RMB38,272), respectively. As of December 31, 2019, there were US\$4,944 (RMB34,490) of unrecognized compensation expenses related to unvested restricted share units which is expected to be recognized over a weighted-average period of 2.92 years.

#### JD's Share Incentive Plan (the "JD Employee Awards")

On April 26, 2016, the Group consummated the acquisition of JDDJ business from JD. The acquisition involved the transfer of certain employees from JD to the Group. These employees were granted with unvested restricted share units by JD (the "JD Employee Awards") when they were employed by JD. The JD Employee Awards which are generally vested annually over six years continued in effect after the acquisition for the employees transferred to the Group, provided that these employees continue their employment with the Group or any subsidiaries of JD.

### 13. SHARE-BASED COMPENSATION (CONTINUED)

#### JD's Share Incentive Plan (the "JD Employee Awards"). (Continued)

The Group recognizes the entire cost of JD Employee Awards incurred by JD, the Group's shareholder, as compensation cost with a corresponding amount as a capital contribution according to ASC 505-10-25-3. Prior to January 1, 2019, the Group re-measured the awards at a fair-value-based amount as of the end of each reporting period until performance was completed. On January 1, 2019, the Group adopted ASU 2018-07, under which the stock-based compensation for which a measurement date had not been established was re-measured based on the fair value of the JD's ordinary share of US\$20.93 on January 1, 2019. The share-based compensation amounts related to JD's share were US\$3,028 (RMB20,503), US\$2,313 (RMB15,195) and US\$1,867 (RMB12,896) for the years ended December 31, 2017, 2018 and 2019, respectively. The total amount of unrecognized compensation expenses based on the fair value of unvested restricted share units as of December 31, 2019 were US\$3,141 (RMB21,912), and is expected to be recognized over a weighted-average period of 2.55 years.

	Number of restricted share units	Weighted average fair value
		US\$
<b>Unvested at January 1, 2017</b>	<b>515,909</b>	<b>25.44</b>
Vested	(80,653)	37.54
Forfeited	<u>(148,809)</u>	30.29
<b>Unvested at December 31, 2017</b>	<b>286,447</b>	<b>41.42</b>
Granted	5,000	40.49
Vested	(68,644)	27.01
Forfeited	<u>(3,978)</u>	42.86
<b>Unvested at December 31, 2018</b>	<b>218,825</b>	<b>20.93</b>
Vested	(65,419)	20.93
Forfeited	<u>(3,321)</u>	20.93
<b>Unvested at December 31, 2019</b>	<b>150,085</b>	<b>20.93</b>
<b>Expected to vest at December 31, 2019</b>	<b>150,085</b>	

### 14. CONVERTIBLE REDEEMABLE PREFERRED SHARES

In November, 2014, the Group issued 7,700,000 (with par value of US\$0.001, later each share was split into 10 shares with par value of US\$0.0001 for each) Series A Preferred Shares with a total cash proceed of US\$1,777 (RMB10,900).

In November 2014, the Group entered into a bridge loan agreement in a total amount of US\$2,000 (RMB12,295) with its Series A shareholders (collectively, the "Bridge Loan Holders"). On January 12 and January 19, 2015, the Group entered into promissory notes agreement with one of the above mentioned Series A shareholders and a third party investor (collectively, the "2015 Notes Holders") respectively. The principal under the respective promissory notes agreement were US\$1,000 and US\$2,000, respectively.

In February 2015, the Group issued totaling 28,666,661 Series B Preferred Shares to new investors with a total proceed of US\$17,200 (RMB105,737). At the same time, all the Bridge Loan Holders converted the outstanding principal of US\$2,000 into 4,081,638 Series B Preferred Shares at a conversion price of US\$0.49 per share. All the 2015 Notes Holders converted the outstanding principal of US\$3,000 on their 2015 Notes into 5,000,001 Series B Preferred Shares at a conversion price of US\$0.60 per share.

In May 2015, the Group issued totaling 44,286,448 Series C Preferred Shares at US\$2.1451 per share for an aggregate purchase price of US\$95,000 (RMB581,362). In connection with the issuance of Series C Preferred Shares, the Group repurchased 2,330,866 ordinary shares from its founder with the consideration of US\$5,000 (RMB30,598). The excess of the purchase price over the par value of the ordinary share with an amount of US\$1,538 (RMB9,413) was charged in accumulated deficit due to absence of APIC and the excess of the purchase price over the fair value of the ordinary share with an amount of US\$3,462 (RMB21,185) was recognized as compensation to its executive.

#### **14. CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)**

In September 2015, the Group issued totaling 58,508,525 Series D Preferred Shares at US\$4.19 per share for an aggregate purchase price of US\$245,000 (RMB1,558,519). In April 2016, the Group issued additional totaling 5,492,637 Series D Preferred Shares at US\$4.19 per share for an aggregate purchase price of US\$23,000 (RMB148,555).

In April 2016, in connection with the acquisition of JDDJ business, the Group issued 46,743,137 Series E Preferred Shares at US\$4.28 per share with an aggregate purchase price of US\$200,000 (RMB1,291,780), or US\$198,378 (RMB1,281,306), net of issuance cost amounted RMB10,474 and a warrant, which provided JD the right to subscribe 35,151,665 Series E Preferred Shares with the pre-determined purchase price of US\$4.28 per share and exercisable at any time and expire on the earlier of (i) 24 months after issuance and (ii) a Qualified Financing.

In October 2016, the Group issued another totaling 11,685,784 shares (with par value of US\$0.0001) of Series E Preferred Shares to a new investor at US\$4.28 per share with an aggregate purchase price of US\$50,000 (RMB338,205).

The issuance cost related to Series E Preferred Shares was RMB10,474.

In December 2017, JD exercised the warrant and subscribed 35,151,665 Series E Preferred Shares at US\$4.28 per share with a consideration of US\$150,403 (RMB983,820).

In January 2018, The Series E and D Preferred Shares' conversion prices, originally US\$4.28 and US\$4.19 per share were reduced to US\$4.06 and US\$4.17 per share, respectively, pursuant to the conversion price adjustment stipulated in conversion terms as described below.

In August 2018, the Group issued totaling 116,857,842 Series F Preferred Shares at US\$4.28 per share with an aggregate purchase price of US\$500,000 (RMB3,412,300) or US\$498,582 (RMB3,402,611), net of issuance cost amounted RMB9,689.

The key terms of the Series A, B, C, D, E and F convertible redeemable preferred shares are as follows:

##### **Conversion**

Each holder of preferred shares shall have the right, at such holder's sole discretion, to convert all or any portion of the preferred shares into ordinary shares on a one-for-one basis at any time. The initial conversion price is the issuance price of preferred shares, subject to adjustment in the event of (1) stock splits, share combinations, share dividends and distribution, recapitalizations and similar events, and (2) issuance of new securities at a price per share less than the conversion price in effect on the date of or immediately prior to such issuance. In that case, the conversion price shall be reduced concurrently to the subscription price of such issuance. Additionally, the Series E conversion price shall be reduced, upon the earlier to occur of: (i) January 1, 2018 and (ii) the Company raising gross proceeds of at least US\$100,000 in the aggregate through next equity financing (taking into account all closings of such financing if there is more than one closing).

Each preferred share shall automatically be converted by way of repurchase of such preferred share and the issuance of the corresponding number of ordinary shares, based on the then applicable effective Series A conversion price, Series B conversion price, Series C conversion price, Series D conversion price, Series E conversion price or Series F conversion price, without the payment of any additional consideration, into fully-paid and non-assessable ordinary shares upon the earlier of (i) the closing of a qualified IPO and (ii) the date specified by written consent or agreement of, collectively and each voting as a separate class, (i) the holders holding a majority of the then outstanding Series A Preferred Shares, (ii) the holders holding at least sixty percent (60%) of the then outstanding Series B preferred Shares, (iii) the holders holding at least fifty percent (50%) of the then outstanding Series C Preferred Shares, (iv) the holders holding at least fifty percent (50%) of the then outstanding Series D Preferred Shares, (v) the holders holding at least fifty percent (50%) of the then outstanding Series E Preferred Shares, and (vi) the holders holding at least fifty percent (50%) of the then outstanding Series F Preferred Shares.

## **14. CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)**

### **Redemption**

At any time after the earliest of (i) the fifth (5<sup>th</sup>) anniversary of August 08, 2018, if a qualified IPO has not been consummated by then, (ii) the date that the Group and the Founder are engaged in any material fraudulent activities aiming at the holders of preferred shares, (iii) any important license, permit or government approvals necessary for the business of any group being suspended, rejected to be issued or renewed or revoked, to the extent that the Group's main business is materially and adversely affected as a result of such suspension, rejection or revocation, (iv) the validity, legality or enforceability of the VIE documents being outlawed by the PRC law, and (v) the date that any governmental authority prohibits any group from distributing all or any part of its distributable earnings or cash or other assets thereof to an offshore shareholder of any Group's subsidiaries, the Group shall, at the written request of any holder of the preferred shares.

Equal to one hundred percent (100%) of the Series A issue price (in the case of Series A Preferred Shares), one hundred percent (100%) of the applicable Series B issue price (in the case of Series B Preferred Shares), one hundred percent (100%) of the applicable Series C issue price (in the case of Series C Preferred Shares), one hundred percent (100%) of the applicable Series D issue price (in the case of Series D Preferred Shares), one hundred percent (100%) of the applicable Series E issue price (in the case of Series E Preferred Shares) or one hundred percent (100%) of the applicable Series F Issue Price with an eight percent (8%) compound per annum return (if the period is less than one year, such return shall be calculated pro rata) calculating from the applicable Series A issue date, Series B issue date, Series C issue date, Series D issue date, Series E issue date or Series F issue date (as the case may be) to the redemption price payment date, plus any accrued but unpaid dividends on such share and shall be exclusive of any liquidity or minority ownership discount, with payment on the twentieth (20th) business day after the date of written request by the holders of preferred shares.

In the case of the Series E Preferred Shares and the Series F Preferred Shares owned by Azure Holdings S.a.r.l (“Walmart”), without limitation of any other rights of redemption of the Series E Preferred Shares or Series F Preferred Shares hereunder, in the event of an uncured key breach by any Group's subsidiaries of the Revised Business Cooperation Agreement as determined in the Redemption Condition, so long as the redemption conditions are satisfied, the Group shall, at the written request of Walmart, redeem all or part of the outstanding Preferred Shares held by Walmart and/or its Affiliates, at a price per Preferred Share equal to one hundred percent (100%) of the applicable Series E issue price or one hundred percent (100%) of the applicable Series F issue price, plus any accrued but unpaid dividends on such share and shall be exclusive of any liquidity or minority ownership discount, with payment on the twentieth (20<sup>th</sup>) business day after the date of written request by Walmart.

## **14. CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)**

### **Liquidation Preference**

In the event of any liquidation, dissolution or winding up of the Group, whether voluntary or involuntary, all assets and funds of the Group legally available for distribution to the members (after satisfaction of all creditors' claims and claims that may be preferred by law) shall be distributed to the members of the Group as follows:

- (1) Amount to one hundred percent (100%) of Series B Preferred Shares, Series C Preferred Shares, Series D Preferred Shares, Series E Preferred Shares or Series F Preferred Shares holder (collectively, the "Senior Preferred Shares"), plus all declared but unpaid dividends on such Senior Preferred Shares. If the assets and funds thus distributed among the holders of the Senior Preferred Shares shall be insufficient to permit the payment to such holders of the full Series B, Series C, Series D, Series E and Series F Preference Amount (collectively, the "Senior Preference Amount"), then the entire assets and funds of the Group legally available for distribution shall be distributed ratably among the holders of the Senior Preferred Shares in proportion to the aggregate Senior Preference Amount each such holder is otherwise entitled to receive pursuant to this term;
- (2) If there are any assets or funds remaining after distribution according to above term (1), the holders of the Series A Preferred Shares shall be entitled to receive for each Series A Preferred Share held by such holder, on parity with each other and prior and in preference to any distribution of any of the assets or funds of the Group to the holders of the ordinary shares by reason of their ownership of such shares, the amount equal to one hundred percent (100%) of the Series A issue price ("Series A Preference Amount"). If the assets and funds thus distributed among the holders of the Series A Preferred Shares shall be insufficient to permit the payment to such holders of the full Series A Preference Amount, then the entire assets and funds of the Group legally available for distribution to the Series A Preferred Shares shall be distributed ratably among the holders of the Series A Preferred Shares in proportion to the aggregate Series A Preference Amount each such holder is otherwise entitled to receive pursuant to this term;
- (3) If there are any assets or funds remaining after the aggregate Senior Preference Amount and the aggregate Series A Preference Amount has been distributed or paid in full to the applicable holders of Preferred Shares pursuant to term (1) and (2), the remaining assets and funds of the Group available for distribution to the members shall be ratably distributed among all members according to the relative number of ordinary shares held by such member (including the holders of the Series A Preferred Shares, the Series B Preferred Shares, the Series C Preferred Shares, the Series D Preferred Shares, the Series E Preferred Shares and the Series F Preferred Shares).

### **Dividends**

- (1) Each holder of a Preferred Share shall be entitled to receive noncumulative dividend at the rate of eight percent (8%) of the applicable Series A issue price, Series B issue price, Series C issue price, Series D issue price, Series E issue price or Series F issue price as the case may be, per annum for each such share held by such holder, payable out of funds or assets when and as such funds or assets become legally available therefore on parity with each other, prior and in preference to, and satisfied before, any dividend on any other class or series of shares. Such dividends shall be payable only when, as, and if declared by the Board of Directors.
- (2) No dividend or distribution, whether in cash, in property, or in any other shares of the Group, shall be declared, paid, set aside or made with respect to the ordinary shares at any time unless all accrued but unpaid dividends on the Preferred Shares set forth in term (1), if any, have been paid in full, and a distribution is likewise declared, paid, set aside or made, respectively, at the same time with respect to each outstanding Preferred Share such that the dividend or distribution declared, paid, set aside or made to the holder thereof shall be equal to the dividend or distribution that such holder would have received pursuant to this term if such Preferred Share had been converted into ordinary shares immediately prior to the record date for such dividend or distribution, or if no such record date is established, the date such dividend or distribution is made, and if such share then participated in and the holder thereof received such dividend or distribution.

## **14. CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)**

### **Voting Rights**

Subject to the provisions of Seventh Amended and Restated Memorandum and Articles (including any Article providing for special voting rights), at all general meetings of the Group: (a) the holder of each ordinary share issued and outstanding shall have one vote in respect of each ordinary share held, and (b) the holder of a preferred share shall be entitled to such number of votes as equals the whole number of ordinary share into which such holder's collective preferred shares are convertible immediately after the close of business on the record date of the determination of the Group's members entitled to vote or, if no such record date is established, at the date such vote is taken or any written consent of the Group's members is first solicited. Fractional votes shall not, however, be permitted and any fractional voting rights available on an as converted basis (after aggregating all shares into which the preferred shares held by each holder could be converted) shall be rounded to the nearest whole number (with one-half being rounded upward). To the extent that the statute or the articles allow the preferred shares to vote separately as a class or series with respect to any matters, the preferred shares, shall have the right to vote separately as a class or series with respect to such matters.

### **Accounting for the Preferred Shares**

The Group has classified the preferred shares as mezzanine equity as these preferred shares are redeemable upon the occurrence of an event not solely within the control of the Group. The holders of the preferred shares have a redemption right and liquidation preference and will not receive the same form of consideration upon the occurrence of the conditional event as the ordinary shareholders would.

The Group recorded the initial carrying amount of the preferred shares with its issuance price, which approximated the issuance date fair value, after the reduction of the issuance cost. The Group uses interest method to accrete the carrying value of the preferred shares to their maximum redemption price at the end of each reporting period. The change in redemption value is recorded against retained earnings, or in the absence of retained earnings, against APIC. Once APIC has been exhausted, additional charges are recorded by increasing the accumulated deficit.

The Group did not identify any derivatives embedded in the preferred shares that were subject to bifurcation and fair value accounting. The Group also determined that there was no beneficial conversion feature attributable to the preferred shares, as the effective conversion price was not less than the fair value of the ordinary shares on the respective commitment date.

#### 14. CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

##### Accounting for the Preferred Shares (Continued)

The following table summarized the rollforward of the carrying amount of the preferred equity for the years of 2017, 2018 and 2019:

	Series A RMB	Series B RMB	Series C RMB	Series D RMB	Series E RMB	Series F RMB	Total RMB
<b>January 1, 2017</b>	<b>12,930</b>	<b>158,762</b>	<b>661,884</b>	<b>1,881,800</b>	<b>1,707,072</b>	<b>—</b>	<b>4,422,448</b>
Issuance	—	—	—	—	1,087,060	—	1,087,060
Accretion	1,134	13,893	58,144	159,481	141,594	—	374,246
<b>December 31, 2017</b>	<b>14,064</b>	<b>172,655</b>	<b>720,028</b>	<b>2,041,281</b>	<b>2,935,726</b>	<b>—</b>	<b>5,883,754</b>
Issuance	—	—	—	—	—	3,402,611	3,402,611
Accretion	1,196	14,661	61,371	168,323	149,445	116,650	511,646
<b>December 31, 2018</b>	<b>15,260</b>	<b>187,316</b>	<b>781,399</b>	<b>2,209,604</b>	<b>3,085,171</b>	<b>3,519,261</b>	<b>9,798,011</b>
Issuance	—	—	—	—	—	—	—
Accretion	1,346	16,494	69,037	189,354	234,692	284,092	795,015
<b>December 31, 2019</b>	<b>16,606</b>	<b>203,810</b>	<b>850,436</b>	<b>2,398,958</b>	<b>3,319,863</b>	<b>3,803,353</b>	<b>10,593,026</b>

As of December 31, 2019, a summary of convertible redeemable preferred shares are as follows:

Series	Average Issue Price per Share US\$	Issuance Date	Shares Issued	Shares Outstanding	Proceeds from Issuance, net of Issuance Costs US\$	Carrying/Redemption Amount RMB
A	0.2307	11/11/2014	77,000,000	77,000,000	1,777	16,606
B	0.5881	13/02/2015	37,748,300	37,748,300	22,200	203,810
C	2.1451	22/05/2015	44,286,448	44,286,448	95,000	850,436
D	4.1874	23/09/2015	58,508,525	58,508,525	245,000	2,198,698
D	4.1874	05/04/2016	5,492,637	5,492,637	23,000	200,260
E	4.2787	26/04/2016	46,743,137	46,743,137	198,378	1,733,692
E	4.2787	20/10/2016	11,685,784	11,685,784	50,000	432,535
E	4.2787	28/12/2017	35,151,665	35,151,665	150,403	1,153,636
F	4.2787	08/08/2018	116,857,842	116,857,842	498,582	3,803,353
			<b>433,474,338</b>	<b>433,474,338</b>	<b>1,284,340</b>	<b>10,593,026</b>

#### 15. ORDINARY SHARES

On July 10, 2014, the Company was incorporated with an issuance of 6,100,000 ordinary shares to the founder at a par value of US\$0.001 each. On February 7, 2015, the Company effected a 1-for-10 share split of the Company's shares. The number of outstanding ordinary shares of 6,100,000 split into 61,000,000 shares while the par value of US\$0.001 was converted into US\$0.0001. Subscription receivable of RMB35 from the founder was recorded as of December 31, 2017, 2018 and 2019.

On April 20, 2015, the Group issued 10,044,865 ordinary shares subject to share restriction agreement to the co-founder with proceeds of zero (Note 13).

On May 29, 2015, the Group paid US\$5,000 (RMB30,598) to repurchase 2,330,866 outstanding ordinary shares at US\$2.1451 per share from its founder and all the repurchased ordinary shares were retired in 2015. (Note 14).

On April 14, 2016, the Group paid US\$3,000 (RMB19,429) to repurchase 716,431 early exercised share options from non-employees at US\$4.1874 per share and all the repurchased shares were retired in 2016. The total consideration was charged against general and administrative expenses (Note 13).

## 15. ORDINARY SHARES (CONTINUED)

On April 26, 2016, the Group entered into a share purchase agreement with JD, pursuant to which the Group issued 286,832,885 ordinary shares to JD in connection with the acquisition of JDDJ business.

On December 17, 2016, the Group paid US\$945 (RMB6,392) to repurchase 441,588 ordinary shares from the co-founder at US\$2.14 per share to compensate his service (Note 13).

On April 23, 2018, the Company issued 7,092,667 ordinary shares for vested restricted share units of the founder and the co-founder.

On December 8, 2019, the Company issued 7,092,666 ordinary shares for vested restricted share units of the founder and the co-founder.

## 16. LOSS PER SHARE

Loss per share was computed by dividing net loss available to ordinary shareholders by the weighted average number of ordinary shares outstanding for the years ended December 31, 2017, 2018 and 2019:

	Years ended December 31,		
	2017 RMB	2018 RMB	2019 RMB
<b>Basic net loss per share</b>			
<b>Numerator:</b>			
Net loss available to ordinary shareholders of the Company—basic	(1,823,336)	(2,390,021)	(2,464,796)
<b>Shares (Denominator):</b>			
Weighted average number of ordinary shares outstanding—basic	355,105,296	360,002,151	362,644,898
<b>Loss per share—basic</b>	<b>(5.13)</b>	<b>(6.64)</b>	<b>(6.80)</b>
<b>Dilutive net loss per share</b>			
<b>Numerator:</b>			
Net loss available to ordinary shareholders of the Company—diluted	(1,823,336)	(2,390,021)	(2,464,796)
<b>Shares (Denominator):</b>			
Weighted average number of ordinary shares outstanding—basic	355,105,296	360,002,151	362,644,898
Deduct: effect of the exercise of warrant computed using the treasury stock method	61,301,515	—	—
Weighted average number of ordinary shares outstanding—diluted	293,803,781	360,002,151	362,644,898
<b>Loss per share—diluted</b>	<b>(6.21)</b>	<b>(6.64)</b>	<b>(6.80)</b>

## **16. LOSS PER SHARE (CONTINUED)**

As a result of the Group's net loss for the three years ended December 31, 2017, 2018 and 2019, the following weighted average numbers of the Company's preferred shares, share options, and restricted share units outstanding in the respective periods were excluded from the calculation of diluted loss per share as their inclusion would have been anti-dilutive.

	<u>Years ended December 31,</u>		
	<u>2017</u>	<u>2018</u>	<u>2019</u>
Series A convertible redeemable preferred shares	77,000,000	77,000,000	77,000,000
Series B convertible redeemable preferred shares	37,748,300	37,748,300	37,748,300
Series C convertible redeemable preferred shares	44,286,448	44,286,448	44,286,448
Series D convertible redeemable preferred shares	64,001,162	64,001,162	64,001,162
Series E convertible redeemable preferred shares	58,717,839	93,580,586	93,580,586
Series F convertible redeemable preferred shares	—	46,422,978	116,857,842
Share options	33,345,717	34,158,863	37,951,132
Restricted share units	10,000,041	5,676,866	4,505,362

## **17. TAXATION**

### **Income Taxes**

#### *Cayman Islands*

Under the current laws of the Cayman Islands, the Company incorporated in the Cayman Islands are not subject to tax on income or capital gain. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

#### *Hong Kong*

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% since January 1, 2010. Operations in Hong Kong have incurred net accumulated operating losses for income tax purpose and no income tax provisions are recorded for the period presented. Under the current Hong Kong Inland Revenue Ordinance, the Group's subsidiary 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 dollar 2,000 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%.

#### *China*

On March 16, 2007, the National People's Congress of the PRC introduced a new Corporate Income Tax Law ("new CIT Law"), under which Foreign Investment Enterprises ("FIEs") and domestic companies would be subject to corporate income tax at a uniform rate of 25%. Certain enterprises will benefit from a preferential tax rate of 15% under the CIT Law if they qualify as high and new technology enterprises ("HNTE"). Under such regulation, Dada Glory and Shanghai JDDJ are qualified for HNTE status and are eligible to a reduced income tax rate of 15% for the years ended 2018, 2019 and 2020.

## 17. TAXATION (CONTINUED)

### Income Taxes (Continued)

#### *Withholding tax on undistributed dividends*

The new CIT Law also provides that an enterprise established under the laws of a foreign country or region but whose “de facto management body” is located in the PRC be treated as a resident enterprise for PRC tax purposes and consequently be subject to the PRC income tax at the rate of 25% for its global income. The implementing rules of the CIT Law merely define the location of the “de facto management body” as “the place where the exercising, in substance, of the overall management and control of the production and business operation, personnel, accounting, property, etc., of a non-PRC company is located”. Based on a review of surrounding facts and circumstances, the Group does not believe that it is likely that its operations outside of the PRC should be considered a resident enterprise for PRC tax purposes.

The new CIT law also imposes a withholding income tax of 10% on dividends distributed by an FIE to its immediate holding company outside of China, if such immediate holding company is considered as a non-resident enterprise without any establishment or place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company’s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. The Cayman Islands, where the Company is incorporated, does not have such tax treaty with China. According to the arrangement between the Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by an FIE in China to its immediate holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the foreign investor owns directly at least 25% of the shares of the FIE). The Company did not record any dividend withholding tax, as it has no retained earnings for any of the periods presented.

Loss by tax jurisdictions:

	Years ended December 31,		
	2017 RMB	2018 RMB	2019 RMB
Loss from PRC operations	1,380,349	1,771,273	1,517,437
Loss from non-PRC operations	82,854	134,599	161,376
<b>Total losses before tax</b>	<b>1,463,203</b>	<b>1,905,872</b>	<b>1,678,813</b>

The current and deferred portion of income tax expenses included in the consolidated statements of operations and comprehensive loss are as follows:

	Years ended December 31,		
	2017 RMB	2018 RMB	2019 RMB
Current tax expenses	724	42	—
Deferred tax benefits	(14,837)	(27,539)	(9,032)
<b>Income tax benefits</b>	<b>(14,113)</b>	<b>(27,497)</b>	<b>(9,032)</b>

## 17. TAXATION (CONTINUED)

### Income Taxes (Continued)

#### *Withholding tax on undistributed dividends (Continued)*

Reconciliation of difference between PRC statutory income tax rate and the Group's effective income tax rate for the years ended December 31, 2017, 2018 and 2019 are as follows:

	Years ended December 31,		
	2017	2018	2019
Statutory tax rate	25.0%	25.0%	25.0%
Effect of different tax rate of subsidiary operation in other jurisdiction	(1.5)%	(1.8)%	(2.4)%
Effect of tax holiday	—	(8.5)%	(7.7)%
Effect of change in tax rate	—	8.5%	7.7%
Changes in valuation allowance	(22.9)%	(24.7)%	(26.0)%
Amortization of deferred tax liabilities from the identified intangible assets	1.0%	1.4%	0.5%
Super deduction of research and development expenses	0.8%	2.4%	3.4%
Other expenses not deductible for tax purposes	(1.4)%	(0.9)%	—
<b>Effective tax rate</b>	<b>1.0%</b>	<b>1.4%</b>	<b>0.5%</b>

#### Deferred tax assets and deferred tax liabilities

	As of December 31,		
	2017 RMB	2018 RMB	2019 RMB
<b>Deferred tax assets</b>			
- Net operating loss carry forwards	915,212	1,384,440	1,805,739
- Allowance for doubtful accounts	—	79	—
- Inventories valuation allowance	—	408	75
- Impairment provision for property and equipment	—	2,120	—
- Impairment provision for other non-current assets	—	1,039	1,039
- Accrued expenses	19,115	16,168	34,372
Less: Valuation allowance	(934,327)	(1,404,254)	(1,841,225)
<b>Net deferred tax assets</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Deferred tax liabilities</b>			
- Identifiable intangible assets from business combination	80,272	52,733	43,701
<b>Total deferred tax liabilities</b>	<b>80,272</b>	<b>52,733</b>	<b>43,701</b>

As of December 31, 2017, 2018 and 2019, the Group had net operating loss carry forwards of approximately RMB3,660,846, RMB5,537,754 and RMB7,222,966, respectively, which arose from the subsidiaries, VIE and VIE's subsidiaries established in the PRC. The loss carry forwards will expire during the period from 2019 to 2028.

## **17. TAXATION (CONTINUED)**

### **Deferred tax assets and deferred tax liabilities (Continued)**

The Group believes that it is more likely than not that the net accumulated operating losses and other deferred tax assets will not be utilized in the future based on an evaluation of a variety of factors including the Group's operating history, accumulated deficit, existence of taxable temporary differences and reversal periods. Therefore, the Group provided full valuation allowances for the deferred tax assets as of December 31, 2017, 2018 and 2019, respectively.

#### **Movement of valuation allowance**

	Years ended December 31,		
	2017 RMB	2018 RMB	2019 RMB
Balance at beginning of the year	599,870	934,327	1,404,254
Addition	334,457	469,927	436,971
<b>Balance at end of the year</b>	<b>934,327</b>	<b>1,404,254</b>	<b>1,841,225</b>

According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of income taxes is due to computational errors made by the taxpayer. The statute of limitations will be extended to five years under special circumstances, which are not clearly defined, but an underpayment of income tax liability exceeding RMB100 is specifically listed as a special circumstance. In the case of a transfer pricing related adjustment, the statute of limitations is ten years. There is no statute of limitations in the case of tax evasion. The Group's PRC subsidiaries are therefore subject to examination by the PRC tax authorities from 2014 through 2019 on non-transfer pricing matters and transfer pricing matters.

## **18. CONCENTRATION OF CREDIT RISK**

Financial instruments that potentially expose the Group to concentration of credit risk consist primarily of cash and cash equivalents, short-term investments, accounts receivable, amount due from related parties and prepayments. The Group places its cash and cash equivalents and short-term investments with financial institutions with high-credit ratings and quality. Accounts receivable mainly consist of amounts receivable from merchants, which are all with good collection history. There are no significant concentrations of credit risk. 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.

#### *Concentration of customers*

The following customers accounted for 10% or more of revenues for the years ended December 31, 2017, 2018 and 2019, respectively.

	Years ended December 31,		
	2017 RMB	2018 RMB	2019 RMB
Customer A	691,002	943,084	1,564,436
Customer B	*	*	403,287

\* Less than 10%.

## 18. CONCENTRATION OF CREDIT RISK (CONTINUED)

### *Concentration of customers (Continued)*

The following customers accounted for 10% or more of accounts receivable as of December 31, 2017, 2018 and 2019, respectively.

	As of December 31,		
	2017 RMB	2018 RMB	2019 RMB
Customer C	4,536	4,223	7,517
Customer D	1,290	4,215	*
Customer E	*	6,533	*
Customer F	*	*	9,275
Customer G	*	*	6,073

\* Less than 10%.

### *Concentration of suppliers*

The following suppliers accounted for 10% or more of accounts payable as of December 31, 2017, 2018 and 2019, respectively.

	As of December 31,		
	2017 RMB	2018 RMB	2019 RMB
Supplier A	773	1,193	*
Supplier B	1,470	*	*
Supplier C	1,338	*	*
Supplier D	875	*	*
Supplier E	*	*	1,753
Supplier F	*	*	1,722

\* Less than 10%.

### *Foreign currency risk*

RMB is not a freely convertible currency. The State Administration of Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into foreign currencies. The value of RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. The cash and cash equivalents of the Group included aggregated amounts of RMB138,489, RMB77,975 and RMB1,114,076 denominated in RMB, as of December 31, 2017, 2018 and 2019, respectively.

## 19. RELATED PARTY TRANSACTIONS

The table below sets forth the major related parties and their relationships with the Group as of December 31, 2019:

Name of related parties	Relationship with the Group
JD, its subsidiaries and affiliates ("JD Group")	Shareholder of the Company
Walmart, its subsidiaries and affiliates ("Walmart Group")	Shareholder of the Company
Co-founder	Executive of the Group

## 19. RELATED PARTY TRANSACTIONS (CONTINUED)

- (a) The Group entered into the following transactions with the major related parties:

	Years ended December 31,		
	2017 RMB	2018 RMB	2019 RMB
<b>Revenues</b>			
Services to JD Group <sup>(1)</sup>	691,002	943,084	1,564,436
Services to Walmart Group <sup>(2)</sup>	*	35,859 <sup>(3)</sup>	229,712 <sup>(3)</sup>
<b>Operating expenses</b>			
Operational support services from JD Group	29,986	32,862	25,376
<b>Purchases from JD Group</b>	7,191	26,908	47,179

- (1) The services revenues from JD Group primarily consist of delivery service revenues. The Group fulfills the delivery needs of JD Group by utilizing the Group's network of riders on Dada Now where the Group acts as a principal. Revenues are recognized on a gross basis at a pre-determined amount for each completed delivery with the related volume-discount recorded as a reduction of revenue and the fee is settled monthly or weekly. The service agreement has an initial term of one year and remains valid till other replacement agreement is signed by both parties.

JD Group also provides certain operational supporting services to the Group, such as cloud server services and customer and rider care services, the service fee is charged based on the actual cost incurred by JD Group as confirmed with the Group on a monthly basis. The service agreements have terms ranging from one to three years and have been renewed upon expiration.

In addition, the Group entered into the purchase agreement with JD Group in August 2016 to purchase goods from JD Group for sale on Dada Now. The purchase agreement has an initial term of one year, and remains valid till other replacement agreement is signed by both parties.

- (2) Walmart Group became a related party in August 2018, therefore, only transactions occurred after August 2018 were presented as related party transactions. The services revenues from Walmart Group primarily consist of on-demand retail platform service revenues and delivery service revenues under the business cooperation agreement and service agreement with Walmart Group. The on-demand retail platform service revenues primarily consist of commission fees based on a pre-determined percentage charged to Walmart Group for participating in the Group's online marketplace. The Group also fulfills the delivery needs of Walmart Group on JDDJ where the Group acts as a principal. Revenues are recognized on a gross basis at a pre-determined amount for each completed delivery. The Group entered into the business cooperation agreement with Walmart Group in June 2016, which was amended and restated in August 2018. The amended and restated business cooperation agreement has a term of six years. The service agreement has an initial term of one year, and remains valid till the termination of the business cooperation agreement.
- (3) This amount does not include the delivery services revenue paid by consumers for purchases from Walmart stores on JDDJ, which was RMB53,512 and RMB173,575 for the period from August to December 2018 and the year ended December 31, 2019, respectively.

## 19. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) The Group had the following balances with the major related parties:

	As of December 31,		
	2017 RMB	2018 RMB	2019 RMB
<b>Current assets:</b>			
Amount due from JD Group	48,232	151,481	236,196
Amount due from Walmart Group	—	7,354	72,486
Amount due from co-founder	528	528	—
<b>Total</b>	<b>48,760</b>	<b>159,363</b>	<b>308,682</b>
<b>Current liabilities:</b>			
Amount due to JD Group	38,290	32,672	19,350
Amount due to Walmart Group	—	21,630	63,450
<b>Total</b>	<b>38,290</b>	<b>54,302</b>	<b>82,800</b>

The Group provides collection of cash on delivery service when performing delivery services for JD Group. Amount due to JD Group includes cash collected from consumers on behalf of JD.COM when merchandises are delivered to them.

Amount due to Walmart includes cash collected from consumers on behalf of Walmart when the Group performs on-demand retail platform services to the Walmart Group.

## 20. EMPLOYEE BENEFIT

As stipulated by the regulations of the PRC, full-time employees of the Group are entitled to various government statutory employee benefit plans, including medical insurance, maternity insurance, workplace injury insurance, unemployment insurance and pension benefits through a PRC government-mandated multi-employer defined contribution plan. The Group is required to make contributions to the plan based on certain percentages of employees' salaries. The total expenses the Group incurred for the plan were RMB53,404, RMB85,328 and RMB103,600 for the years ended December 31, 2017, 2018 and 2019, respectively, which are recorded in expenses based on the function of employees.

## 21. COMMITMENTS AND CONTINGENCIES

### *Operating lease commitments*

The Group has leased office premises under operating lease agreements for the periods from 2020 to 2024 and after. Future minimum lease payments for non-cancellable operating leases are as follows:

	As of December 31, 2019 RMB
2020	49,501
2021	37,812
2022	22,711
2023	17,125
2024 and after	15,440
	<b>142,589</b>

## **21. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

### *Operating lease commitments (Continued)*

Rental expenses amounted to RMB17,578, RMB40,519 and RMB58,713 for the years ended December 31, 2017, 2018 and 2019, respectively. Rental expenses are charged to the consolidated statements of operations and comprehensive loss when incurred.

### *Contingencies*

The Group is subject to a number of legal or administrative proceedings that generally arise in the ordinary course of its business. The Group does not believe that any currently pending legal or administrative proceeding to which the Group is a party will have a material adverse effect on the financial statements.

## **22. RESTRICTED NET ASSETS**

Pursuant to the laws applicable to the PRC's Foreign Investment Enterprises and local enterprises, the Group's entities in the PRC must make appropriation from after-tax profit to non-distributable reserve funds as determined by the Board of Directors of the Company.

PRC laws and regulations permit payments of dividends by the Company's subsidiaries and VIE incorporated in the PRC only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, the Company's subsidiaries and VIE incorporated in the PRC are required to annually appropriate 10% of their net income to the statutory reserve prior to payment of any dividends, unless such reserve has reached 50% of their respective registered capital. In addition, registered share capital and capital reserve accounts are also restricted from withdrawal in the PRC.

As a result of these PRC laws and regulations and the requirement that distributions by PRC entities can only be paid out of distributable profits computed in accordance with the PRC accounting standards and regulations, the PRC entities are restricted from transferring a portion of their net assets to the Group. Amounts restricted include paid-in capital, APIC and the statutory reserves of the Company's PRC subsidiaries, VIE and VIE's subsidiaries. As of December 31, 2017, 2018 and 2019, the total of restricted net assets were RMB2,724,903, RMB5,742,656 and RMB7,317,215, respectively.

## **23. SUBSEQUENT EVENT**

The subsequent events were evaluated through March 13, 2020, which is the issuance date of the audited consolidated financial statements.

From January to March 2020, the Group granted 15,836,326 restricted share units with various vesting periods to the Group's employees and non-employees under the 2015 Plan. 25% vest on each quarter over one year from the grant date, 25% vest on each anniversary over four years from the grant date, 1/6 vest at each anniversary over six years from the grant date for restricted share units with the vesting period of one year, four years and six years, respectively.

From January to March 2020, the Group also granted options to purchase 3,188,000 ordinary shares to the Group's employees with the exercise price of US\$0.80 under the 2015 Plan, of which 25% vest on each anniversary over four years from the grant date and can only be exercised upon an IPO condition.

As of March 13, 2020, the Group was still in the process of assessment of the fair values of the options and restricted share units granted during the first quarter of 2020.

**ADDITIONAL FINANCIAL INFORMATION OF PARENT COMPANY**  
**FINANCIAL STATEMENTS SCHEDULE I**  
**DADA NEXUS LIMITED**  
**FINANCIAL INFORMATION OF PARENT COMPANY**  
**CONDENSED BALANCE SHEETS**  
**(Amounts in thousands, except for share and per share data)**

	As of December 31,			
	2017 RMB	2018 RMB	2019 RMB	US\$ (Note 2)
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	1,142,112	1,627,263	40,573	5,828
Short-term investments	—	—	714,803	102,675
Prepayments and other current assets	22	2,401	10,797	1,550
<b>Total current assets</b>	<b>1,142,134</b>	<b>1,629,664</b>	<b>766,173</b>	<b>110,053</b>
Investment in and amount due from subsidiaries, VIE and VIE's subsidiaries	2,050,774	2,763,938	2,145,167	308,132
Intangible assets, net	748,514	638,790	499,464	71,744
<b>Total non-current assets</b>	<b>2,799,288</b>	<b>3,402,728</b>	<b>2,644,631</b>	<b>379,876</b>
<b>TOTAL ASSETS</b>	<b>3,941,422</b>	<b>5,032,392</b>	<b>3,410,804</b>	<b>489,929</b>
<b>LIABILITIES</b>				
Amount due to subsidiaries, VIE and VIE's subsidiaries	522,825	—	—	—
Accrued expenses and other current liabilities	9,869	11,269	8,740	1,255
<b>TOTAL LIABILITIES</b>	<b>532,694</b>	<b>11,269</b>	<b>8,740</b>	<b>1,255</b>
<b>MEZZANINE EQUITY</b>	<b>5,883,754</b>	<b>9,798,011</b>	<b>10,593,026</b>	<b>1,521,591</b>
<b>SHAREHOLDERS' DEFICIT</b>				
Ordinary shares (US\$0.0001 par value, 1,616,803,191, 1,499,945,349 and 1,499,945,349 shares authorized, 355,105,296, 362,197,963 and 369,290,629 shares issued and outstanding as of December 31, 2017, 2018 and 2019, respectively)	227	232	237	34
Additional paid-in capital	1,513,420	1,052,954	309,102	44,400
Subscription receivable	(35)	(35)	(35)	(5)
Accumulated deficit	(4,091,770)	(5,970,145)	(7,639,926)	(1,097,407)
Accumulated other comprehensive income	103,132	140,106	139,660	20,061
<b>TOTAL SHAREHOLDERS' DEFICIT</b>	<b>(2,475,026)</b>	<b>(4,776,888)</b>	<b>(7,190,962)</b>	<b>(1,032,917)</b>
<b>TOTAL LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS' DEFICIT</b>	<b>3,941,422</b>	<b>5,032,392</b>	<b>3,410,804</b>	<b>489,929</b>

**ADDITIONAL FINANCIAL INFORMATION OF PARENT COMPANY**  
**FINANCIAL STATEMENTS SCHEDULE I**  
**DADA NEXUS LIMITED**  
**FINANCIAL INFORMATION OF PARENT COMPANY**  
**CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
(Amounts in thousands, except for share and per share data)

	Years ended December 31,			
	2017 RMB	2018 RMB	2019 RMB	US\$ (Note 2)
<b>Expenses and income/(loss)</b>				
General and administrative expenses	(209,656)	(197,983)	(203,191)	(29,186)
Interest income	2,111	21,524	25,327	3,638
Foreign exchange loss	(13)	(175)	—	—
Fair value change in warrant liabilities	82,467	—	—	—
Equity in losses of subsidiaries, VIE and VIE's subsidiaries	(1,323,999)	(1,701,741)	(1,491,917)	(214,302)
<b>Net loss attributable to the Company</b>	<b>(1,449,090)</b>	<b>(1,878,375)</b>	<b>(1,669,781)</b>	<b>(239,850)</b>
Accretion of convertible redeemable preferred shares	(374,246)	(511,646)	(795,015)	(114,197)
<b>Net loss available to ordinary shareholders</b>	<b>(1,823,336)</b>	<b>(2,390,021)</b>	<b>(2,464,796)</b>	<b>(354,047)</b>
<b>Net Loss</b>	<b>(1,449,090)</b>	<b>(1,878,375)</b>	<b>(1,669,781)</b>	<b>(239,850)</b>
<b>Other comprehensive income/(loss)</b>				
Foreign currency translation adjustments	(108,449)	36,974	(446)	(64)
<b>Total comprehensive loss</b>	<b>(1,557,539)</b>	<b>(1,841,401)</b>	<b>(1,670,227)</b>	<b>(239,914)</b>

**ADDITIONAL FINANCIAL INFORMATION OF PARENT COMPANY**  
**FINANCIAL STATEMENTS SCHEDULE I**  
**DADA NEXUS LIMITED**  
**FINANCIAL INFORMATION OF PARENT COMPANY**  
**CONDENSED STATEMENTS OF CASHFLOW**  
(Amounts in thousands, except for share and per share data)

	Years ended December 31,			
	2017 RMB	2018 RMB	2019 RMB	US\$ (Note 2)
<b>Net cash (used in)/provided by operating activities</b>	(138,875)	(126,428)	10,460	1,505
<b>Net cash used in investing activities</b>	(387,259)	(2,791,032)	(1,586,628)	(227,908)
<b>Net cash provided by financing activities</b>	<u>983,820</u>	<u>3,402,611</u>	<u>—</u>	<u>—</u>
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>	—	—	(10,522)	(1,511)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>457,686</b>	<b>485,151</b>	<b>(1,586,690)</b>	<b>(227,914)</b>
Cash and cash equivalents, beginning of the year	684,426	1,142,112	1,627,263	233,742
Cash and cash equivalents, end of the year	<u>1,142,112</u>	<u>1,627,263</u>	<u>40,573</u>	<u>5,828</u>

**ADDITIONAL FINANCIAL INFORMATION OF PARENT COMPANY**  
**FINANCIAL STATEMENTS SCHEDULE I**  
**DADA NEXUS LIMITED**  
**FINANCIAL INFORMATION OF PARENT COMPANY**  
**NOTES TO SCHEDULE I**

- 1) Schedule 1 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. The Company does not include condensed financial information as to the changes in equity as such financial information is the same as the consolidated statements of changes in shareholders' equity.
- 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 VIE. For the parent company, the Company records its investments in subsidiaries and VIE under the equity method of accounting as prescribed in ASC 323, Investments—Equity Method and Joint Ventures. Such investments are presented on the Condensed Balance Sheets as "Investment in subsidiaries, VIE and VIE's subsidiaries" and the subsidiaries and VIE's profit or loss as "Equity in losses of subsidiaries, VIE and VIE's subsidiaries" on the Condensed Statements of Operations and Comprehensive Income. Ordinarily under the equity method, an investor in an equity method investee would cease to recognize its share of the losses of an investee once the carrying value of the investment has been reduced to nil absent an undertaking by the investor to provide continuing support and fund losses. For the purpose of this Schedule I, the parent company has continued to reflect its share, based on its proportionate interest, of the losses of subsidiaries and VIE in investment in and amount due from subsidiaries, VIE and VIE's subsidiaries even though the parent company is not obligated to provide continuing support or fund losses.
- 3) For the years ended December 31, 2017, 2018 and 2019, there were no material contingencies, significant provisions of long-term obligations, guarantees of the Company.
- 4) For the years ended December 31, 2017, 2018, and 2019, noncash investing activities include offsets of due from and due to subsidiaries, VIE and VIE's subsidiaries amounted to nil, RMB 522,825 and nil, and transfer of due from subsidiaries, VIE and VIE's subsidiaries to investment in subsidiaries, VIE and VIE's subsidiaries amounted to nil, nil and RMB 438,914, respectively.

**BITAUTO HOLDINGS LIMITED**

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019**

**BITAUTO HOLDINGS LIMITED**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of Bitauto Holdings Limited

### ***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of Bitauto Holdings Limited and its subsidiaries (the “Company”) as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income/(loss), changes in shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2019, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

### ***Change in Accounting Principles***

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019.

### ***Basis for Opinions***

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Annual Report on Internal Control over Financial Reporting appearing under Item 15 of the Form 20-F. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### ***Definition and Limitations of Internal Control over Financial Reporting***

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

#### **Critical Audit Matters**

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

#### *Provision for credit losses of finance receivables*

As described in Note 15 to the consolidated financial statements, the Company's consolidated finance receivables balance as of December 31, 2019 was RMB26,990 million, after a provision for credit losses of RMB566 million. For the year ended December 31, 2019, the provision for credit losses for finance receivables recorded in the consolidated statement of comprehensive income/(loss) amounted to RMB871 million. The total balance of a finance receivable is considered contractually past due if the minimum required payment is not received by the contractual repayment day. The allowance for credit losses is based on a systematic, ongoing review and valuation performed as part of the credit-risk evaluation process. Management estimates the balance of provision for credit losses of finance receivables at each balance sheet date by applying an incurred loss model, mainly based on customer repayment activities, where applicable, the historical loss rate and days past due information.

The principal considerations for our determination that performing procedures relating to the provision for credit losses of finance receivables is a critical audit matter are there were significant judgments made by management in estimating the credit losses of finance receivables. This in turn led to a high degree of auditor judgement, subjectivity and audit effort in performing procedures to evaluate the reasonableness of management's determination of the provision for credit losses of financial receivables, including the underlying data and significant assumptions used in estimating the expected default rate. In addition, the audit effort involved the significant use of professionals with specialized skill and knowledge to assist in evaluating the audit evidence obtained from these procedures.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's estimation of the provision for credit losses of finance receivables, including controls over the estimation model, significant assumptions and data used to estimate the expected default rate. The procedures also included, among other things, testing management's process for evaluating the appropriateness of management's model to determine the provision for credit losses of financial receivables, testing completeness, accuracy and relevance of underlying data used in the model, evaluating the significant assumptions used by management, including the expected default rate, and testing the mathematical accuracy of the calculation. Evaluating the reasonableness of the significant assumptions used in estimating the expected default rate involved considering historical default rate and testing the aggregation of historical loss rates of financial assets within each risk level. Professionals with specialized skill and knowledge were used to assist in the evaluation of the estimation model and expected default rate.

#### *Impairment of investment in equity investees*

As described in Note 9 to the consolidated financial statements, the Company's consolidated investment in equity investees balance as of December 31, 2019 was RMB1,913 million. For the year ended December 31, 2019, impairment losses from the investment in equity investees recorded in the consolidated statement of comprehensive income/(loss) amounted to RMB168 million. Management performs impairment assessments of the investments whenever events or changes in circumstances indicate that the carrying value of an investment may not be fully recoverable. The primary factors that management considers in its determination include the length of time the Company holds the investment, financial condition, operating performance, prospects of the equity investees and other company-specific information of the investees. Management writes down the carrying value of the equity investees to fair value if the decline in fair value is deemed to be other than temporary after performing impairment assessments, which is reflected in share of results of equity investees and investment loss in the consolidated statements of comprehensive income/(loss).

The principal considerations for our determination that performing procedures relating to the impairment assessment of investment in equity investees is a critical audit matter is that there were significant judgments made by management in estimating the fair value of the investment in equity investees. This in turn led to a high degree of auditor judgment, subjectivity and effort in evaluating management's estimation of the fair value of the investment in equity investees including management's assessment of the equity investees' financial condition, operating performance, prospects and other company-specific information. In addition, the audit effort involved the use of professionals with specialized skill and knowledge to assist in evaluating the audit evidence obtained from these procedures.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's impairment assessment of the investment in equity investees, including controls over the identification of impairment indicators as well as controls over the estimates of the fair values of the investments in equity investees. These procedures also included, among others, testing management's process for identifying the investments with impairment indicators and estimating the fair values of the investments in equity investees if impairment indicators were identified, evaluating the appropriateness of the valuation model, testing the completeness and accuracy of data used in the model, and evaluating the significant assumptions used by management including revenue growth rate, terminal growth rate and discount rate. Evaluating management's assumptions related to the revenue growth rate involved considering the equity investees' historical financial condition, historical operating performance and prospects, considering other company-specific information of the investees' including recent financing activities and benchmarking of peer comparisons. Evaluating management's assumptions related to the terminal growth rate and discount rated involved considering the rates used for comparable companies and other company-specific information of the investees' including financing activities. Professionals with specialized skill and knowledge were used to assist in evaluating the appropriateness of the methodology used in the impairment models and the appropriateness of the assumptions used in the model, including the terminal growth rate and the discount rate.

#### *Measurement of investment in convertible notes*

As described in Notes 10 and 28 to the consolidated financial statements, the Company's consolidated investment in convertible notes balance as of December 31, 2019 was RMB2,154 million. Management has elected the fair value option to account for investment in convertible notes. Investment in convertible notes is classified under Level 3 in the fair value hierarchy ("Level 3 Financial Instruments"), with the fair value estimated based on a third-party appraisal report using the binomial option pricing model, utilizing various unobservable inputs which required management to make significant assumptions and estimates with respect to volatility, risk free rate and discount rate .

The principal considerations for our determination that performing procedures relating to the measurement of investment in convertible notes is a critical audit matter are there were significant judgments by management when developing their assessment of the fair value of the investment in convertible notes. This in turn led to a high degree of auditor judgment, subjectivity and effort in evaluating management's primary assumptions, including the determination of the model, guideline companies used, volatility, risk free rate and discount rate. In addition, the audit effort involved the use of professionals with specialized skill and knowledge to assist in evaluating the audit evidence obtained from these procedures.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's fair value assessment of the investment in convertible notes, including controls relating to development of the significant assumptions and estimates related to the fair value measurement, including volatility, risk free rate, discount rate and other assumptions used in these assessments. These procedures also included, among others, reading the investment agreements, testing management's process for developing the fair value measurement of the Level 3 Financial Instruments, evaluating the appropriateness of the model used in the valuation, testing the completeness, accuracy and relevance of underlying data used in the model, and evaluating key market-related assumptions in the model including guideline companies used, volatility, risk free rate and discount rate. Evaluating the reasonableness of management's assumptions in guideline companies used, volatility, risk free rate and discount rate involved considering the past performance of the issuers of the convertible notes and benchmarking of peer comparisons. Professionals with specialized skill and knowledge were used to assist in evaluating the appropriateness of the model, risk free rates and discount rates used in the evaluation models.

/s/ PricewaterhouseCoopers Zhong Tian LLP

Beijing, the People's Republic of China

April 27, 2020

We have served as the Company's auditor since 2015.

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**BITAUTO HOLDINGS LIMITED**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF DECEMBER 31, 2018 AND 2019**  
**(Amounts in thousands of Renminbi (“RMB”), except for share and per share data)**

	Notes	2018 RMB	2019 RMB
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		4,576,820	4,260,533
Restricted cash	6	4,344,291	3,136,926
Accounts receivable, net	7	3,890,712	3,792,641
Bills receivable		365,036	372,539
Prepayments and other receivables	8	2,039,299	2,220,724
Due from related parties	29	181,495	123,902
Uncollateralized finance receivables - current portion, net	15	5,226,642	4,451,575
Collateralized finance receivables - current portion, net	15	13,546,137	12,301,329
Other current assets		4,415	3,393
<b>Total current assets</b>		<u>34,174,847</u>	<u>30,663,562</u>
<b>Non-current assets</b>			
Restricted cash	6	446,108	114,318
Investment in equity investees	9	1,907,171	1,912,803
Investment in convertible notes	10	1,789,470	2,153,790
Property, plant and equipment, net	11	449,387	205,394
Intangible assets, net	12	996,941	381,749
Deferred tax assets	25	178,563	443,912
Goodwill	13	532,130	861,583
Right-of-use assets	14	—	80,962
Uncollateralized finance receivables - non-current portion, net	15	6,609,474	2,906,280
Collateralized finance receivables - non-current portion, net	15	11,494,820	7,330,610
Other non-current assets	16	1,165,027	1,322,081
<b>Total non-current assets</b>		<u>25,569,091</u>	<u>17,713,482</u>
<b>Total assets</b>		<u>59,743,938</u>	<u>48,377,044</u>
<b>Liabilities</b>			
<b>Current liabilities (including amounts of the consolidated VIEs and subsidiaries of VIEs without recourse to the primary beneficiaries of RMB4,399,899 and RMB4,737,669 as of December 31, 2018 and 2019, respectively)</b>			
Short term borrowings	17	12,274,038	10,860,862
Asset-backed securitization debt	18	10,021,333	6,201,021
Accounts payable		2,909,051	3,081,405
Bills payable		32,300	—
Guarantee liabilities	19	107,614	207,716
Income tax payable		361,726	497,664
Due to related parties	29	106,563	104,830
Lease liabilities	14	—	46,033
Deferred revenue	21	164,867	109,564
Other payables and accruals	22	2,660,157	2,533,642
<b>Total current liabilities</b>		<u>28,637,649</u>	<u>23,642,737</u>

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

**BITAUTO HOLDINGS LIMITED**  
**CONSOLIDATED BALANCE SHEETS (CONTINUED)**  
**AS OF DECEMBER 31, 2018 AND 2019**  
**(Amounts in thousands of Renminbi (“RMB”), except for share and per share data)**

	Notes	2018 RMB	2019 RMB
<b>Non-current liabilities</b>			
Long term borrowings	17	4,626,756	2,263,614
Asset-backed securitization debt	18	3,764,348	1,167,910
Convertible debt	20	774,703	—
Deferred tax liabilities	25	27,770	30,638
Lease liabilities	14	—	23,391
Deferred revenue	21	1,444,920	1,344,094
Other non-current liabilities		159,355	148,439
<b>Total non-current liabilities</b>		<u>10,797,852</u>	<u>4,978,086</u>
<b>Total liabilities</b>		<u>39,435,501</u>	<u>28,620,823</u>
<b>Commitments and contingencies</b>	30		
<b>Redeemable noncontrolling interests</b>	23	360,010	390,437
<b>Bitauto Holdings Limited shareholders' equity</b>			
Ordinary shares (US\$0.00004 par value; 1,250,000,000 shares authorized as of December 31, 2018 and 2019, respectively; 72,739,966 shares and 73,761,089 issued and outstanding as of December 31, 2018 and 2019, respectively)		19	20
Additional paid-in capital		12,782,826	12,664,018
Treasury shares		(333,985)	(241,572)
Statutory reserves		204,583	222,547
Accumulated other comprehensive income		601,423	650,773
Accumulated deficit		(2,124,549)	(3,312,204)
<b>Total Bitauto Holdings Limited shareholders' equity</b>		<u>11,130,317</u>	<u>9,983,582</u>
Noncontrolling interests		<u>8,818,110</u>	<u>9,382,202</u>
<b>Total shareholders' equity</b>		<u>19,948,427</u>	<u>19,365,784</u>
<b>Total liabilities, redeemable noncontrolling interests and shareholders' equity</b>		<u>59,743,938</u>	<u>48,377,044</u>

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

**BITAUTO HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019**  
**(Amounts in thousands of Renminbi (“RMB”), except for share and per share data)**

	Notes	2017 RMB	2018 RMB	2019 RMB
Revenue		8,751,259	10,579,609	10,752,917
Cost of revenue		(3,234,680)	(4,244,398)	(4,244,752)
<b>Gross profit</b>		<u>5,516,579</u>	<u>6,335,211</u>	<u>6,508,165</u>
Selling and administrative expenses		(6,059,046)	(6,370,718)	(7,160,276)
Product development expenses		(565,702)	(611,113)	(609,908)
Other gains, net	24	31,576	181,114	305,782
<b>Loss from operations</b>		(1,076,593)	(465,506)	(956,237)
Interest income		93,025	125,875	114,391
Interest expense		(92,633)	(79,090)	(147,387)
Share of results of equity investees		(71,866)	(76,810)	(74,111)
Investment loss		(75,097)	(7,889)	(28,677)
<b>Loss before tax</b>		(1,223,164)	(503,420)	(1,092,021)
Income tax expense	25	(203,824)	(175,896)	(91,019)
<b>Net loss</b>		(1,426,988)	(679,316)	(1,183,040)
Net loss attributable to noncontrolling interests		(147,991)	(99,021)	(13,349)
Accretion to redeemable noncontrolling interests		332,117	28,057	30,427
<b>Net loss attributable to Bitauto Holdings Limited</b>		<u>(1,611,114)</u>	<u>(608,352)</u>	<u>(1,200,118)</u>
<b>Net loss per share/ADS attributable to ordinary shareholders</b>	27			
Basic		(23.01)	(8.13)	(16.92)
Diluted		(23.16)	(8.13)	(16.92)
<b>Weighted average number of shares/ADSs</b>	27			
Basic		70,154,910	71,305,353	71,108,532
Diluted		70,154,910	71,305,353	71,108,532
<b>Other comprehensive (loss)/income</b>				
Foreign currency exchange (losses)/gains, net of tax of nil		(353,747)	153,894	67,803
<b>Total comprehensive loss, net of tax</b>		<u>(1,780,735)</u>	<u>(525,422)</u>	<u>(1,115,237)</u>
Total comprehensive (loss)/income attributable to noncontrolling interests		(227,693)	(78,293)	5,104
Accretion to redeemable noncontrolling interests		332,117	28,057	30,427
<b>Total comprehensive loss attributable to Bitauto Holdings Limited</b>		<u>(1,885,159)</u>	<u>(475,186)</u>	<u>(1,150,768)</u>

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

**BITAUTO HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019**  
**(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)**

	2017 RMB	2018 RMB	2019 RMB
<b>Cash flows from operating activities</b>			
Net loss	(1,426,988)	(679,316)	(1,183,040)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Investment loss	75,097	7,889	28,677
Unrealized exchange (gains)/losses	(8,375)	15,993	(2,321)
Interest expense	31,659	—	412
Depreciation of property, plant and equipment	185,344	255,762	88,436
Amortization of intangible assets	688,572	693,761	670,953
Deferred income tax	(46,171)	(150,522)	(272,005)
Share-based compensation	1,185,839	896,416	426,371
(Gains)/Losses on disposal of property, plant and equipment	(14,910)	5,364	(14,911)
Gains on disposal of intangible assets	(1,520)	(52,673)	—
Share of results of equity investees	71,866	76,810	74,111
Gains from guarantee liabilities	—	(2,462)	(34,782)
Impairment of non-current assets	—	—	104,761
Allowance for doubtful accounts for accounts receivable and credit losses for finance receivables	349,185	747,254	1,216,681
Allowance for amounts due from related party and other receivables	15,000	4,000	66,838
Changes in assets and liabilities, net of effects of acquisitions and disposals:			
Accounts receivable	(869,699)	(1,259,543)	(246,673)
Bills receivable	(220,308)	(34,492)	(7,503)
Prepayments and other receivables	(343,794)	(737,248)	(96,557)
Due from related parties	29,792	(13,185)	(75,188)
Other current assets	(17)	(176,740)	141,186
Other non-current assets	(375,823)	(104,618)	224,292
Accounts payable	483,312	745,184	294,429
Guarantee liabilities	—	110,076	134,884
Deferred revenue	116,347	(93,596)	(156,129)
Income tax payable	30,561	192,625	78,988
Due to related parties	25,194	8,322	(16,733)
Other payables and accruals	968,509	215,689	37,944
Other non-current liabilities	(20,446)	7,229	12,476
<b>Net cash provided by operating activities</b>	<b>928,226</b>	<b>677,979</b>	<b>1,495,597</b>

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

**BITAUTO HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019**  
**(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)**

	2017 RMB	2018 RMB	2019 RMB
<b>Cash flows from investing activities</b>			
Placement of time deposits	—	—	(678,205)
Proceeds from maturity of time deposits	2,000	—	678,205
Purchase of investment in equity investees	(120,429)	(754,008)	(131,000)
Disposal of investment in equity investees	127,120	15,328	—
Purchases of property, plant and equipment	(1,728,761)	(230,945)	(523,703)
Purchases of intangible assets	(26,706)	(14,143)	(10,278)
Purchase of convertible notes	—	(139,425)	(335,318)
Proceeds from disposal of property, plant and equipment	242,282	816,860	266,545
Proceeds from disposal of intangible assets	—	57,400	—
Acquisition of finance receivables	(24,608,984)	(24,705,908)	(12,605,684)
Collection of finance receivables	9,135,002	17,483,354	20,979,839
Acquisition of subsidiaries, net of cash acquired	(49,585)	—	6,606
<b>Net cash (used in)/provided by investing activities</b>	<b>(17,028,061)</b>	<b>(7,471,487)</b>	<b>7,647,007</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of subsidiary's ordinary shares, net of issuance costs	5,528,755	(3,165)	—
Proceeds from issuance of subsidiaries' redeemable convertible preference shares, net of issuance costs	1,317,450	—	—
Repurchase of ordinary shares	—	(326,654)	—
Repurchase of subsidiary's ordinary shares	—	(4,367)	(2,581)
Contribution from noncontrolling interests	2,995	—	54,429
Purchase of noncontrolling interests	(36,292)	—	(123,529)
Payment for redemption of convertible debt	—	—	(865,850)
Proceeds from exercise of options	26,673	1,910	2,326
Dividend paid by subsidiary	—	—	(4,018)
Proceeds from borrowings	23,306,791	23,045,346	18,386,906
Repayment of borrowings	(14,650,880)	(22,710,497)	(22,060,739)
Proceeds from asset-backed securitization debt	11,142,486	16,956,147	6,758,846
Repayment of asset-backed securitization debt	(6,795,858)	(11,947,716)	(13,175,596)
<b>Net cash provided by/(used in) financing activities</b>	<b>19,842,120</b>	<b>5,011,004</b>	<b>(11,029,806)</b>
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(350,491)	110,364	31,760
Increase/(Decrease) in cash and cash equivalents and restricted cash	3,391,794	(1,672,140)	(1,855,442)
Cash and cash equivalents and restricted cash at beginning of the year	7,647,565	11,039,359	9,367,219
<b>Cash and cash equivalents and restricted cash at end of the year</b>	<b>11,039,359</b>	<b>9,367,219</b>	<b>7,511,777</b>
<b>Supplemental cash flow disclosures:</b>			
Cash paid for income taxes	(219,434)	(133,793)	(284,036)
Cash paid for interest	(1,118,736)	(1,962,269)	(2,049,514)
<b>Supplemental disclosures of non-cash activities:</b>			
Purchases of property, plant and equipment	9,471	10,499	2,970
Purchases of intangible assets	708	1,291	498
Amounts receivable from exercise of options	(58,415)	(176)	(188)
Investment in convertible notes in connection with business cooperation with Yusheng Holdings Limited	—	1,645,342	—
Conversion of convertible debt	158,450	—	3,408
Conversion of Yixin preferred shares	5,323,103	—	—
Acquisition of subsidiary	—	—	68,632
Investment in equity investees	—	—	84,762

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

**BITAUTO HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019**  
**(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)**

	Ordinary shares Share	Ordinary shares Amount RMB	Treasury shares Share	Treasury shares Amount RMB	Additional paid-in capital RMB	Statutory reserves RMB	Accumulated other comprehensive income RMB	Accumulated deficit RMB	Total Bitauto Holdings Limited shareholders' equity RMB	Noncontrolling interests RMB	Total shareholders' equity RMB
<b>As of January 1, 2017</b>	70,726,025.0	19	1,274,186.5	(41,888)	8,903,759	89,841	742,302	(150,515)	9,543,518	278,547	9,822,065
Issuance of ordinary shares	1,000,000.0	—	—	—	—	—	—	—	—	—	—
Exercise of options and RSUs	—	—	(653,397.0)	21,477	(2,001)	—	—	—	19,476	—	19,476
Share-based compensation	—	—	—	—	1,056,653	—	—	—	1,056,653	129,186	1,185,839
Net loss	—	—	—	—	—	—	—	(1,278,997)	(1,278,997)	(147,991)	(1,426,988)
Foreign currency translation losses	—	—	—	—	—	—	(274,045)	—	(274,045)	(79,702)	(353,747)
Conversion of Yixin preferred shares to ordinary shares	—	—	—	—	(947,158)	—	—	—	(947,158)	6,270,261	5,323,103
Proceeds from Yixin IPO, net of issuance costs	—	—	—	—	3,321,055	—	—	—	3,321,055	2,204,022	5,525,077
Transaction with noncontrolling interests	—	—	—	—	12,554	—	—	—	12,554	59,349	71,903
Conversion of convertible debt	1,013,941.0	—	—	—	158,450	—	—	—	158,450	—	158,450
Acquisition of noncontrolling interests in subsidiaries	—	—	—	—	49,298	—	—	—	49,298	(109,671)	(60,373)
Issuance of ordinary shares by the Company's subsidiary	—	—	—	—	—	—	—	—	—	3,030	3,030
Accretion of redeemable noncontrolling interests	—	—	—	—	(332,117)	—	—	—	(332,117)	—	(332,117)
Provision of statutory reserves	—	—	—	—	—	63,697	—	(63,697)	—	—	—
<b>As of December 31, 2017</b>	<b>72,739,966.0</b>	<b>19</b>	<b>620,789.5</b>	<b>(20,411)</b>	<b>12,220,493</b>	<b>153,538</b>	<b>468,257</b>	<b>(1,493,209)</b>	<b>11,328,687</b>	<b>8,607,031</b>	<b>19,935,718</b>

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

**BITAUTO HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019**  
(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

	Ordinary shares Share	Amount RMB	Treasury shares Share	Amount RMB	Additional paid-in capital RMB	Statutory reserves RMB	Accumulated other comprehensive income RMB	Accumulated deficit RMB	Total Bitauto Holdings Limited shareholders' equity RMB	Noncontrolling interests RMB	Total shareholders' equity RMB
<b>As of January 1, 2018</b>	72,739,966.0	19	620,789.5	(20,411)	12,220,493	153,538	468,257	(1,493,209)	11,328,687	8,607,031	19,935,718
Repurchase of ordinary shares	—	—	2,398,780.0	(329,625)	—	—	—	—	(329,625)	—	(329,625)
Exercise of options and RSUs	—	—	(488,321.0)	16,051	(14,059)	—	—	—	1,992	—	1,992
Repurchase of subsidiaries' ordinary shares	—	—	—	—	(1,958)	—	—	—	(1,958)	(2,409)	(4,367)
Exercise/settlement of options and RSUs in subsidiaries	—	—	—	—	(96,762)	—	—	—	(96,762)	97,237	475
Share-based compensation	—	—	—	—	701,872	—	—	—	701,872	194,544	896,416
Share of other comprehensive loss of equity method investees	—	—	—	—	1,297	—	—	—	1,297	—	1,297
Net loss	—	—	—	—	—	—	—	(580,295)	(580,295)	(99,021)	(679,316)
Foreign currency translation gains	—	—	—	—	—	—	133,166	—	133,166	20,728	153,894
Accretion of redeemable noncontrolling interests	—	—	—	—	(28,057)	—	—	—	(28,057)	—	(28,057)
Provision of statutory reserves	—	—	—	—	—	51,045	—	(51,045)	—	—	—
<b>As of December 31, 2018</b>	<b>72,739,966.0</b>	<b>19</b>	<b>2,531,248.5</b>	<b>(333,985)</b>	<b>12,782,826</b>	<b>204,583</b>	<b>601,423</b>	<b>(2,124,549)</b>	<b>11,130,317</b>	<b>8,818,110</b>	<b>19,948,427</b>

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

**BITAUTO HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019**  
(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)

	Ordinary shares Share	Ordinary shares Amount RMB	Treasury shares Share	Treasury shares Amount RMB	Additional paid-in capital RMB	Statutory reserves RMB	Accumulated other comprehensive income RMB	Accumulated deficit RMB	Total Bitauto Holdings Limited shareholders' equity RMB	Noncontrolling interests RMB	Total shareholders' equity RMB
<b>As of January 1, 2019</b>	72,739,966.0	19	2,531,248.5	(333,985)	12,782,826	204,583	601,423	(2,124,549)	11,130,317	8,818,110	19,948,427
Issuance of ordinary shares	1,000,000.0	1	—	—	—	—	—	—	1	—	1
Exercise of options and RSUs	—	—	(773,311.0)	92,413	(90,109)	—	—	—	2,304	—	2,304
Repurchase of subsidiaries' ordinary shares	—	—	—	—	(1,132)	—	—	—	(1,132)	(1,449)	(2,581)
Exercise/settlement of options and RSUs in subsidiaries	—	—	—	—	(56,975)	—	—	—	(56,975)	57,240	265
Acquisitions of subsidiaries	—	—	—	—	47,942				47,942	140,095	188,037
Transaction with noncontrolling interests	—	—	—	—	(288,905)	—	—	—	(288,905)	238,139	(50,766)
Share-based compensation	—	—	—	—	297,390	—	—	—	297,390	128,981	426,371
Conversion of convertible debt	21,123	—	—	—	3,408	—	—	—	3,408	—	3,408
Dividend paid by subsidiary	—	—	—	—	—	—	—	—	—	(4,018)	(4,018)
Net loss	—	—	—	—	—	—	(1,169,691)	(1,169,691)	(1,169,691)	(13,349)	(1,183,040)
Foreign currency translation gains	—	—	—	—	—	—	49,350	—	49,350	18,453	67,803
Accretion of redeemable noncontrolling interests	—	—	—	—	(30,427)	—	—	—	(30,427)	—	(30,427)
Provision of statutory reserves	—	—	—	—	—	17,964	—	(17,964)	—	—	—
<b>As of December 31, 2019</b>	<b>73,761,089</b>	<b>20</b>	<b>1,757,937.5</b>	<b>(241,572)</b>	<b>12,664,018</b>	<b>222,547</b>	<b>650,773</b>	<b>(3,312,204)</b>	<b>9,983,582</b>	<b>9,382,202</b>	<b>19,365,784</b>

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

**BITAUTO HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019**  
**(Amounts in thousands of Renminbi (“RMB”), except for share and per share data)**

**1. Principal activities and organization**

Bitauto Holdings Limited (the “Company”) is a limited liability company incorporated and domiciled in the Cayman Islands. The registered office is located at Scotia Centre, George Town, Grand Cayman, Cayman Islands.

The Company does not conduct any substantial operations of its own, but conducts most of its business through its operating subsidiaries, variable interest entities (“VIEs”) and subsidiaries of VIEs established in the People’s Republic of China (the “PRC”). The Company owns the equity interest of its operating subsidiaries, VIEs and subsidiaries of VIEs through its subsidiaries established in Cayman Islands and Hong Kong. The Company, its subsidiaries, VIEs and subsidiaries of VIEs are collectively referred to as the “Group”.

The Group is principally engaged in the provision of internet content and marketing services, and transaction services in the automobile industry, including advertising and subscription services, transaction services and digital marketing solutions services in the PRC.

On November 16, 2017, Yixin Group Limited (“Yixin”), the Group’s subsidiary engaging in automobile transaction services, completed its initial public offering (“IPO”) on the Main Board of The Stock Exchange of Hong Kong Limited. The Group continues to take control of Yixin and consolidate Yixin as its controlling shareholder through the voting proxy agreement that the Group entered into with certain other shareholders and recognizes noncontrolling interests reflecting the shares held by the shareholders other than the Group in the consolidated financial statements. As of December 31, 2019, the Group held 44.5% (2018: 44.8%) equity interest of Yixin.

**BITAUTO HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019**  
**(Amounts in thousands of Renminbi (“RMB”), except for share and per share data)**

**1. Principal activities and organization (continued)**

As of December 31, 2019, the Company’s principal subsidiaries, VIEs and subsidiaries of VIEs are as follows:

Name	Date of incorporation or acquisition	Place of operations	% of direct or indirect economic interest
Bitauto Hong Kong Limited	April 27, 2010	Hong Kong	100
Beijing Bitauto Internet Information Company Limited	January 20, 2006	PRC	100
Dalian Rongxin Financing Guarantees Company Limited	June 6, 2016	PRC	100
Yixin Group Limited	November 19, 2014	Cayman Islands	44.5
Yixin Holding Hong Kong Limited	November 27, 2014	Hong Kong	44.5
Xinche Investment (Shanghai) Company Limited	January 16, 2015	PRC	44.5
Shanghai Yixin Financing Lease Company Limited	August 12, 2014	PRC	44.5
Tianjin Hengtong Jiahe Financing Lease Company Limited	May 18, 2015	PRC	44.5
Xinjiang Wanxing Information Technology Company Limited	January 24, 2018	PRC	44.5
Beijing Bitauto Information Technology Company Limited	November 30, 2005	PRC	100
Beijing Easy Auto Media Company Limited	March 7, 2008	PRC	100
Beijing Bitauto Interactive Advertising Company Limited	December 12, 2007	PRC	100
Beijing Xinbao Information Technology Company Limited	February 2, 2008	PRC	100
Tianjin Boyou Information Technology Company Limited	May 16, 2014	PRC	100
Beijing Bit EP Information Technology Company Limited (“Bit EP”)	June 3, 2011	PRC	100
Tianjin Bida Information Technology Company Limited	January 17, 2017	PRC	100
Eminent Success Holdings Group Limited		British	
	June 26, 2018	Virgin Islands	44.5
Rising Champion International Limited	July 10, 2018	Hong Kong	44.5
Tanjin Kars Information Technology Company Limited	June 19, 2018	PRC	44.5
Beijing Yixin Information Technology Company Limited	January 9, 2015	PRC	44.5
Beijing Creative & Interactive Digital Technology Company Limited (“CIG”, formerly known as Beijing C&I Advertising Company Limited )	December 30, 2002	PRC	57.1
Beijing Xinchuang Interactive Advertising Company Limited	January 19, 2017	PRC	57.1
Beijing Chehui Technology Company Limited	February 10, 2006	PRC	57.1

**BITAUTO HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019**  
**(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)**

**1. Principal activities and organization (continued)**

*Variable interest entities*

To comply with the PRC laws and regulations that restrict foreign ownership of companies involved in provision of internet content and other restricted businesses, the Group operates its websites and engages in such restricted businesses in the PRC through certain PRC domestic companies, whose equity interest are held by certain management members of the Company and certain PRC entities ("nominee shareholders"). The Company obtained control over these PRC domestic companies by entering into a series of contractual agreements with these PRC domestic companies and their respective nominee shareholders. These contractual agreements include loan agreements, irrevocable power of attorney, share pledge agreements, exclusive business cooperation agreements and exclusive option agreements. Through these contractual agreements, the Company is entitled to receive a majority of residual returns and is obligated to absorb a majority of the risk of losses of these PRC domestic companies. Based on these contractual agreements, management concluded that these PRC domestic companies are VIEs of the Company, of which the Company is the primary beneficiary. As such, the Group consolidated financial results of VIEs and subsidiaries of VIEs in the Group's consolidated financial statements.

The summary of these contractual agreements are further described as below.

*Loan Agreements*

Pursuant to the relevant loan agreements, the relevant PRC subsidiaries provided interest-free loans to the respective nominee shareholders of the VIEs. The purpose of the loans is to provide capital and/or registered capital to VIEs in order to develop their businesses. The loan agreements have indefinite terms or certain terms that could be extended upon mutual written consent of the parties.

*Irrevocable Power of Attorney*

Each nominee shareholder of the VIEs executed an irrevocable power of attorney, appointing the relevant PRC subsidiaries or a person designated by such PRC subsidiaries as his or her attorney-in-fact to attend shareholders' meetings of the respective VIEs, exercise all the shareholder's voting rights, including but not limited to the sale, transfer, pledge or disposition of the shareholder's equity interest in the VIEs, and designate or appoint legal representatives, directors and officers of the relevant VIEs. Each power of attorney remains valid and irrevocable from the date of execution so long as the person remains as the nominee shareholder of the respective VIEs.

*Share Pledge Agreements*

Pursuant to the share pledge agreements, the nominee shareholders of the VIEs have pledged all of their equity interest in the relevant VIEs to the relevant PRC subsidiaries as collateral for all of the VIEs' and nominee shareholders' payments due to the relevant PRC subsidiaries and to secure their obligations under applicable contractual agreements. Each pledge of shares or equity interest is effective on the date when it is registered with the local administration for industry and commerce and remains effective until all payments due under the relevant exclusive business cooperation agreement or all the obligations under the relevant contractual agreements have been fulfilled by the relevant VIEs. During the term of a pledge, the relevant PRC subsidiaries, the pledgees, may dispose of the pledge if the VIE defaults under the exclusive business cooperation agreement. Each of the relevant PRC subsidiaries also has the right to collect dividends generated by the shares or equity interest pursuant to these pledge agreements. In addition, each nominee shareholder of the relevant VIEs agrees not to transfer or create any new encumbrance adverse to the relevant PRC subsidiaries on the shareholder's equity interest in such VIEs without prior written consent of the relevant PRC subsidiaries.

**BITAUTO HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019**  
**(Amounts in thousands of Renminbi (“RMB”), except for share and per share data)**

**1. Principal activities and organization (continued)**

*Exclusive Business Cooperation Agreement*

The relevant PRC subsidiaries and relevant VIEs entered into exclusive business cooperation agreements under which the relevant PRC subsidiaries provide the relevant VIEs, on an exclusive basis, with technical, consulting and other services in relation to the respective VIEs' business. The VIEs shall pay service fees to the relevant PRC subsidiaries determined based on several metrics including the type, value and market price of the services provided by the relevant PRC subsidiaries and the operating conditions of the relevant VIEs. During the terms of the agreements, the relevant VIEs have agreed not to accept any consultation and/or services provided by any third party without the relevant PRC subsidiaries' prior written consent. The agreements have certain terms that could be extended upon the relevant PRC subsidiaries' prior written consent, or remain effective unless the relevant PRC subsidiaries terminate them in writing or either the relevant PRC subsidiaries or the relevant VIEs fail to obtain the government's approval for the renewal of the relevant business license.

*Exclusive Option Agreements*

Pursuant to these exclusive option agreements, each of the nominee shareholders of the VIEs irrevocably granted the relevant PRC subsidiaries an exclusive right to purchase, or designate one or more persons to purchase, the equity interest in the relevant VIEs then held by such nominee shareholder of the respective VIEs. The relevant PRC subsidiaries or their designees may purchase such equity interest at any time, once or at multiple times, in part or in whole at their own sole and absolute discretion to the extent permitted by the PRC laws. The agreements have certain terms that could be extended at the relevant PRC subsidiaries' discretion, or remain effective until all the equity interest held by the nominee shareholders of the VIEs have been transferred or assigned to the relevant PRC subsidiaries or any other persons designated by them.

*Risks in relations to the VIE structure*

Based on the advice of the Company's PRC legal counsel, the ownership structure and contractual agreement of the VIEs and subsidiaries in the PRC do not violate any existing PRC laws and regulations. Therefore, in the opinion of management, (i) the ownership structure of the Company and the VIEs do not violate any existing PRC laws and regulations; (ii) the contractual agreement with VIEs and their nominee shareholders are valid and binding, and will not result in any violation of PRC laws or regulations currently in effect; (iii) the Group's business operation are in compliance with existing PRC laws and regulations in all material respects.

However, there are uncertainties regarding the interpretation and application of current and future PRC laws and regulations, and the PRC government may in the future take a view that is contrary to the above opinion. If the current ownership structure of the Company and its contractual arrangements with the VIEs and their nominee shareholders were found to be in violation of any existing or future PRC laws or regulations, the Group may be subject to penalties, which may include but not to be limited to, revocation of the Group's business and operating licenses, being required to discontinue or restrict the Group's operations, or being required to restructure the Group's ownership structure or operations. These penalties may result in a material and adverse effect on the Group's ability to conduct its operations. In such cases, the Company may not be able to operate or control the VIEs, which may result in deconsolidation of the VIEs.

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**1. Principal activities and organization (continued)**

The following financial information of the VIEs and subsidiaries of VIEs in the PRC was included in the Group's consolidated financial statements with intercompany transactions eliminated:

	As of December 31,		
	2018 RMB	2019 RMB	
Total assets	8,125,756	8,023,337	
Total liabilities	4,427,121	4,762,927	
<hr/>			
	For the year ended December 31		
	2017 RMB	2018 RMB	2019 RMB
Revenue	4,419,967	4,111,341	3,835,776
Net (loss)/income	(111,574)	49,738	(517,004)
<hr/>			
	For the year ended December 31		
	2017 RMB	2018 RMB	2019 RMB
Net cash provided by/(used in) operating activities	660,690	(334,465)	(93,568)
Net cash provided by/(used in) investing activities	57,568	(172,280)	(35,035)
Net cash (used in)/provided by financing activities	(426,603)	338,000	224,805

As of December 31, 2018 and 2019, total assets of the Group's VIEs and subsidiaries of VIEs mainly consisted of cash and cash equivalents, accounts receivable, net, prepayments and other receivables, investment in equity investees, property, plant and equipment, net, and intangible assets, net. As of December 31, 2018 and 2019, total liabilities of the VIEs and subsidiaries of VIEs mainly consisted of accounts payable, other payables and accruals and short term borrowings. These balances have been reflected in the Group's consolidated financial statements with intercompany transactions eliminated.

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**1. Principal activities and organization (continued)**

In accordance with contractual agreements, the Company has the power to direct activities of the VIEs and subsidiaries of VIEs and can have assets transferred out of the VIEs and subsidiaries of VIEs. Therefore, the Company considers that there is no asset in any of the consolidated VIEs and subsidiaries of VIEs that can be used only to settle obligations of these entities, except for registered capital and PRC statutory reserves amounting to RMB714.5 million as of December 31, 2019 (2018: RMB641.3 million). Creditors of the VIEs and subsidiaries of VIEs do not have recourse to the general credit of the Company for any of the liabilities of the consolidated VIEs and subsidiaries of VIEs.

Currently, there are no contractual arrangements that require the Company to provide any additional financial support to the VIEs and subsidiaries of VIEs. As the Company conducts its business primarily based on the licenses and approvals held by its VIEs and subsidiaries of VIEs, the Company may provide additional financial support on a discretionary basis in the future.

In addition to the above variable interest entities the Company consolidated through contractual arrangements, the Company also established a number of asset-backed securitization vehicles to issue debt securities to third party investors. The vehicles are considered variable interest entities in accordance with ASC 810 and the Company are considered primary beneficiary of such variable interest entities. Accordingly, the Company consolidated these asset-backed securitization vehicles.

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**2. Summary of significant accounting policies**

(a) Basis of presentation

The consolidated financial statements of the Group are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

(b) Principles of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries, the VIEs and subsidiaries of VIEs for which the Company is the ultimate primary beneficiary.

A subsidiary is an entity in which (i) the Company directly or indirectly controls more than 50% of the voting power; or (ii) the Company has the power to appoint or remove the majority of the members of the board of directors or to cast a majority of votes at the meeting of the board of directors or to govern the financial and operating policies.

A VIE is an entity in which the Company, or its subsidiaries, through contractual agreements, bears the risks of, and enjoys the rewards normally associated with, ownership of the entity, and therefore the Company or its subsidiaries are the primary beneficiary of the entity.

All transactions and balances among the Company, its subsidiaries, the VIEs and subsidiaries of VIEs have been eliminated upon consolidation. The results of subsidiaries, the VIEs and subsidiaries of VIEs acquired or disposed of during the year are recorded in the consolidated statements of comprehensive income/(loss) from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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**2. Summary of significant accounting policies (continued)**

**(c) Business combinations and noncontrolling interests**

The Group accounts for its business combinations using the acquisition method of accounting in accordance with Accounting Standards Codification (“ASC”) 805 “Business Combinations”. The consideration transferred in an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, and equity instruments issued as well as the contingent considerations and all contractual contingencies as of the acquisition date. Transaction costs directly attributable to the acquisition are expensed as incurred. Identifiable assets and liabilities acquired or assumed are measured separately at their fair values as of the acquisition date, irrespective of the extent of any noncontrolling interests. The excess of (i) the total costs of acquisition, fair value of the noncontrolling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the acquiree, the difference is recognized directly in the consolidated statements of comprehensive income/(loss). During the measurement period, which can be up to one year from the acquisition date, the Group may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the consolidated statements of comprehensive income/(loss).

In a business combination considered as a step acquisition, the Group remeasures the previously held equity interest in the acquiree immediately before obtaining control at its acquisition-date fair value and the re-measurement gain or loss, if any, is recognized in the consolidated statements of comprehensive income/(loss).

For the Company’s majority-owned subsidiaries, VIEs and subsidiaries of VIEs, a noncontrolling interest is recognized to reflect the portion of their equity which is not attributable, directly or indirectly, to the Company. Noncontrolling interests are classified as a separate line item in the equity section of the Group’s consolidated balance sheets and have been separately disclosed in the Group’s consolidated statements of comprehensive income/(loss) to distinguish the interests from that of the Company.

**(d) Use of estimates**

The preparation of financial statements in conformity with U.S. GAAP requires the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities, related disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant accounting estimates are used for, but not limited to assessment for fair value of assets and liabilities acquired in business combinations, estimating useful lives of intangible assets, assessment for impairment of long-lived assets, intangible assets and goodwill, investment in equity investees, assessment for fair value of investment in convertible notes, determining allowance for doubtful accounts for accounts receivable and other receivables, allowance for credit losses for finance receivables, assessment for fair value of guarantee liabilities, valuation and recognition of share-based compensation and realization of deferred tax assets. The Group bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from those estimates.

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**2. Summary of significant accounting policies (continued)**

**(e) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, and has been identified as the Chief Executive Officer of the Group. The Group managed its business in three reportable segments, namely advertising and subscription business, transaction services business and digital marketing solutions business.

**(f) Foreign currency translation**

The Company, its subsidiaries, VIEs and subsidiaries of VIEs individually determine their functional currency based on the criteria of ASC 830 “Foreign Currency Matters”. The functional currencies of the Company and its subsidiaries outside China are the U.S. dollar (“US\$”) and the Hong Kong dollar (“HKD”), and the functional currency of PRC subsidiaries, VIEs and subsidiaries of VIEs is the RMB. Since the Group’s operations are primarily denominated in the RMB, the Group has chosen the RMB as the reporting currency for the consolidated financial statements.

Transactions denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction dates. Assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing at the balance sheet date. Exchange gains or losses arising from foreign currency transactions are recorded in the consolidated statements of comprehensive income/(loss).

The financial statements of the entities with non-RMB functional currencies are translated into RMB using the exchange rate as of the balance sheet date for assets and liabilities, average exchange rate for the year for income and expense items, and historical exchange rate for equity items. Translation gains or losses arising from the translation are recognized in accumulated other comprehensive income as a component of shareholders’ equity.

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**2. Summary of significant accounting policies (continued)**

**(g) Cash and cash equivalents**

Cash and cash equivalents comprise cash at banks and on hand, time deposits and highly liquid investments with an original maturity of three months or less.

**(h) Restricted cash**

Cash that is restricted as to withdrawal for use or pledged as security is reported separately on the face of the consolidated balance sheets. The Group held restricted cash of RMB4.79 billion and RMB3.25 billion as of December 31, 2018 and 2019, respectively, which were primarily pledged for bank borrowings, guarantees, asset-backed securitization debt and bills payable. Please refer to Note 6 for further details.

The Group provides loan facilitation services to facilitate loans to borrowers offered by loan facilitation financing partners. The loan facilitation financing partners offer financing solutions to borrowers. The Group provides guarantee in the event of default (please refer to Note 2 (v) for further details). As a result, the Group, as the guarantor, is required to maintain separate guarantee funds, held as an escrow account with the loan facilitation financing partners. These guarantee funds are required by different financial institutions to be maintained at a certain percentage of the balance of loans outstanding.

From January 1, 2018, the Group adopted ASU No. 2016-18 "Statement of Cash Flows (Topic 230): Restricted Cash", which requires companies to include amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts presented in the statement of cash flows. As a result of the new accounting guidance adopted on January 1, 2018, the consolidated statements of cash flows were retrospectively adjusted to include restricted cash in cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the consolidated statements of cash flows.

**(i) Accounts receivable, net**

Accounts receivable are amounts due from customers for services performed or merchandise sold in the ordinary course of business. If collection of accounts receivable is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Accounts receivable are recorded net of allowance for doubtful accounts. An allowance for doubtful accounts is recorded in the period when a loss is probable based on an assessment of specific evidence indicating troubled collection, such as the accounts aging, financial conditions of the customer and industry trend.

**(j) Bills receivable**

Bills receivable represent short-term notes receivables issued by reputable financial institutions that entitle the Group to receive the full face amount from the financial institutions at maturity, which generally range from three to six months from the date of issuance.

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**2. Summary of significant accounting policies (continued)**

**(k) Finance receivables, net**

The Group provides automobile financing lease services to individual customers and automobile dealers. The net investment of the lease will be recorded as a finance receivable upon the inception of the lease. The net investment in a lease consists of the minimum lease payments, net of executory costs plus the unguaranteed residual value, less the unearned interest income plus the unamortized initial direct costs related to the lease. The accrued interest is also included in the finance receivables balance. Over the period of a lease, each lease payment received is allocated between the repayment of the net investment in the lease and lease income based on the effective interest method so as to produce a constant rate of return on the net investment in the lease. The lease income is recorded as the Group's revenue in the consolidated statements of comprehensive income/(loss). Initial direct costs of the capital leases are amortized over the lease term by adjusting against the related lease income. The net investment in the leases, net of allowance for credit losses, is presented as finance receivables and classified as current or non-current assets in the balance sheets based on the duration of the remaining lease terms. The Group's finance receivables are typically secured by automobiles in the lease arrangements. The allowance for credit losses is based on a systematic, ongoing review and valuation performed as part of the credit-risk evaluation process.

The Group estimates the balance of provision for credit losses of its finance receivables at each balance sheet date by applying an incurred loss model, mainly based on customer repayment activities, such as the historical loss rate and days past due information. The total balance of a finance receivable is considered contractually past due if the minimum required payment is not received by the contractual repayment day. If any delinquency arises, the Group will consider initiating collection process, which mainly includes making phone calls and sending collection notice to the customers, and lawsuit. The Group has not established a practice of modifying the contractual payment terms, or entering into any troubled debt restructurings of the finance receivables with its customers. For collateral automobiles collected from customers, the Group assesses fair value of the automobiles at each balance sheet date and impairment would be recorded if any. As of December 31, 2018 and 2019, provision for impairment of such automobiles was nil and RMB104.8 million, respectively.

Accrued lease income on finance receivables is calculated based on the effective interest rate of the net investment. Finance receivables are placed on non-accrual status upon reaching past due status for more than 90 days. When a finance receivable is placed on non-accrual status, the Group stops accruing interest. The finance receivables in non-accrual status were RMB411.6 million and RMB671.2 million as of December 31, 2018 and 2019, respectively. Lease income is subsequently recognized only upon the receipt of cash payments. The Group will write off finance receivables which are uncollectible after above mentioned collection process has been administered.

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**2. Summary of significant accounting policies (continued)**

**(l) Investment in equity investees**

Investment in equity investees represents the Group’s investments in privately-held companies. The Group applies the equity method to account for an equity investment, in common stock or in-substance common stock, according to ASC 323 “Investment—Equity Method and Joint Ventures”, over which it has significant influence but does not own a majority equity interest or otherwise control.

An investment in in-substance common stock is an investment in an entity that has risk and reward characteristics that are substantially similar to that entity’s common stock. The Group considers subordination, risks and rewards of ownership and obligation to transfer value when determining whether an investment in an entity is substantially similar to an investment in that entity’s common stock.

For other equity investments that do not have readily determinable fair values and over which the Group neither has significant influence nor control through investment in common stock or in-substance common stock, the cost method is used for the year ended December 31, 2017. From January 1, 2018, the Group adopted ASU No. 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities”, to measure equity investments that do not have readily determinable fair values at 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.

Under the equity method, the Group’s share of the post-acquisition profits or losses of the equity investee is recognized in the consolidated statements of comprehensive income/(loss) and its share of post-acquisition movements in accumulated other comprehensive income is recognized in shareholders’ equity. The excess of the carrying amount of the investment over the underlying equity in net assets of the equity investee represents goodwill and intangible assets acquired. When the Group’s share of losses in the equity investee equals or exceeds its interest in the equity investee, the Group does not recognize further losses, unless the Group has guaranteed obligations of the investee or is otherwise committed to provide further financial support for the investee.

From time to time, the rights on certain investments in which the Group has significant influence were modified with new rounds of financing. These modifications may be additions or removals of certain rights. As a result of such modification, these equity investments, which were accounted for using equity method, were reclassified as investments without readily determinable fair value, or vice versa. The carrying amount of the investments was remeasured upon the reclassification and a deemed disposal gain or loss was recognized in the investment loss in the consolidated statements of comprehensive income/(loss).

The Group continually reviews its investments in equity investees to determine whether a decline in fair value below the carrying value is other than temporary. The primary factors the Group considers in its determination are the length of time that the fair value of the investment is below the carrying value; the financial condition, operating performance and the prospects of the equity investees; and other company specific information of the investees such as recent financing rounds. If the decline in fair value is deemed to be other than temporary, the carrying value of the equity investee is written down to fair value, which is reflected in share of results of equity investees and investment loss in the consolidated statements of comprehensive income/(loss).

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**2. Summary of significant accounting policies (continued)**

**(m) Investment in convertible notes**

The financial instruments guidance in ASC 825-10 permits reporting entities to apply the fair value option on an instrument-by-instrument basis. Therefore, a reporting entity can elect the fair value option for certain instruments but not others within a group of similar instruments. Such fair value option permits the irrevocable election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. The investments accounted for under the fair value option are carried at fair value with realized or unrealized gains and losses recorded in the consolidated statements of comprehensive income/(loss). The Group has elected the fair value option to account for investment in convertible notes. The convertible notes the Group held were interest free. Please refer to Note 10 for further details.

**(n) Property, plant, and equipment, net**

Property, plant, and equipment are stated at cost less accumulated depreciation and impairment if any. Depreciation is computed using the straight-line method with no residual value based on the estimated useful lives of the various classes of assets, which range as follows:

Computers and servers	3 – 5 years
Automobiles for Group uses	5 years
Automobiles for operating leases	5 years
Furniture and fixtures	3 – 5 years
Leasehold improvements	Shorter of remaining lease period or estimated useful life
Building	40 years

Costs of repairs and maintenance are expensed as incurred and asset improvements are capitalized. The cost and related accumulated depreciation of assets disposed of or retired are removed from the accounts, and any resulting gain or loss is reflected in other gains, net in the consolidated statements of comprehensive income/(loss).

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**2. Summary of significant accounting policies (continued)**

**(o) Goodwill**

Goodwill represents the excess of the purchase consideration over the fair value of the identifiable net assets acquired in a business combination. Goodwill is not amortized but is tested for impairment on an annual basis as of December 31, or more frequently if events or changes in circumstances indicate that it might be impaired. The Group has the option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. In the qualitative assessment, the Group considers primary factors such as industry and market considerations, overall financial performance of the reporting unit, and other specific information related to the operations. The Group will perform the quantitative impairment test if the Group bypasses the qualitative assessment, or based on the qualitative assessment, if it is more likely than not that the fair value of each reporting unit is less than the carrying amount.

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

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**2. Summary of significant accounting policies (continued)**

(p) Intangible assets, net

Intangible assets are stated at cost less accumulated amortization and impairment if any. Intangible assets acquired in a business combination are recognized initially at fair value at the date of acquisition. Intangible assets with an indefinite useful life are not amortized and are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired in accordance with ASC subtopic 350-30 ("ASC 350-30"), Intangibles-Goodwill and Other: General Intangibles Other than Goodwill. Separately identifiable intangible assets that have determinable lives continue to be amortized over their estimated useful lives using the straight-line method as follows:

Purchased software	5 - 10 years
Digital Sales Assistant system	10 years
Domain names	10 years
Brand name	10 - 15 years
Database	10 years
Customer relationship	2 - 15 years
Business cooperation	5 years
Trademark and lifetime membership	10 years / Indefinite
Others	5 - 10 years / Indefinite

(q) Impairment of long-lived assets

The Group reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

(r) Borrowings

Borrowings are recognized initially at fair value, net of upfront fees, debt issuance costs, and debt discounts or premiums. Upfront fees, debt issuance costs, and debt discounts or premiums are recorded as a reduction of the proceeds received and the related accretion is recorded as interest expense in the consolidated statements of comprehensive income/(loss) over the estimated term of the facilities and borrowings using the effective interest method.

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**2. Summary of significant accounting policies (continued)**

(s) Asset-backed securitization debt

The Group securitizes finance receivables arising from its consumers through the transfer of those assets to asset-backed securitization vehicles. The securitization vehicles usually issue senior tranche debt securities to third party investors, collateralized by the transferred assets, and subordinate tranche debt securities to the Group. In limited circumstances, the Group may also subscribe a portion of the senior tranche debt securities. The asset-backed debt securities issued by the securitization vehicles to third party investors are recourse to the Group. The securitization vehicles are considered consolidated variable interest entities of the Group, and the asset-backed debt securities subscribed by third party investors are reported as current and non-current liabilities in the consolidated balance sheets based on their respective expected repayment dates.

(t) Accounts payable

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

(u) Bills payable

Bills payable represents short-term bank acceptance notes issued by financial institutions that entitle the holder to receive the stated amount from the financial institutions at the maturity date of the notes. The Group has utilized bills payable to settle amounts owed to the suppliers.

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**2. Summary of significant accounting policies (continued)**

**(v) Guarantee liabilities**

The Group provides loan facilitation services to facilitate loans to borrowers offered by loan facilitation financing partners. The loan facilitation financing partners offer financing solutions to borrowers and the Group provides a guarantee in the event of default on the full repayment of principal and any accrued interests.

The guarantee is within the scope of ASC Topic 460 "Guarantees". The portion of the contract consideration that relates to ASC 460 must first be allocated to the guarantee, with the residual portion of the transaction price being recorded under ASC Topic 606, "Revenue from Contracts with Customers".

The Group's guarantee obligations are measured in a combination of two components: (i) ASC 460 component and (ii) ASC 450 (ASC Topic 450 "Contingencies") component. At the inception of the guarantee, the liability is recognized at fair value in accordance with ASC 460. This component is a stand ready obligation which is not subject to the probable threshold used to record a contingent obligation.

Subsequent to the initial recognition, the liability recorded based on ASC 460 is reduced as the Group is released from the underlying risk, meaning as the loan is repaid by the borrowers or when the financial institutions are compensated in the event of a default. Generally, the liability is reduced by a systematic and rational amortization method, e.g. over the term of the loan. The contingent liability arising from the obligation to make future payments is measured in accordance with ASC 450, which is determined using historical experience of borrower defaults. Any gains or losses from guarantee liability is recognized in other gains, net in the consolidated statements of comprehensive income/(loss).

As of December 31 2019, the amount of maximum potential future payments that the Group could be required to make under the guarantee was RMB26.79 billion (2018: RMB9.14 billion). Maximum potential future payments are approximately the total outstanding loan balance that the Group facilitated through its loan facilitation services.

**(w) Convertible debt**

The Group determines the appropriate accounting treatment of its convertible debt in accordance with the terms in relation to the conversion feature, call and put option, and beneficial conversion feature. After considering the impact of such features, the Company may account for such instrument as a liability in its entirety, or separate the instrument into debt and equity components following the respective guidance described under ASC 815 "Derivatives and Hedging" and ASC 470 "Debt".

The debt discount, if any, together with related issuance cost are subsequently amortized as interest expense, using the effective interest method, from the issuance date to the earliest conversion date. Convertible debt is classified as a current liability if their due date is or will be within one year from the balance sheet date.

In May 2019, the Group repurchased the outstanding convertible debt in whole prior to the scheduled maturity date.

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**2. Summary of significant accounting policies (continued)**

**(x) Fair value**

Accounting guidance defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurement for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

The Group measures certain financial assets, including the investments under the equity method, and investments without readily determinable fair value, investment in convertible notes, intangible assets, goodwill and property, plant and equipment, at fair value when an impairment charge is recognized. And the fair value of the guarantee liability recorded at the inception of the loan was estimated based on the third-party appraisal's report.

Accounting guidance establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Accounting guidance establishes three levels of inputs that may be used to measure fair value:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 - Unobservable inputs which are supported by little or no market activity.

Accounting guidance also describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

**(y) Treasury shares**

The Company's equity instruments that are repurchased are recognized at cost and deducted from equity as treasury shares. No gain or loss is recognized in the consolidated statements of comprehensive income/(loss) on the purchase, sale, issue or cancellation of the Company's equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital. Voting rights related to treasury shares are nullified for the Company and no dividends are allocated to them. In 2018, the board of directors approved a US\$150.0 million share repurchase plan. The share repurchase plan does not require the Company to acquire a specific number of shares and may be suspended or discontinued at any time. The share repurchased during the years ended December 31, 2017, 2018 and 2019 was nil, 2,398,780 and nil, respectively.

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**2. Summary of significant accounting policies (continued)**

**(z) Statutory reserves**

In accordance with the laws applicable to the Foreign Investment Enterprises established in the PRC, the Company's subsidiaries registered as wholly-owned foreign enterprise have to make appropriations from their net income based on PRC accounting standards to reserve funds including general reserve fund, enterprise expansion fund and staff bonus and welfare fund. The appropriation to the general reserve fund must be at least 10% of the net income based on PRC accounting standards until such appropriations for the fund reach 50% of the registered capital of the entity. Appropriations to the enterprise expansion fund and staff bonus and welfare fund are made at the discretion of the respective entity.

In addition, in accordance with the PRC Company Laws, the Company's VIEs and subsidiaries of VIEs, registered as Chinese domestic companies, must make appropriations from their net income based on PRC accounting standards to non-distributable reserve funds including statutory surplus fund and discretionary surplus fund. The appropriation to the statutory surplus fund must be at least 10% of the net income based on PRC accounting standards until such appropriations for the fund reach 50% of the registered capital of the entity. Appropriation to the discretionary surplus fund is made at the discretion of the respective entity.

None of these reserves are allowed to be transferred to the Company in terms of dividends, loans or advances, nor can they be distributed except under liquidation.

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**2. Summary of significant accounting policies (continued)**

**(aa) Revenue recognition**

Starting from January 1, 2018, the Group adopted ASC Topic 606 Revenue from Contracts with Customers (“ASC 606”) using the modified retrospective method to contracts that were not completed as of the date of adoption. As such, the comparative information for periods prior to January 1, 2018 has not been restated and continues to be reported under ASC Topic 605 Revenue Recognition (“ASC 605”). In accordance with ASC 606, VAT was presented on a net basis instead of on the gross basis adopted under ASC 605, which meant VAT was classified from cost of revenues to net against revenues and VAT refunds were presented as other gains, net. Other than the presentation of VAT, the impact from adopting ASC 606 was not material to the Group’s consolidated financial statements as of and for the year ended December 31, 2018. There was no cumulative effect on the opening balance of accumulated deficit upon adoption of ASC 606.

Under ASC 606, revenue is recognized when control of the promised goods or services was transferred to the customers, in an amount that reflects the consideration the Group expected to be entitled to in exchange for those goods or services. The recognition of revenue involves certain management judgments including identification of performance obligations, standalone selling price for each performance obligation, etc. Also revenue arrangements are assessed to determine if it is acting as principal or agent. Revenue is recognized at a point in time or over time when the Group satisfies a performance obligation. The amount of revenue recognized is the amount allocated to the satisfied performance obligation.

The Group determines revenue recognition through the following steps:

- Step 1: identification of the contract, or contracts, with a customer;
- Step 2: identification of the performance obligations in the contract;
- Step 3: determination of the transaction price;
- Step 4: allocation of the transaction price to the performance obligations in the contract; and
- Step 5: recognition of revenue when, or as, the Group satisfies a performance obligation.

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**2. Summary of significant accounting policies (continued)**

- (aa) Revenue recognition (continued)

*Advertising and subscription services*

*Advertising services*

The Group provides advertising services and also organizes promotional events to help customers to promote their products. Revenue is recognized when the performance obligation is satisfied. Revenue from advertising services is recognized when the advertisements are published over the stated display period. Revenue from organizing promotional events is recognized at a point in time when the performance obligation is satisfied. Revenues from advertising services are reported at a gross amount.

*Subscription services*

The Group provides web-based and mobile-based integrated digital marketing solutions, via SaaS platform, to dealer customers in China. Such SaaS platform enables dealer subscribers to create their own online showrooms, list pricing and promotional information, provide dealer contact information, place advertisements and manage customer relationships, which help them effectively market their automobiles to consumers. The revenue is recognized on a straight-line basis over the subscription or listing period when the performance obligation is satisfied. Revenues from dealer subscription and listing services are reported at a gross amount.

*Transaction services*

*Automobile financing lease and operating lease services*

The Group provides automobile financing lease services to individual customers and automobile dealers through two models: direct financing lease and sales-and-leaseback. In a direct financing lease arrangement, revenue is recognized over the lease period on a systematic and rational basis so as to produce a constant periodic rate of return on the net investment in the financing leases. In a sales-and-leaseback arrangement, the transaction is in substance a collateral financing and revenue is recognized over the lease period using the effective interest rate method. The Group also provides automobile operating lease services to individual and corporate customers. Revenue from these services is recognized on a straight-line basis over the lease period. This revenue is not subject to the revenue standard for contracts with customers and remains separately accounted for under existing lease accounting guidance. Please refer to Note 2 (k)&(hh) for further details.

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**2. Summary of significant accounting policies (continued)**

(aa) Revenue recognition (continued)

*Loan facilitation services*

The Group provides loan facilitation services to facilitate loans to borrowers offered by loan facilitation financing partners. The Group recognizes revenue from loan facilitation services when assisting the customers to complete an financing transaction. The Group recognizes revenue when performance obligation has been satisfied at a point in time, being when a transaction is fulfilled and completed.

*Other transaction services*

The Group recognizes revenue from direct automobile sales to individuals, automobile dealers and institutional customers. The revenue is recorded on a gross basis as the Group acts as the principal, is primarily responsible for the sales arrangements and is subject to inventory risk. Revenue from direct automobile sales is recognized when a sales contract has been executed and the automobiles have been delivered and control is transferred.

*Digital marketing solutions services*

The Group receives commissions for assisting customers in placing advertisements on media vendor websites (“advertising agent services”), and receives performance-based rebates from the media vendors, equal to a percentage of the purchase price for qualifying advertising space purchased and utilized by the customers the Group represents. The Group also provides project-based services such as public relations, marketing campaign and digital image creation. Revenue is recognized when the performance obligation is satisfied. The net commission revenue from advertising agent services is recognized when the advertisements are published over the stated display period. Revenue from performance-based rebates is recognized when the amount of these rebates are probable and reasonably estimable. Revenues from other services are recognized when the performance obligations are satisfied.

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**2. Summary of significant accounting policies (continued)**

(aa) Revenue recognition (continued)

Cost to obtain a contract

The incremental direct costs of obtaining a contract primarily consist of commissions associated with loan facilitation services, which are recognized as cost of revenue when incurred.

Contract balances

Payment terms and conditions vary by contract type, although terms generally include a requirement of prepayment or payment within one year or less. Timing of revenue recognition may differ from the timing of invoicing to customers, and the Group generally does not provide significant financing terms. Accounts receivable represents amounts invoiced, and revenue recognized prior to invoicing when the Group has satisfied its performance obligations and has the unconditional right to consideration.

Receipts in advance relates to unsatisfied performance obligations at the end of the year. The Group invoices its customers based on the payment terms stipulated in the executed subscription agreements, which generally ranges from several months to one year. The Group records amounts received prior to revenue recognition in advances from customers, which is included in the other payables and accruals line item in the Group's consolidated balance sheets. The beginning balance of advances from customers of RMB845.0 million in relation to dealer subscriptions and listing services was fully recognized as revenue for the year ended December 31, 2019 (2018: RMB898.7 million).

(bb) Cost of revenue

Cost of revenue mainly includes fees paid to business partners, direct service cost, funding costs, commissions associated with loan facilitation services, cost of automobiles sold and turnover taxes and related surcharges.

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**2. Summary of significant accounting policies (continued)**

(cc) Selling and administrative expenses

Selling and administrative expenses consist primarily of salaries and benefits for the sales and marketing personnel and administrative personnel, sales and marketing expenses, share-based compensation expense, depreciation and amortization of assets, allowance for doubtful accounts for accounts receivable and other receivables, allowance for credit losses for finance receivables and other expenses for daily operations.

Advertising expenditures are expensed as incurred and are included in selling and administrative expenses. Total advertising expenditures were RMB631.7 million, RMB631.3 million and RMB956.6 million for the years ended December 31, 2017, 2018 and 2019.

(dd) Product development expenses

Product development expenses consist primarily of staff costs related to personnel involved in the development and enhancement of the Group’s service offerings on its websites, mobile application and related software. The Group recognizes these costs as expenses when incurred, unless they result in significant additional functionality, in which case they are capitalized.

(ee) Share-based compensation

The Group’s share-based awards mainly comprise share options and restricted share units (“RSUs”). In accordance with ASC 718 “Compensation – Stock Compensation”, share-based awards granted to employees are measured at fair value on grant date and share-based compensation expense is recognized (i) immediately at the grant date if no vesting conditions are required, or (ii) using the graded vesting method, net of estimated forfeitures, over the requisite service period.

All transactions in which goods or services are received in exchange for equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable.

If a share-based award is modified after the grant date, additional compensation expenses are recognized in an amount equal to the excess of the fair value of the modified equity instrument over the fair value of the original equity instrument immediately before modification. The additional compensation expenses are recognized immediately on the date of the modification or over the remaining requisite service period, depending on the vesting status of the award.

The Group determined the fair value of share options with the assistance of independent third-party valuation firms. The binomial option pricing model was applied in determining the fair value of share options. The fair value of RSUs granted subsequent to the initial public offering will be the price of publicly traded shares on the date of grant.

The Group determined the fair value of share options granted by its subsidiaries with the assistance of independent third-party valuation firms. The binomial option pricing model or discount cash flow model were applied in determining the fair value of share options. Yixin also granted RSUs subsequent to the initial public offering. The fair value of such RSUs will be the price of publicly traded shares on the date of grant.

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**2. Summary of significant accounting policies (continued)**

**(ff) Employee Benefits—PRC contribution scheme**

Full-time employees of the Group in the PRC participate in a government mandated contribution scheme pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require that the Group makes contributions to the government for these benefits based on certain percentages of the employees' salaries. The Group has no legal or constructive obligations for further contributions if the fund does not hold sufficient assets to pay all employees the benefit relating to their current and past services. The total expenses for the scheme were RMB364.5 million, RMB424.3 million and RMB422.7 million for the years ended December 31, 2017, 2018 and 2019, respectively.

**(gg) Income taxes**

The Group accounts for income taxes using the asset and liability method, under which deferred income taxes are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized as income or expense in the period that includes the enactment date. Valuation allowance is provided on deferred tax assets to the extent that it is more likely than not that the asset will not be realizable in the foreseeable future.

The Group adopts ASC 740-10-25 “Income Taxes” which prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods and income tax disclosures. The Group did not have significant unrecognized uncertain tax positions or any unrecognized liabilities, interest or penalties associated with unrecognized tax benefit for the years ended December 31, 2017, 2018 and 2019.

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**2. Summary of significant accounting policies (continued)**

**(hh) Leases**

The Group adopted ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-02”) from January 1, 2019 by applying the modified retrospective method to those contracts that are not completed as of January 1, 2019, with the comparative information not being adjusted and continues to be reported under historic accounting standards. There is no impact to retained earnings at adoption.

The Group has elected to utilize the package of practical expedients at the time of adoption, which allows the Group to (1) not reassess whether any expired or existing contracts are or contain leases, (2) not reassess the lease classification of any expired or existing leases, and (3) not reassess initial direct costs for any existing leases. The Company also has elected to utilize the short-term lease recognition exemption for all contracts with lease terms of 12 months or less.

The Group determines if an arrangement is a lease and determines the classification of the lease, as either operating or finance, at commencement. Right-of-use (“ROU”) assets and lease liabilities are recognized based on the present value of the lease payments over the lease term at commencement date. As the Group’s leases do not provide an implicit rate, the Group estimates its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, and in economic environments where the leased asset is located.

The ROU assets also include any lease payments made prior to lease commencement and exclude lease incentives and initial direct costs incurred if any. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Group will exercise that option. Lease expense is recognized on a straight-line basis over the lease term.

Upon adoption, the Group recognized ROU assets of RMB196.4 million and total lease liabilities (including current and non-current) of RMB184.6 million for operating leases as of January 1, 2019.

**(ii) Government grants**

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

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**2. Summary of significant accounting policies (continued)**

**(jj) Earnings per share**

Basic earnings per share is computed by dividing net loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per ordinary share is computed by dividing the net loss attributable to ordinary shareholders for the year by the weighted average number of ordinary and potential ordinary shares outstanding during the year, if the effect of potential ordinary shares is dilutive. Potential ordinary shares for the Company include incremental shares of ordinary shares issuable upon the exercise of share options and RSUs, and conversion of convertible debt.

Additionally, for the purposes of calculating basic and diluted earnings per share, the following adjustments were made:

For the purpose of calculating basic earnings per share, Yixin’s net income/(loss) attributable to Bitauto Holdings Limited was determined using the two-class method by allocating Yixin’s net income/(loss) to each class of participating shares issued by Yixin, including the outstanding ordinary shares and redeemable convertible preference shares, prior to the IPO of Yixin.

For the purpose of calculating diluted earnings per share, the potentially issuable shares of Yixin, namely (i) the redeemable convertible preference shares, prior to the IPO of Yixin, and (ii) the share options and RSUs granted by Yixin, are assessed for dilutive impact. The diluted earnings per share will be adjusted if the impact is deemed dilutive.

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**3. Recent accounting pronouncements**

In June 2016, the FASB issued ASU No. 2016-13 Financial Instruments—Credit Losses (Topic 326) and further issued several subsequent amendments and updates, collectively referred to as “ASC 326”. ASC 326 introduces a new “expected credit loss” model for credit losses measurement on certain financial instruments, which is different from the current “incurred loss” model. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Group will adopt ASC 326 beginning January 1, 2020 by applying the modified retrospective method with the cumulative effect of initially applying the guidance recognized at the date of initial application. The Group noted that the new guidance would mainly have impact on credit losses in connection with finance receivables, accounts receivables, and guarantee liabilities. The cumulative effect on the opening balance of accumulated deficit upon adoption of ASC 326 would be not greater than RMB300.0 million.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement (“ASU 2018-13”) which eliminates, adds and modifies certain disclosure requirements for fair value measurements. Under the guidance, the Group will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The guidance is effective for all entities for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years. Early adoption is permitted, either the entire standard or only the provisions that eliminate or modify the requirements. The Group will adopt the new standard beginning January 1, 2020.

In January 2017, the FASB issued ASU No. 2017-04, “Simplifying the Test for Goodwill Impairment”. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance should be adopted on a prospective basis for the annual or any interim goodwill impairment tests beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Group will adopt the new standard beginning January 1, 2020.

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**4. Concentration of risks**

*(a) Concentration of customers*

There were no customers that individually represented greater than 10% of the total revenue for the years ended December 31, 2017, 2018 and 2019, respectively.

*(b) Concentration of credit risks*

Financial instruments that potentially subject the Group to significant concentration of credit risk consist principally of cash and cash equivalents, restricted cash, accounts receivable and finance receivables.

As of December 31, 2017, 2018 and 2019, substantially all of the Group’s cash and cash equivalents and restricted cash were held by major financial institutions located in Hong Kong and the PRC, which management believes are of high credit quality. Under the new Bankruptcy Law effective in 2007, a Chinese bank may go into bankruptcy. In the event of bankruptcy of one of the banks which holds the Group’s deposits, it is unlikely to claim its deposits bank in full since it is unlikely to be classified as a secured creditor based on PRC laws.

Accounts receivable and finance receivables are typically unsecured or secured with automobiles for financing lease and derived from revenue earned from customers in the PRC, which are exposed to credit risk. The risk is mitigated by credit evaluations the Group performs on its customers and its ongoing monitoring process of outstanding balance. The Group maintains reserves for estimated credit losses and these losses have generally been within its expectations.

The Group is also exposed to credit risk in relation to investment in convertible notes measured at fair value. The maximum exposure at the end of the reporting period is the carrying amount of the investment.

In addition, the Group is exposed to credit risk in providing loan facilitation services, to the extent that the Group is obligated to purchase the relevant loans upon certain specified events of default by customers.

*(c) Interest rate risk*

The Group’s interest rate risk arises from the Group’s borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates.

*(d) Liquidity risk*

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, the policy of the Group is to consistently monitor the Group’s liquidity risk and to maintain adequate cash and cash equivalents to meet the Group’s liquidity requirements.

The remaining contractual maturities (or the earliest date a financial liability may become payable in the absence of a fixed maturity date) at the balance sheet date mainly includes the Group’s financial assets such as cash and cash equivalents, restricted cash, accounts receivable, bills receivable, finance receivables, investment in convertible notes and other financial assets; financial liabilities such as borrowings, asset-backed securitization debt, accounts payable, bills payable, convertible debt, guarantee liabilities and other financial liabilities; and operating lease commitments based on contractual undiscounted cash flows.

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**4. Concentration of risks (continued)**

*(e) Foreign currency exchange rate risk*

Since June 2010, the RMB has fluctuated against the US\$, at times significantly and unpredictably. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the US\$ in the future.

*(f) Currency convertibility risk*

Substantially all of the Group’s businesses are transacted in RMB, which is not freely convertible into foreign currencies. In the PRC, foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the People’s Bank of China (the “PBOC”). Remittances in currencies other than RMB by the Group in the PRC must be processed through the PBOC or other PRC foreign exchange regulatory bodies and require certain supporting documentation in order to effect the remittance.

*(g) Other financial risk*

Towards the end of 2019, the Group found itself facing a stricter regulatory environment following the release of some regulations which could adversely affected its loan facilitation services if proper actions are not adopted. In response the Group has commenced a number of actions to address this matter. Management has assessed that in all likelihood the financial impact of these actions will not be significant for the Group, and does not believe that it is probable there will be a material outflow of financial resources during the process of complying with the new regulations. Management will continue to assess the financial impact of these regulations on its business.

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**5. Significant equity transactions and acquisitions**

*Acquisition of additional interest in Target Net (Beijing) Technology Company Limited (“Target Net”)*

As of December 31, 2016, the Group held 51% equity interest in Target Net, an unlisted entity based in the PRC and involved in the provision of internet information distribution services. In October 2017, Target Net repurchased its equity interests held by a noncontrolling shareholder for a total consideration of RMB36.3 million, which increased the Group’s ownership interest in Target Net to 74.8%. It was considered to be an equity transaction and the excess of the noncontrolling interest repurchased over the consideration was recorded in equity.

*Acquisition of additional interest in KKC Holdings Limited (“KKC”)*

As of December 31, 2016, the Group held 49.7% of ordinary shares and approximately 74.8% on a fully diluted basis in KKC, an unlisted entity based in the PRC, and KKC was consolidated as a subsidiary of the Group. The Group acquired KKC to expand its used car business.

In May 2017, the Group acquired the remaining equity interest of KKC from the noncontrolling shareholders for a total consideration of RMB13.2 million, which increased the Group’s ownership interest in KKC to 100%. It was considered to be an equity transaction and the difference between the consideration paid and the carrying amount of the non-controlling interest was recorded in equity.

*Acquisition of Beijing Xinchuang Interactive Advertising Company Limited (“Xinchuang”)*

As of December 31, 2016, the Group held 30% equity interest in Xinchuang, an unlisted entity located in the PRC and engaged in internet digital marketing services. In January 2017, the Group acquired an additional 30% of the equity interest, increasing its ownership interest to 60%. After the transaction, Xinchuang was consolidated as a subsidiary of CIG, one of the Group’s subsidiaries. The Group acquired Xinchuang to expand its digital marketing solutions business.

This transaction was considered as a step acquisition under ASC 805 “Business Combinations”. A step acquisition gain of RMB36.3 million arising from revaluation of previously held equity interest was recognized in the investment income/(loss) in the consolidated statements of comprehensive income/(loss).

The total purchase consideration for acquiring Xinchuang was RMB105.6 million, including a liability of RMB63.6 million for the committed purchase of the remaining 40% equity interest in the following two years equally. In October 2017, a modification of the original share purchase agreement was entered into to terminate the commitment. It was considered an equity transaction and the difference between the liability as at modification date and the carrying amount of the non-controlling interest was recorded in equity.

In January 2019, in order to better enhance the synergy between the Group and Xinchuang, the Group acquired the remaining equity interest of Xinchuang from the noncontrolling shareholders for a total consideration of RMB124.0 million, which increased the Group’s ownership interest in Xinchuang to 100%. It was considered to be an equity transaction and the difference between the consideration paid and the carrying amount of the non-controlling interest was recorded in equity.

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**5. Significant equity transactions and acquisitions (continued)**

*Acquisition of Jingzheng Holdings Limited (“JZG”)*

As of December 31, 2017 and 2018, the Group held a 50% equity interest in JZG, an unlisted entity based in Hong Kong and engaged in auto valuation and inspection services.

In January 2019, the Group acquired an additional equity interest for a total consideration of RMB68.6 million and increased its ownership interest to 59.5%. After the transaction, JZG was consolidated as a subsidiary of the Group. The Group acquired JZG to expand its advertising and subscription business.

This transaction was considered as a step acquisition under ASC 805 “Business Combinations”. A step acquisition gain of RMB122.6 million arising from revaluation of previously held equity interest was recognized in the investment income/(loss) in the consolidated statements of comprehensive income/(loss).

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**5. Significant equity transactions and acquisitions (continued)**

*Other acquisitions*

For the year ended December 31, 2017, 2018 and 2019, the Group acquired equity interests in other acquirees for total purchase consideration of RMB26.5 million, nil and RMB7.5 million.

The fair values of the identifiable assets and liabilities as at the date of the acquisitions are summarized in the following table:

	Fair value recognized on acquisition		
	2017 RMB	2018 RMB	2019 RMB
Cash and cash equivalents	23,072	—	14,106
Property, plant and equipment, net	292	—	2,847
Intangible assets, net	60,684	—	45,098
Other assets	61,142	—	44,596
Current liabilities	(59,867)	—	(111,781)
Deferred tax liabilities	(15,171)	—	(9,525)
Noncontrolling interest before acquisition	—	—	10,076
Net assets	70,152	—	(4,583)
Noncontrolling interests	—	—	(116,683)
Mandatorily redeemable noncontrolling interests	(63,569)	—	—
Goodwill arising on acquisitions	103,136	—	300,332
Total	<u>109,719</u>	<u>—</u>	<u>179,066</u>
Cash consideration	68,480	—	7,500
Non-cash consideration	—	—	68,632
Fair value of previously held equity interests	41,239	—	102,934
Total consideration	<u>109,719</u>	<u>—</u>	<u>179,066</u>

The goodwill represented expected synergies arising on acquisitions. The knowledge and expertise of employees is not separable. Therefore, it does not meet the criteria for recognition as intangible asset under ASC 350 "Intangibles – Goodwill and Other". None of the goodwill recognized was expected to be deductible for income tax purposes. The intangible assets arising from the acquisition include customer relationship, software, and brand name. The estimated useful lives were described in Note 2 (p).

The noncontrolling interest has been recognized at fair value on the acquisition date.

Neither the results of operations since the acquisition date nor the pro forma results of operations of the acquirees were presented because the effects of these business combinations, individually or in the aggregate, were not significant to the Group's consolidated results of operations.

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**6. Restricted cash**

Components of restricted cash as of December 31, 2018 and 2019 are as follows:

	2018 RMB	2019 RMB
Time deposits pledged for bank borrowings	3,869,699	1,561,907
Cash deposits pledged for asset-backed securitization debt	371,042	142,986
Guarantee funds	537,288	1,370,348
Cash pledged for bank notes	12,370	7,600
Others	—	168,403
	4,790,399	3,251,244

**7. Accounts receivable, net**

Accounts receivable, net as of December 31, 2018 and 2019 are as follows:

	2018 RMB	2019 RMB
Accounts receivable	4,371,898	4,214,787
Less: allowance for doubtful accounts	(481,186)	(422,146)
	3,890,712	3,792,641

As of December 31, 2019, accounts receivable at carrying value of RMB422.1 million (2018: RMB481.2 million) were impaired and fully provided for. The movements in the allowance for doubtful accounts are as follows:

	2017 RMB	2018 RMB	2019 RMB
Balance as of January 1	100,040	252,905	481,186
Charge for the year	152,865	228,281	354,017
Write off for the year	—	—	(413,057)
Balance as of December 31	252,905	481,186	422,146

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**8. Prepayments and other receivables**

Components of prepayments and other receivables as of December 31, 2018 and 2019 are as follows:

	2018 RMB	2019 RMB
Prepaid expenses and advances to third parties	98,956	82,415
Deposits	235,662	403,662
VAT and other taxes receivables	596,494	619,484
Interest receivable	64,066	19,068
Loans to third parties	325,057	206,074
Other receivables from third parties	414,209	287,373
Loan recognized as a result of payment under the guarantee	29,060	435,293
Other receivables from disposal of assets	104,357	157,459
Others	176,530	167,246
Less: allowance for impairment of other receivables	(5,092)	(157,350)
	<u>2,039,299</u>	<u>2,220,724</u>

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**9. Investment in equity investees**

The Group's investment in equity investees consisted of the following:

	Investments without readily determinable fair value RMB	Equity method RMB	Total RMB
Balance as of January 1, 2017	1,260,776	186,696	1,447,472
Additions	34,737	103,472	138,209
Share of loss of equity investees	—	(50,643)	(50,643)
Less: disposals and transfers	(14,623)	(126,512)	(141,135)
Less: impairment losses	(143,974)	(21,223)	(165,197)
Foreign currency translation adjustments	(44,836)	326	(44,510)
Balance as of December 31, 2017	1,092,080	92,116	1,184,196
Additions	60,336	713,527	773,863
Share of loss and other comprehensive income of equity investees	—	(57,923)	(57,923)
Less: disposals and transfers	(6,000)	(2,859)	(8,859)
Less: impairment losses	(17,040)	(17,589)	(34,629)
Transfer of the further share of loss of equity investee	—	20,465	20,465
Foreign currency translation adjustments	30,665	(607)	30,058
Balance as of December 31, 2018	1,160,041	747,130	1,907,171
Additions	171,762	48,000	219,762
Share of loss of equity investees	—	(57,725)	(57,725)
Less: impairment losses	(151,257)	(16,386)	(167,643)
Foreign currency translation adjustments	10,029	1,209	11,238
Balance as of December 31, 2019	<u>1,190,575</u>	<u>722,228</u>	<u>1,912,803</u>

*Investments without readily determinable fair value*

As of December 31, 2018 and 2019, the carrying value of the Group's investments without readily determinable fair value were RMB1.16 billion and RMB1.19 billion, respectively. Investments that do not have readily determinable fair values are accounted for at 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. For the years ended December 31, 2017, 2018 and 2019, the Group invested RMB34.7 million, RMB60.3 million, and RMB171.8 million in multiple private companies accounted for as investments without readily determinable fair value respectively, which management believes will lead to future operating synergies with the Group's business in future years.

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**9. Investment in equity investees (continued)**

*Equity method*

As of December 31, 2018 and 2019, the carrying value of the Group’s investments accounted for under the equity method were RMB747.1 million and RMB722.2 million, respectively. The Group applies the equity method to account for its equity investments, in common stock or in-substance common stock, over which it has significant influence but does not own a majority equity interest or otherwise control. For the year ended December 31, 2017, the Group disposed of certain investments accounted for under the equity method and recorded a disposal gain of RMB43.6 million, which was recognized in the investment income/(loss) in the consolidated statements of comprehensive income/(loss).

As of December 31, 2018, the Group’s share of losses in one of its equity investees exceeded its interest in this equity investee, and the Group continued to recognize further losses amounting to RMB20.5 million against its balance due from the equity investee.

The condensed financial information of the Group’s equity investments accounted for under the equity method were summarized as a group below in accordance with Rule 4-08 of Regulation S-X:

	For the year ended December 31,		
	2017 RMB	2018 RMB	2019 RMB
Revenue	80,095	733,295	2,446,639
Gross profit	4,981	222,209	184,074
(Loss)/Income from operations	(133,910)	14,779	(222,317)
Net (loss)/income	(133,207)	13,249	(222,401)
Net (loss)/income attributable to the equity-method investees	(129,223)	14,859	(221,890)
	As of December 31,		
	2018 RMB	2019 RMB	
Current assets	1,663,913	1,141,747	
Non-current assets	1,754,208	2,316,162	
Current liabilities	566,156	592,976	
Non-current liabilities	9,565	14,416	
Noncontrolling interests	(10,076)	4,619	

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**10. Investment in convertible notes**

*Significant investment held in convertible notes*

On June 13, 2018, Yixin and Yusheng Holdings Limited (“Yusheng”) entered into the convertible note purchase agreement, the business cooperation agreement and the framework agreement in relation to Yixin’s investment in Yusheng by way of subscription for the convertible note.

Pursuant to the convertible note purchase agreement, Yusheng agreed to issue to Yixin interest free convertible notes with a term of 20 years in the principal amount of US\$260.0 million for a consideration of (i) provision of the cooperation to Yusheng and/or its affiliates pursuant to the terms of the business cooperation agreement, and (ii) a cash consideration of US\$21.0 million. The convertible notes are interest free and convertible into Series Pre-A preferred shares at the conversion price of US\$20.00. The Group has elected to use the fair value option to account for the investment in convertible notes which amounted to RMB1.79 billion as at December 31, 2018.

Pursuant to the business cooperation agreement, Yixin shall provide the cooperation to Yusheng and/or its affiliates for a term of 20 years from the date of the business cooperation agreement. For the avoidance of doubt, actions in connection with respect to such cooperation include (i) Yixin shall provide certain traffic support in relation to the used automobile transaction business to Yusheng and/or its affiliates; (ii) Yixin shall provide certain automobile database related services to Yusheng and/or its affiliates on a non-exclusive basis; and (iii) Yixin shall not engage in, invest in, own, manage, operate or provide assistance to businesses that may compete with the used automobile transaction business during the term of the business cooperation agreement or until Yixin holds less than 10% equity interest in Yusheng on an as converted and fully diluted basis, whichever comes earlier. Please refer to Note 21 for further details.

Pursuant to the framework agreement, Yusheng agreed to purchase from Yixin, either directly or through its affiliates, certain fixed and intangible assets relating to the used automobile transaction business of Yusheng for an aggregate purchase price of US\$21.0 million.

In November 2019, Yixin subscribed to another convertible note issued by Yusheng for cash consideration of US\$43.0 million to further strength the cooperation relationship with Yusheng in the used automobile businesses.

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**11. Property, plant and equipment, net**

Property, plant and equipment, net as of December 31, 2018 and 2019 are as follows:

	2018 RMB	2019 RMB
Computers and servers	175,285	202,737
Automobiles for the Group use	42,101	44,862
Automobiles for operating leases	417,793	56,282
Furniture and fixtures	17,904	20,952
Leasehold improvements	71,490	67,261
Building	—	27,380
Less: accumulated depreciation	<u>(275,186)</u>	<u>(214,080)</u>
Net book value	<u>449,387</u>	<u>205,394</u>

Depreciation expenses recognized for the years ended December 31, 2017, 2018 and 2019 were RMB185.3 million, RMB255.8 million and RMB88.4 million, respectively.

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**12. Intangible assets, net**

Intangible assets, net as of December 31, 2018 and 2019 are as follows:

	As of December 31, 2018			
	Gross carrying amount RMB	Accumulated amortization RMB	Impairment amount RMB	Net carrying amount RMB
Purchased software	58,110	(27,956)	—	30,154
Digital Sales Assistant system	25,430	(18,013)	—	7,417
Trademark and lifetime membership	13,095	(721)	—	12,374
Domain names	25,399	(10,970)	—	14,429
Customer relationships	180,610	(82,244)	—	98,366
Brand name	3,630	(1,012)	—	2,618
Business cooperation	3,447,689	(2,391,469)	(254,873)	801,347
Others	39,113	(8,877)	—	30,236
	<u>3,793,076</u>	<u>(2,541,262)</u>	<u>(254,873)</u>	<u>996,941</u>

  

	As of December 31, 2019			
	Gross carrying amount RMB	Accumulated amortization RMB	Impairment amount RMB	Net carrying amount RMB
Purchased software	65,800	(33,821)	—	31,979
Digital Sales Assistant system	25,430	(20,556)	—	4,874
Trademark and lifetime membership	13,260	(1,190)	—	12,070
Domain names	25,399	(13,510)	—	11,889
Customer relationships	180,610	(101,139)	—	79,471
Brand name	15,530	(2,440)	—	13,090
Database	26,200	(2,620)	—	23,580
Business cooperation	3,447,689	(3,021,349)	(254,873)	171,467
Others	46,118	(12,789)	—	33,329
	<u>3,846,036</u>	<u>(3,209,414)</u>	<u>(254,873)</u>	<u>381,749</u>

Amortization expenses for the years ended December 31, 2017, 2018 and 2019 amounted to RMB688.6 million, RMB693.8 million and RMB671.0 million, respectively.

The estimated aggregate amortization expenses for each of the five succeeding fiscal years are as follows:

	For the year ended December 31,				
	2020 RMB	2021 RMB	2022 RMB	2023 RMB	2024 RMB
Amortization expenses	206,873	26,426	22,362	20,818	19,988

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**13. Goodwill**

	2017 RMB	2018 RMB	2019 RMB
Balance as of January 1	444,933	543,655	532,130
Acquisition of subsidiaries	103,136	—	329,424
Disposal	(4,326)	(11,585)	—
Foreign exchange difference	(88)	60	29
Balance as of December 31	<u>543,655</u>	<u>532,130</u>	<u>861,583</u>

The Group's goodwill impairment is tested at the reporting unit level, i.e. advertising and subscription business, transaction services business and digital marketing solutions business. As of December 31, 2019, the fair value of each reporting unit exceeded its carrying amount and no reporting units were at risk of failing the impairment test. As a result, no impairment charge was recognized.

	<b>As of December 31, 2018</b>			
	Advertising and subscription business RMB	Transaction services business RMB	Digital marketing solutions RMB	Total RMB
Goodwill	327,754	105,131	99,245	532,130

  

	<b>As of December 31, 2019</b>			
	Advertising and subscription business RMB	Transaction services business RMB	Digital marketing solutions RMB	Total RMB
Goodwill	656,678	105,631	99,274	861,583

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**14. Leases**

The Group's operating leases mainly relate to office buildings and it has no finance lease as a lessee for the year ended December 31, 2019.

As of December 31, 2019, the weighted average remaining lease term was 2.1 years and weighted average discount rate was 5.9% for the Group's operating leases.

Operating lease cost for the year ended December 31, 2019 was RMB109.9 million, which excluded the cost of short-term contracts. Cost of short-term lease contracts for the year ended December 31, 2019 was RMB53.9 million. Supplemental cash flow information related to operating leases is as follows:

	2019 RMB
Cash payments for operating leases	156,323
ROU assets obtained in exchange for operating lease liabilities	46,007

Future lease payments under operating leases as of December 31, 2019 were as follows:

	Operating leases RMB
Year ending December 31,	
2020	44,933
2021	16,535
2022	8,685
2023	3,953
2024	177
Thereafter	14
Total future lease payments	<u>74,297</u>
Less: Imputed interest	<u>(4,873)</u>
Total lease liabilities balance	<u><u>69,424</u></u>

Future lease payments under operating leases as of December 31, 2018, prior to the adoption of new lease accounting standard as described in Note 2(hh), are as follows:

	2018 RMB
Within one year	119,501
After one year but not more than five years	152,273
Later than five years	5,961
	<u><u>277,735</u></u>

For the years ended December 31, 2017 and 2018, the Group incurred rental expenses under operating leases of RMB136.6 million and RMB149.1 million, respectively.

As of December 31, 2019, additional operating leases that have not yet commenced were immaterial.

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**15. Finance receivables, net**

The Group provides automobile financial leasing services to individual customers and automobile dealers. Detailed information of finance receivables as of December 31, 2018 and 2019 are as follows:

	2018 RMB	2019 RMB
Finance receivables, gross		
-Within one year	22,661,850	19,465,688
-After one year but not more than five years	22,047,127	12,689,412
	44,708,977	32,155,100
Unearned finance income	(7,481,088)	(4,598,908)
	37,227,889	27,556,192
Allowance for credit losses	(350,816)	(566,398)
Finance receivables, net	<u>36,877,073</u>	<u>26,989,794</u>

Aging analysis of finance receivables are as follows:

	2018 RMB	2019 RMB
Not past due	35,788,625	25,068,164
Past due		
-Up to 3 months	1,027,691	1,816,830
-Over 3 months	411,573	671,198
	37,227,889	27,556,192
Allowance for credit losses	(350,816)	(566,398)
Finance receivables, net	<u>36,877,073</u>	<u>26,989,794</u>

Finance receivables due from related parties for the years ended December 31, 2018 and 2019 were RMB105.9 million and RMB27.7 million, which are presented as due from related parties.

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**15. Finance receivables, net (continued)**

Management assesses the allowance for credit losses of finance receivables collectively based on its historical experience and on various other assumptions that are believed to be reasonable, including estimated loss percentages of contracts that are not collectable, the historical migration pattern of past due balances, other information gathered through collection efforts and general economic conditions. Management reassesses the provision at each balance sheet date. As of December 31 2017, 2018 and 2019, the allowance for credit losses was RMB134.2 million, RMB350.8 million and RMB566.4 million, respectively. The movements in the allowance for credit losses are as follows:

	2017 RMB	2018 RMB	2019 RMB
Balance as of January 1	22,486	134,169	350,816
Charge for the year	196,320	528,824	871,231
Reversal of impairment for the year	—	(9,851)	(8,567)
Write off for the year	(84,637)	(312,177)	(655,649)
Recovery of finance receivables written off	—	9,851	8,567
Balance as of December 31	134,169	350,816	566,398

The Group securitizes finance receivables arising from its consumers through transfer of those assets to asset-backed securitization vehicles. The securitization vehicles usually issue senior tranche debt securities to third party investors, collateralized by the transferred assets, and subordinate tranche debt securities to the Group. As of December 31, 2018 and 2019, the collateralized finance receivables transferred to the securitization vehicles were RMB16.20 billion and RMB10.14 billion, respectively. Please refer to Note 2 (s) for details. The Group also secures certain borrowings from financial institutions with the cash proceeds of certain of the Group's finance receivables. As of December 31, 2018 and 2019, the finance receivables collateralized for borrowings from financial institutions were RMB8.84 billion and RMB9.50 billion, respectively.

**16. Other non-current assets**

	2018 RMB	2019 RMB
Prepayment for automobiles	149,215	10,957
Automobiles purchased for future leases	359,760	31,532
Property not available for use	—	422,207
Long-term receivables from loan facilitation services	53,973	373,711
Automobiles collected from financing lease customers	—	323,351
Long-term prepaid expenses	74,113	13,059
Deposits and others	527,966	252,025
Less: provision for impairment of automobiles collected from financing lease customers	—	(104,761)
	<u>1,165,027</u>	<u>1,322,081</u>

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**17. Borrowings**

The Group's short term borrowings represent the borrowings which were payable within one year or on demand.

During 2019, the Group entered into revolving line of credit agreements with some commercial banks located in China. As of December 31, 2019, the total revolving line of credit was RMB1.47 billion (2018: RMB512.3 million) and available within one year from the respective agreement date. There are no commitment fees associated with the unused portion of the line of credit. The major revolving line of credit is guaranteed by the Company or other entities within the Group.

The weighted average interest rate on borrowings outstanding as of December 31, 2018 and 2019 was approximately 6.5% and 7.0%, respectively.

As of December 31, 2019, the borrowings will be due according to the following schedule:

	<u>Within 1 year</u> RMB	<u>Between 1 to 2 years</u> RMB	<u>Between 2 to 3 years</u> RMB	<u>Between 3 to 4 years</u> RMB	<u>Between 4 to 5 years</u> RMB
Principal amounts	10,888,194	1,918,274	240,538	23,200	23,200

**18. Asset-backed securitization debt**

As of December 31, 2018 and 2019, the asset-backed securitization securities were RMB13.79 billion and RMB7.37 billion, respectively. The weighted average interest rate for the outstanding asset-backed securitization debt as of December 31, 2018 and 2019 were approximately 8.1% and 6.9%. The amount of interest charges recognized for the years ended December 31, 2018 and 2019 were RMB967.4 million and RMB806.3 million, respectively.

As of December 31, 2019, the asset-backed securitization debt will be due according to the following schedule:

	<u>Within 1 year</u> RMB	<u>Between 1 to 2 years</u> RMB	<u>Between 2 to 3 years</u> RMB	<u>Between 3 to 4 years</u> RMB	<u>Between 4 to 5 years</u> RMB
Principal amounts	6,278,472	1,173,227	—	—	—

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**19. Guarantee liabilities**

The movement of guarantee liabilities is as follows:

	2018 RMB	2019 RMB
Balance as of January 1	—	107,614
Fair value of guarantee liabilities upon the inception of new guarantees	119,672	217,638
Guarantee settled	(9,596)	(82,754)
Gains from guarantee liabilities	(2,462)	(34,782)
Balance as of December 31	<u>107,614</u>	<u>207,716</u>

The terms of the guarantee range from 1 year to 5 years, as of December 31, 2018 and 2019.

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**20. Convertible debt**

On August 2, 2016, the Company issued convertible notes (the "PAG Notes") for an aggregate principal amount of US\$150.0 million to PA Grand Opportunity Limited (PAG). The PAG Notes are due on August 1, 2021 and bear interest of 2% annually which will be paid semi-annually beginning on February 2, 2017.

The PAG Notes can be converted, at the holder's option, into the Company's fully paid American Depository Shares ("ADSs") or ordinary shares with an initial conversion price of approximately US\$23.67 per ADS, representing an initial conversion rate of 4,224.7671 ADSs per US\$100,000 principal amount of the PAG Notes.

The issuance costs of the PAG Notes were US\$0.18 million and are being amortized to interest expense, using the effective interest method, until the maturity date of the PAG Notes.

The Company has accounted for the PAG Notes in accordance with ASC 470, as a single instrument classified as a long-term debt within the consolidated financial statements. The value of the PAG Notes is measured by the cash received. The Company recorded the interest expenses according to its annual interest rate.

The Company evaluated the embedded conversion features contained in the PAG Notes in accordance with ASC 815-10-15 to determine if the conversion option requires bifurcation. In accordance with ASC 815-10-15-83, the conversion option meets the definition of a derivative. However, bifurcation of conversion option from the PAG Notes is not required as the scope exception prescribed in ASC 815-10-15-74 is met as the conversion option is considered indexed to the entity's own stock and classified in stockholders' equity.

As the conversion option was not bifurcated, the Company then assessed if there was any beneficial conversion feature ("BCF") in accordance with ASC 470-20. The Company recognized a BCF of US\$27.9 million (RMB185.7 million) through a credit to additional paid-in capital because the fair value per ordinary share of US\$28.08 exceeded the conversion price of US\$23.67 at the commitment date on August 2, 2016. The resulting discount of US\$27.9 million to the PAG Notes is then accreted to the redemption value as interest expense using the effective interest method through the consolidated statement of comprehensive income/(loss) over the term of the PAG Notes.

The Company evaluated the embedded contingent redemption features contained in the PAG Notes in accordance with ASC 815-15-25-42 and ASC 815-15-25-26. The contingent redemption features were not required to be bifurcated because they are considered to be clearly and closely related to the debt host contract, as the PAG Notes were not issued at a substantial discount and are puttable at par.

In November 2017 and January 2019, US\$24.0 million and US\$0.5 million principal amount of the PAG Notes were converted to 1,013,941 and 21,123 ordinary shares of the Company, respectively. Upon conversion, the balance of the PAG Notes converted and related unamortized discounts and issuance costs, which amounted to RMB158.5 million and RMB3.4 million, were recorded as the Company's shareholders' equity in 2017 and 2019, respectively. The unamortized BCF associated with the PAG Notes converted, which amounted to RMB23.3 million and RMB0.4 million, was expensed immediately in 2017 and 2019, respectively.

In May 2019, the Company repurchased the outstanding US\$125.5 million aggregate principal amount of the PAG Notes prior to the scheduled maturity date of the notes. The total purchase price of US\$126.8 million, including the interest of US\$1.3 million on the notes, was paid and settled on May 22, 2019. The PAG Notes were then cancelled and no longer outstanding. The unamortized BCF associated with the PAG Notes repurchased, which amounted to RMB77.4 million, was expensed immediately.

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**20. Convertible debt (continued)**

Before the PAG Notes repurchase, the effective interest rate for PAG Notes was 6.5% and the amount of interest charges recognized was RMB53.8 million, RMB46.8 million and RMB21.9 million for the year ended December 31, 2017, 2018 and 2019, respectively.

**21. Deferred revenue**

	2018 RMB	2019 RMB
Deferred revenue	<u>1,609,787</u>	<u>1,453,658</u>

Pursuant to the business cooperation agreement, Yixin shall provide the cooperation to Yusheng and/or its affiliates for a term of 20 years from the date of the business cooperation agreement. Deferred revenue related to Yusheng amounting to US\$227.8 million was initially recognized at fair value of the services in the business cooperation agreement. As of December 31, 2018 and 2019, the carrying amount of the related deferred revenue amounted to RMB1.51 billion and RMB1.42 billion, respectively.

**22. Other payables and accruals**

Components of other payables and accruals as of December 31, 2018 and 2019 are as follows:

	2018 RMB	2019 RMB
Accrued payroll	262,590	246,714
Accrued expenses	78,610	95,977
Advances from customers	1,035,090	1,052,416
Other payables	657,832	633,442
Other tax payables	389,483	358,579
Interest payable	236,552	146,514
	<u>2,660,157</u>	<u>2,533,642</u>

The above balances are non-interest-bearing and are normally settled under the terms of 120 to 150 days. Included in advances from customers are amounts received from dealer subscriptions and listing customers prior to revenue recognition, amounting to RMB845.0 million and RMB864.1 million, and from leasing customers prior to revenue recognition, amounting to RMB168.6 million and RMB152.9 million as of December 31, 2018 and 2019, respectively.

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**23. Redeemable noncontrolling interests**

	2018 RMB	2019 RMB
Balance as of January 1	301,953	360,010
Issuance of shares of the Group’s subsidiary	30,000	—
Accretion to redeemable noncontrolling interests	28,057	30,427
	<u>360,010</u>	<u>390,437</u>

In 2017, one subsidiary of the Group issued ordinary shares with redemption features to certain third-party investors. The Group classifies redeemable noncontrolling interests as mezzanine equity and records accretion of redemption value in accordance with ASC 480 “Distinguishing Liabilities from Equity”. The Group elects to use the effective interest method for the changes of redemption value over the period from the date of issuance to the earliest redemption date of the noncontrolling interests.

**24. Other gains, net**

	2017 RMB	2018 RMB	2019 RMB
Foreign currency exchange (losses)/gains	(1,721)	(22,103)	3,546
Gains on disposal of property, plant and equipment and intangible assets, net	16,430	47,309	14,911
Government grants	28,946	60,449	66,050
Other income from business cooperation arrangements with Yusheng	—	48,102	109,864
Gains from guarantee liabilities	—	2,462	34,782
VAT refund	—	71,505	82,107
Others	<u>(12,079)</u>	<u>(26,610)</u>	<u>(5,478)</u>
	<u>31,576</u>	<u>181,114</u>	<u>305,782</u>

The Group adopted ASC 606, from January 1, 2018, using the modified retrospective method. In accordance with ASC 606, VAT was presented on a net basis instead of on a gross basis under ASC 605, and VAT refund was recorded as other gains, net instead of revenue in the consolidated statements of comprehensive income/(loss) for the years ended December 31, 2018 and 2019.

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**25. Income tax expense**

Cayman Islands

Under the current laws of the Cayman Islands, the Company and its subsidiaries incorporated in the Cayman Islands are not subject to tax on income or capital gain. Additionally, the Cayman Islands do not impose a withholding tax on payments of dividends to shareholders.

Hong Kong

Under the Hong Kong tax laws, subsidiaries in Hong Kong are subject to the Hong Kong profits tax rate at 16.5% and they may be exempted from income tax on their foreign-derived income and there is no withholding tax in Hong Kong on remittance of dividends.

PRC

Under the PRC Enterprise Income Tax Law (“EIT Law”), EIT rate is 25% for enterprises incorporated in the PRC. Preferential EIT rates are available for enterprises qualified as High and New Technology Enterprises (“HNTEs”) and Software Enterprises (“SEs”). Entities qualified as HNTEs enjoy a reduced tax rate of 15% within three years after obtaining the HNTE certificate. An entity could re-apply for the HNTE certificate when the prior certificate expires. Historically, all of HNTEs of the Group successfully re-applied for the certificates when the prior ones expired. Entities qualified as SEs enjoy a two-year exemption for EIT from the first profitable year followed by a three-year half reduction in tax rate. In addition, in accordance with relevant PRC tax regulations, qualified entities established in specific geographical areas are exempt from EIT for five years, commencing from the first year of operation.

In general, the PRC tax authorities have up to five years to conduct examinations of the tax filings of the Company’s PRC subsidiaries. Accordingly, the PRC subsidiaries’ tax years of 2015 through 2019 remain open to examination by the respective tax authorities. The Company may also be subject to the examinations of the tax filings in other jurisdictions, which are not material to the consolidated financial statements.

Further, pursuant to the EIT Law, a 10% withholding tax is levied on dividends declared by PRC enterprises to their foreign non-resident enterprise investors. A lower withholding tax rate will be applied if tax treaty or arrangement benefits are available. According to the tax arrangement between the PRC and Hong Kong, withholding tax rate of 5% is applicable if direct foreign non-resident enterprise investors own directly at least 25% equity interest in the PRC enterprises and meet the relevant requirements.

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**25. Income tax expense (continued)**

*Composition of income tax expense:*

	2017 RMB	2018 RMB	2019 RMB
Current income tax	249,995	326,418	363,024
Deferred income tax	(46,171)	(150,522)	(272,005)
	<u>203,824</u>	<u>175,896</u>	<u>91,019</u>

*Composition of deferred tax assets and liabilities:*

	2018 RMB	2019 RMB
<b>Deferred tax assets</b>		
Amortization of intangible assets	757	—
Tax losses carried forward	19,030	246,834
Allowance for credit losses	170,527	401,646
Others	507	976
Less: valuation allowance	(12,258)	(205,544)
	<u>178,563</u>	<u>443,912</u>
<b>Deferred tax liabilities</b>		
Intangible assets arising from business combinations	(27,770)	(30,638)
	<u>(27,770)</u>	<u>(30,638)</u>
<b>Net deferred tax assets</b>	<u>150,793</u>	<u>413,274</u>

*Movement of valuation allowance:*

	2017 RMB	2018 RMB	2019 RMB
Balance as of January 1	18,170	18,511	12,258
Additions	2,319	24,523	200,500
Reversals	(1,978)	(30,776)	(7,214)
Balance as of December 31	<u>18,511</u>	<u>12,258</u>	<u>205,544</u>

As of December 31, 2019, the Group had net operating losses carried forward of approximately RMB1.08 billion which arose from the subsidiaries, VIEs and subsidiaries of VIEs established in the PRC. The losses carried forward will expire during the period from 2020 to 2024.

The Group did not provide for deferred taxes on the undistributed earnings of its subsidiaries, VIEs and subsidiaries of VIEs registered in the PRC as of December 31, 2018 and 2019 on the basis of its intent to reinvest the earnings. As of December 31, 2018 and 2019, the total amount of undistributed earnings from the subsidiaries, VIEs and subsidiaries of VIEs registered in the PRC was RMB2.84 billion and RMB3.28 billion, respectively. As of December 31, 2018 and 2019, determination of the amount of unrecognized deferred tax liability related to the earnings that are indefinitely reinvested is not practical.

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**25. Income tax expense (continued)**

*Reconciliation of the differences between the statutory EIT rate applicable to profits of the consolidated entities and the income tax expenses of the Group:*

	2017 RMB	2018 RMB	2019 RMB
Loss before tax	(1,223,164)	(503,420)	(1,092,021)
Income tax computed at statutory EIT rate (25%)	(305,791)	(125,855)	(273,005)
Effect of preferential tax rates for certain entities comprising the Group	(112,684)	(137,124)	(116,461)
Effect of differing tax rates in different jurisdictions	422,677	260,441	218,204
Non-deductible expenses and non-taxable income, net	188,069	218,830	199,425
Tax savings from additional deductions on certain research and development expenses available for subsidiaries incorporated in the PRC	(3,822)	(4,623)	(18,885)
Change in valuation allowances	1,933	(23,572)	128,665
Others	13,442	(12,201)	(46,924)
Income tax expense	<u>203,824</u>	<u>175,896</u>	<u>91,019</u>
Effective income tax rate	(16.7%)	(34.9%)	(8.3%)

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**26. Share-based compensation**

For the years ended December 31, 2017, 2018 and 2019, total share-based compensation expenses recognized were RMB1.19 billion, RMB896.4 million and RMB426.4 million, respectively.

*Share incentive plan*

On December 31, 2006, the Company implemented an Employee Stock Incentive Plan (“2006 Plan”) under which the Company has reserved 1,028,512.5 ordinary shares for employees. The Board of Directors of the Company may invite employees of the Group to subscribe for options over the Company’s ordinary shares.

On February 8, 2010, the Company implemented an Employee Stock Incentive Plan (“2010 Plan”) under which the Company has reserved 3,089,887.5 ordinary shares for employees. The 2010 Plan stipulates that if options are forfeited, the forfeited options can be added back to the option pool to be granted to other employees. The board of the Company may invite employees of the Company to subscribe for options over the Company’s ordinary shares.

On August 7, 2012, the Company implemented an Employee Stock Incentive Plan (“2012 Plan”) under which the Company has reserved 1,908,180.0 ordinary shares to motivate, attract and retain employees, and directors. The 2012 Plan permits the awards of options and RSUs.

On November 17, 2016, the Company implemented an Employee Stock Incentive Plan (“2016 Plan”) under which the Company has reserved 2,500,000.0 ordinary shares to attract and retain the best available personnel and provide additional incentives to employees, officers, directors and advisors of the Company. The 2016 Plan permits the awards of options and RSUs. In March 2018, the Company amended the 2016 Plan and increased the maximum number of ordinary shares to 6,200,000.0 shares.

*Share options*

The Company granted share options on December 31, 2006, February 8, 2010, December 28, 2010 and August 7, 2012, respectively. Options granted typically expire in ten years from the respective grant dates, except for options granted on December 31, 2006 whose expiration date was extended to December 31, 2026. The options have graded vesting terms, and vest in equal tranches from the grant date over three or four years, on the condition that employees remain in service without any performance requirements.

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**26. Share-based compensation (continued)**

The activities of share options for the year ended December 31, 2019 is summarized as below:

	Number of shares	Weighted average exercise prices US\$/Share	Aggregate intrinsic value US\$ in thousands	Weighted average remaining contractual life
Outstanding as of January 1, 2019	341,830.0	7.05	6,057	2.70 years
Granted during the year	—	—		
Exercised during the year	(90,803.0)	3.70		
Forfeited during the year	—	—		
Outstanding as of December 31, 2019	251,027.0	8.27	1,649	1.54 years
Exercisable as of December 31, 2019	251,027.0	8.27	1,649	1.54 years

The aggregate intrinsic value in the table above represents the difference between the Company's closing stock price on the last trading day of the year and the exercise price.

Total intrinsic value of options exercised for the years ended December 31, 2017, 2018 and 2019 was RMB93.2 million, RMB8.8 million and RMB5.8 million, respectively. There were no options vested for the years ended December 31, 2017, 2018 and 2019.

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**26. Share-based compensation (continued)**

*Restricted shares units*

Starting from 2013, the Company granted RSUs under share incentive plans. The RSUs granted would vest (i) on the anniversary of the grant date, or in equal tranches from the grant date over three to five years, on the condition that employees remain in service without any performance requirements; or (ii) on specific dates, or in equal tranches from the grant date over four years, if the grantees' key performance indicators were achieved on each vest date.

Once the vesting conditions underlying the respective RSUs are met, the RSUs are considered duly and validly issued to the holder, and free of restrictions on transfer.

The activities of RSUs for the year ended December 31, 2019 is summarized as below:

	Number of RSUs	Weighted-average fair value per RSU granted (US\$)
Outstanding as of January 1, 2019	4,537,332.0	25.14
Granted during the year	775,800.0	14.04
Vested and sold during the year	(1,205,919.0)	25.34
Forfeited during the year	(95,100.0)	28.04
Outstanding as of December 31, 2019	<u>4,012,113.0</u>	<u>22.86</u>
Vested as of December 31, 2019	<u>664,255.0</u>	<u>21.72</u>

The weighted-average grant-date fair value during the years ended December 31, 2017, 2018 and 2019 was US\$22.44, US\$26.20 and US\$14.04, respectively. The total fair value of the RSUs vested during the years ended December 31, 2017, 2018 and 2019 was RMB209.5 million, RMB95.2 million, RMB169.2 million, respectively.

For the years ended December 31, 2017, 2018 and 2019, share-based compensation recognized associated with the RSUs was RMB268.5 million, RMB219.4 million and RMB194.3 million, respectively. As of December 31, 2019, there was RMB198.3 million of unrecognized share-based compensation expense related to RSUs. The compensation expenses are expected to be recognized over a weighted-average period of 2.97 years.

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**26. Share-based compensation (continued)**

*Subsidiaries-Yixin*

In November 2017, Yixin implemented a share recapitalization to effect a 7-for-1 share split for all ordinary shares then issued and outstanding. All information related to Yixin's ordinary shares and stock options have been retroactively adjusted to give effect to the share split.

On May 26, 2017, Yixin approved the establishment of the Pre-IPO Share Option Scheme which was amended on September 1, 2017, the purpose of which is to provide an incentive for employees and persons contributing to Yixin. The Pre-IPO Share Option Scheme shall be valid and effective for 10 years from the grant date. The maximum number of shares that may be issued pursuant to all awards (including incentive share options) under 2017 Share Incentive Plan shall be 418,464,263 shares.

On May 26, 2017, Yixin approved the establishment of the First Share Award Scheme which was amended on September 1, 2017, the purpose of which is to provide an incentive for employees and persons contributing to Yixin. The First Share Award Scheme shall be valid and effective for 10 years from the grant date. The maximum number of shares that may be issued pursuant to all awards (including incentive share options) under First Share Award Scheme shall be 70,830,417 shares.

On September 1, 2017, Yixin approved the establishment of the Second Share Award Scheme with the purpose of which is to provide an incentive for employees and persons contributing to Yixin. The maximum number of shares that may be issued pursuant to all awards (including incentive share options) under Second Share Award Scheme shall be 5% of the total number of issued shares without Shareholders' approval, subject to an annual limit of 3% of the total number of issued shares at the relevant time.

• *Share options*

The exercise price of the granted options to employees shall be US\$0.0014. The options have graded vesting terms determined in the grant letter, on the condition that employees remain in service without any performance requirements. The vesting dates should be determined by the Company and grantees for each option agreement. The granted options have a contractual option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

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**26. Share-based compensation (continued)**

The activities of Yixin's share options for the year ended December 31, 2019 is summarized as below:

	Number of shares	Weighted average exercise prices US\$/Share	Aggregate intrinsic value US\$ in thousands	Weighted average remaining contractual life
Outstanding as of January 1, 2019	333,228,714	0.0014	73,982	8.56
Granted during the year	—	0.0014		
Exercised during the year	(27,732,848)	0.0014		
Forfeited during the year	(1,878,126)	0.0014		
Outstanding as of December 31, 2019	303,617,740	0.0014	67,021	7.56
Exercisable as of December 31, 2019	226,553,172	0.0014	50,010	7.55

The aggregate intrinsic value in the table above represents the difference between Yixin's closing stock price on the last trading day of the year and the exercise price.

Total intrinsic value of options exercised for the years ended December 31, 2018 and 2019 was RMB160.5 million and RMB45.2 million, respectively. The total fair value of options vested during the years ended December 31, 2018 and 2019 was RMB254.6 million and RMB179.2 million, respectively.

For the years ended December 31, 2017, 2018 and 2019, share-based compensation expenses recognized were RMB891.7 million, RMB307.8 million and RMB144.2 million, respectively. As of December 31, 2019, there was RMB87.8 million of unrecognized share-based compensation expense related to share options granted by Yixin. The compensation expenses are expected to be recognized over a weighted-average period of 1.58 years.

The estimate of the fair values of the options were measured based on the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used on the date of grant and weighted-average fair value per option granted:

	July 3, 2017	October 1, 2017
Fair value per share	US\$ 0.53	US\$ 0.70
Exercise price	US\$0.0014	US\$ 0.0014
Risk-free interest rate	2.50%	2.46%
Dividend yield	0.00%	0.00%
Weighted-average fair value per option granted	US\$ 0.53	US\$ 0.70
Expected volatility	51%	56%
Expected terms	10 years	10 years

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**26. Share-based compensation (continued)**

• *Restricted shares units*

Starting from 2018, Yixin granted RSUs to Yixin's employees under the share award schemes. The RSUs granted would vest on specific dates, or in equal tranches from the grant date over two to four years, on condition that employees remain in service without any performance requirements. Once the vesting conditions underlying the respective RSUs are met, the RSUs are considered duly and validly issued to the holder, and free of restrictions on transfer.

The activities of RSUs for the year ended December 31, 2019 is summarized as below:

	Number of RSUs	Weighted-average fair value per RSU granted (US\$)
Outstanding as of January 1, 2019	99,737,126	0.30
Granted during the year	7,773,895	0.23
Vested and sold during the year	(24,325,020)	0.30
Forfeited during the year	(7,575,214)	0.31
Outstanding as of December 31, 2019	<u>75,610,787</u>	0.29
Vested as of December 31, 2019	<u>26,946,272</u>	0.31

The weighted-average grant-date fair value during the year ended December 31, 2018 and 2019 were US\$0.31 and US\$0.23. The total fair value of the RSUs vested during the year ended December 31, 2018 and 2019 were RMB6.1 million and RMB51.1 million.

For the years ended December 31, 2018 and 2019, share-based compensation recognized associated with the RSUs granted by Yixin was RMB39.6 million and RMB88.9 million, respectively. As of December 31, 2019, there was RMB59.1 million of unrecognized share-based compensation expense related to RSUs. The compensation expenses are expected to be recognized over a weighted-average period of 2.40 years.

*Subsidiaries-Others*

Other subsidiary of the Company also has equity incentive plans granting options. For the years ended December 31, 2017, 2018 and 2019, total share-based compensation expenses recognized were RMB23.3 million and RMB329.6 million and nil, respectively. As of December 31, 2019, there were no unrecognized compensation expenses related to options granted by other subsidiary.

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**27. Earnings per share**

The following table sets forth the computation of basic and diluted net loss per share for the following periods:

	2017	2018	2019
<b>Numerator:</b>			
Net loss attributable to Bitauto Holdings Limited	(1,611,114)	(608,352)	(1,200,118)
(Loss)/Income allocation to participating securities of subsidiaries	(2,936)	28,336	(3,030)
Numerator for basic net loss per share	<u>(1,614,050)</u>	<u>(580,016)</u>	<u>(1,203,148)</u>
Dilutive effect of redeemable convertible preference shares and share options of subsidiaries	(11,036)	—	—
Numerator for diluted net loss per share	<u>(1,625,086)</u>	<u>(580,016)</u>	<u>(1,203,148)</u>
<b>Denominator:</b>			
Weighted average number of shares—basic	70,154,910	71,305,353	71,108,532
Dilutive effect of potentially issuable ordinary shares	—	—	—
Weighted average number of shares—diluted	<u>70,154,910</u>	<u>71,305,353</u>	<u>71,108,532</u>
Net loss per ordinary share—basic	(23.01)	(8.13)	(16.92)
Net loss per ordinary share—diluted	<u>(23.16)</u>	<u>(8.13)</u>	<u>(16.92)</u>

The weighted average number of shares, that could potentially dilute basic net loss per share in the future including incremental shares of ordinary shares issuable upon the exercise of share options and RSUs, and conversion of convertible debt, but were not included in the computation of diluted net loss per share because they were anti-dilutive for the years presented, are 8,126,552, 6,412,017 and 3,003,599 for the years ended December 31, 2017, 2018 and 2019.

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**28. Fair value measurement**

*Assets and liabilities measured at fair value on a recurring basis*

As of December 31, 2018 and 2019, information about inputs into the fair value measurement of the Group’s assets and liabilities that are measured and recorded at fair value on a recurring basis in periods is as follows:

	<b>As of December 31, 2018</b>		
	Level 1 RMB	Level 2 RMB	Level 3 RMB
Investment in convertible notes	—	—	1,789,470
Guarantee liabilities	—	—	(107,614)
<b>As of December 31, 2019</b>			
	Level 1 RMB	Level 2 RMB	Level 3 RMB
Investment in convertible notes	—	—	2,153,790
Guarantee liabilities	—	—	(207,716)

These instruments are categorized in the Level 3 valuation hierarchy based on the significance of unobservable factors in the overall fair value measurement. The Group did not transfer any assets or liabilities in or out of level 3 during the year ended December 31, 2018 and 2019.

The fair value of guarantee liabilities at the inception of the guarantee is estimated based on the third-party appraisal report using discount cash flow method. Key inputs and parameters default probability and loss rate of principal and interest which based on management best estimation by making reference to historical record for similar loan products, margin on expected loss which is determined by making reference to the average gross profit margin of comparable companies, and discount rate which is mainly determined by making reference to the average cost of debt for automobile financing lease services.

Investment in convertible notes is classified under level 3 in the fair value hierarchy, with the fair value estimated based on the third-party appraisal report using the binomial option pricing model. Key inputs and parameters includes volatility which is an expected rate based on the historical stock price of comparable companies, risk free rate which is based on the yield of US strip bond with a maturity life equal to the remaining maturity life of the convertible notes and discount rate which is based on yield of comparable bonds with similar credit ratings applicable for the Group.

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**28. Fair value measurement (continued)**

*Assets and liabilities measured at fair value on a nonrecurring basis*

The Group holds investments in equity investees of privately-held companies that are accounted for the investments under equity method or the investments without readily determinable fair value. The Group performs impairment assessments of these investments whenever events or changes in circumstances indicate that the carrying value of the investment may not be fully recoverable. The Group determined certain investments in equity investees were impaired after evaluated the business prospects, operational data and financial results of the investees. Impairment charges were recorded in connection with the investment in equity investees of RMB165.2 million, RMB34.6 million and RMB167.6 million for the years ended December 31, 2017, 2018 and 2019, respectively. The fair value of the investments were measured using significant unobservable inputs as Level 3, including revenue growth rate, terminal growth rate and discount rate.

*Other financial instruments*

The following are other financial instruments not measured at fair value in the consolidated balance sheets, but for which the fair value is estimated for disclosure purposes.

Cash and cash equivalents, restricted cash, accounts receivable, bills receivable, finance receivables, other receivables and due from related parties are financial assets with carrying values that approximate fair value due to their short-term nature. Accounts payable, bills payable, other payables and due to related parties are financial liabilities with carrying values that approximate fair value due to their short-term nature.

For borrowings, interest rates under the loan agreements with the lending banks were determined based on the prevailing interest rates in the market. The Group classifies the valuation techniques that use these inputs as Level 2 fair value measurement. The carrying value of borrowings approximate fair value.

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**29. Related party transactions**

The table below sets forth the related parties and their relationships with the Group as of December 31, 2019:

<b>Name of related parties</b>	<b>Relationship with the Group</b>
Chetuan E-Commerce Ltd. and its subsidiaries ("Chetuan")	An investee of the Group
Shanghai Ecicks Network Co. Ltd. ("Ecicks")	An investee of the Group
TPP CAR INC. and its subsidiaries ("TPP")	An investee of the Group
Beijing Anxinbao Insurance Brokerage Co., Ltd. ("Anxinbao")	An investee of the Group
JZG	An investee of the Group
NIO.INC and its subsidiaries ("NIO")	Affiliate
JD.com, Inc and its subsidiaries ("JD")	Ordinary shareholder of the Group

As of December 31, 2017 and 2018, JZG was a related party as an investee of the Group. In January 2019, the Group acquired additional equity interests of JZG to obtain control of it. Please refer to Note 5 for more details.

*The Group entered into the following transactions for the years ended December 31, 2017, 2018 and 2019 with related parties:*

	2017 RMB	2018 RMB	2019 RMB
<b>Services provided to related parties:</b>			
Automobile transaction services provided to Chetuan	9,830	—	—
Advertising services provided to TPP	15,260	—	4,016
Advertising services provided to NIO	27,360	30,629	83,066
Other transaction services provided to Anxinbao	14,183	6,000	768
Others	<u>381</u>	<u>160</u>	<u>781</u>
	<u><u>67,014</u></u>	<u><u>36,789</u></u>	<u><u>88,631</u></u>
<b>Services and automobiles purchased from related parties:</b>			
Advertising services purchased from Ecicks	98,530	36,434	30,516
Marketing and promotion services purchased from JD	40,411	57,063	53,033
Used car valuation services purchased from JZG	14,400	20,656	—
Automobiles purchased from NIO	—	5,184	1,742
Others	<u>31,155</u>	<u>17,708</u>	<u>26,675</u>
	<u><u>184,496</u></u>	<u><u>137,045</u></u>	<u><u>111,966</u></u>

**BITAUTO HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019**  
**(Amounts in thousands of Renminbi (“RMB”), except for share and per share data)**

**29. Related party transactions (continued)**

*The Group had the following balances as of December 31, 2018 and 2019 with related parties:*

	2018 RMB	2019 RMB
Due from Chetuan	105,919	27,694
Due from Anxinbao	231	21,407
Due from NIO	21,109	74,192
Due from JZG	54,106	—
Others	130	609
	<u>181,495</u>	<u>123,902</u>
Due to Chetuan	57,469	57,469
Due to Ecicks	38,840	20,676
Due to JZG	2,182	—
Others	8,072	26,685
	<u>106,563</u>	<u>104,830</u>

The transactions with other related parties and balance with other related parties are individually and aggregately insignificant.

**BITAUTO HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019**  
**(Amounts in thousands of Renminbi (“RMB”), except for share and per share data)**

**30. Commitments and contingencies**

*Capital commitments*

*Capital expenditure contracted for at the end of the year but not yet incurred is as follows:*

	2018 RMB	2019 RMB
Purchase of automobiles for future leases	7,007	—
	<u>7,007</u>	<u>—</u>

*Legal proceedings*

From time to time, the Group is subject to legal proceedings, investigations and claims incidental to the conduct of our business. The Group is currently not involved in any legal or administrative proceedings that may have a material adverse impact on the Group’s business, balance sheets, results of operations or cash flows. From time to time, the Group may be subject to legal proceedings, investigations and claims incidental to our business conduct.

**BITAUTO HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019**  
**(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)**

**31. Operating segment information**

As disclosed in Note 2(e), the Group manages its business in three reportable segments, namely advertising and subscription business, transaction services business and digital marketing solutions business.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

As the Group's long-lived assets are substantially all located in the PRC and substantially all the Group's revenues are derived from external customers within the PRC, no geographical segments are presented.

For the purpose of preparing segment information, all the intersegment transactions have been eliminated and only revenue from external customers are presented as segment revenue. The Group does not allocate non-operating income and expenses to each reportable segment. Accordingly, the measure of profit and loss for each reportable segment as reported to the chief operating decision maker is operating profit. A reconciliation of operating profit to profit before tax is presented in the consolidated statements of comprehensive income/(loss).

**BITAUTO HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019**  
**(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)**

**31. Operating segment information (continued)**

	Advertising and subscription business	Transaction services business	Digital marketing solutions business	Total
<b>Year ended December 31, 2017</b>				
Revenue	3,922,158	3,872,244	956,857	8,751,259
Gross profit	3,076,332	1,902,614	537,633	5,516,579
Income/(Loss) from operations	444,564	(1,525,073)	3,916	(1,076,593)
<b>Year ended December 31, 2018</b>				
Revenue	4,074,218	5,370,871	1,134,520	10,579,609
Gross profit	3,414,173	2,318,790	602,248	6,335,211
Income/(Loss) from operations	666,257	(838,477)	(293,286)	(465,506)
<b>Year ended December 31, 2019</b>				
Revenue	3,897,044	5,753,533	1,102,340	10,752,917
Gross profit	3,310,789	2,720,524	476,852	6,508,165
Loss from operations	(329,929)	(582,293)	(44,015)	(956,237)

The income/(loss) from operations for the year ended December 31, 2017 for advertising and subscription business, transaction services business, and digital marketing solutions included depreciation and amortization expenses of RMB58.5 million, RMB788.7 million and RMB26.7 million, respectively.

The income/(loss) from operations for the year ended December 31, 2018 for advertising and subscription business, transaction services business, and digital marketing solutions included depreciation and amortization expenses of RMB54.7 million, RMB862.1 million and RMB32.7 million, respectively.

The loss from operations for the year ended December 31, 2019 for advertising and subscription business, transaction services business, and digital marketing solutions included depreciation and amortization expenses of RMB63.0 million, RMB686.9 million and RMB9.5 million, respectively.

For the years ended December 31, 2017 ,2018 and 2019, the leasing revenue, which was interest revenue earned from automobile financing lease services, were RMB3.03 billion, RMB4.09 billion and RMB3.77 billion, and funding costs, which was interest expenses incurred for automobile financing lease and operating lease services, were RMB1.14 billion, RMB2.05 billion and RMB1.90 billion, respectively.

**BITAUTO HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019**  
**(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)**

**32. Restricted net assets**

The Company's ability to pay dividends is primarily dependent on the Company receiving distributions of funds from its subsidiaries. Relevant PRC laws and regulations permit payments of dividends by the Company's subsidiaries, VIEs and subsidiaries of VIEs registered in the PRC only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations.

In accordance with the laws applicable to the Foreign Investment Enterprises established in the PRC, the Company's subsidiaries registered as wholly-owned foreign enterprise have to make appropriations from their net income based on PRC accounting standards to reserve funds including general reserve fund, enterprise expansion fund and staff bonus and welfare fund. The appropriation to the general reserve fund must be at least 10% of the net income based on PRC accounting standards until such appropriations for the fund reach 50% of the registered capital of the entity. Appropriations to the enterprise expansion fund and staff bonus and welfare fund are made at the discretion of the respective entity.

In addition, in accordance with the PRC Company Laws, the Company's VIEs and subsidiaries of VIEs, registered as Chinese domestic companies, must make appropriations from their net income based on PRC accounting standards to non-distributable reserve funds including statutory surplus fund and discretionary surplus fund. The appropriation to the statutory surplus fund must be at least 10% of the net income based on PRC accounting standards until such appropriations for the fund reached 50% of the registered capital of the entity. Appropriation to the discretionary surplus fund is made at the discretion of the respective entity. In addition, registered capital is also restricted from withdrawal in the PRC.

As of December 31, 2019, the Company's subsidiaries, VIEs and subsidiaries of VIEs registered in the PRC had registered capital and reserve funds appropriated of RMB24.60 billion.

As a result of these PRC laws and regulations that require annual appropriations of 10% of net income to be set aside, prior to payments of dividends as general reserve fund or statutory reserve fund, the Company's subsidiaries, VIEs and subsidiaries of VIEs registered in the PRC are restricted in their ability to transfer a portion of their net assets to the Company in the form of dividends, loans and advances. Even though the Company currently does not require any such dividends, loans or advances from the PRC entities for working capital and other funding purposes, the Company may in the future require additional cash resources from them due to changes in business conditions, funding of future acquisitions and development, or merely to declare and pay dividends or distributions to its shareholders.

**BITAUTO HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019**  
**(Amounts in thousands of Renminbi (“RMB”), except for share and per share data)**

**33. Parent company only condensed financial information**

The Company performed a test on the restricted net assets of consolidated subsidiaries, VIEs and subsidiaries of VIEs in accordance with Securities and Exchange Commission Regulation S-X Rule 4-08 (e) (3), “General Notes to Financial Statements” and concluded that it was applicable for the Company to disclose the financial information for the parent company only. The subsidiaries did not pay any dividend to the Company for the years presented. Certain information and footnote disclosures generally included in financial statements prepared in accordance with U.S. GAAP have been condensed and omitted. The footnote disclosures contain supplemental information relating to the operations of the Company, as such, these statements should be read in conjunction with the notes to the consolidated financial statements of the Company.

The Company did not have significant capital and other commitments, long-term obligations, or guarantees as of December 31, 2019.

**BITAUTO HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019**  
**(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)**

**33. Parent company only condensed financial information (continued)**

*Condensed balance sheets*

	As of December 31,	
	2018 RMB	2019 RMB
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	44,056	4,206
Prepayments and other receivables	44,969	35,645
<b>Total current assets</b>	<u>89,025</u>	<u>39,851</u>
<b>Non-current assets</b>		
Investments in subsidiaries, VIEs and subsidiaries of VIEs	6,860,452	6,261,629
Investment in equity investees	25,914	—
Intangible assets, net	801,347	171,467
Due from subsidiaries, VIEs and subsidiaries of VIEs	6,165,296	5,437,103
<b>Total non-current assets</b>	<u>13,853,009</u>	<u>11,870,199</u>
<b>Total assets</b>	<u>13,942,034</u>	<u>11,910,050</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accruals and other payables	57,874	50,640
<b>Total current liabilities</b>	<u>57,874</u>	<u>50,640</u>
<b>Non-current liabilities</b>		
Due to subsidiaries, VIEs and subsidiaries of VIEs	1,979,140	1,875,828
Convertible debt	774,703	—
<b>Total non-current liabilities</b>	<u>2,753,843</u>	<u>1,875,828</u>
<b>Total liabilities</b>	<u>2,811,717</u>	<u>1,926,468</u>
<b>Shareholders' Equity</b>		
Ordinary shares (US\$0.00004 par value; 1,250,000,000 shares authorized as of December 31, 2018 and 2019, respectively; 72,739,966 shares and 73,761,089 issued and outstanding as of December 31, 2018 and 2019, respectively )	19	20
Additional paid-in capital	12,782,826	12,664,018
Treasury shares	(333,985)	(241,572)
Statutory reserve	204,583	222,547
Accumulated other comprehensive income	601,423	650,773
Accumulated deficit	(2,124,549)	(3,312,204)
<b>Total shareholders' equity</b>	<u>11,130,317</u>	<u>9,983,582</u>
<b>Total liabilities and shareholders' equity</b>	<u>13,942,034</u>	<u>11,910,050</u>

**BITAUTO HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019**  
**(Amounts in thousands of Renminbi (“RMB”), except for share and per share data)**

**33. Parent company only condensed financial information (continued)**

*Condensed statements of comprehensive loss*

	<b>For the year ended December 31,</b>		
	<b>2017</b> <b>RMB</b>	<b>2018</b> <b>RMB</b>	<b>2019</b> <b>RMB</b>
Selling and administrative expenses	(910,515)	(854,104)	(834,660)
Other gains	38,948	400	881
<b>Loss from operations</b>	<b>(871,567)</b>	<b>(853,704)</b>	<b>(833,779)</b>
Interest income	1,592	10	5
Interest expense	(77,158)	(46,767)	(99,622)
Share of results of equity investees	(52,055)	(40,502)	—
Equity in (loss)/profit of subsidiaries, VIEs and subsidiaries of VIEs	(611,926)	332,611	(363,255)
Investment income	—	—	96,533
<b>Loss before tax</b>	<b>(1,611,114)</b>	<b>(608,352)</b>	<b>(1,200,118)</b>
<b>Net loss</b>	<b>(1,611,114)</b>	<b>(608,352)</b>	<b>(1,200,118)</b>
<b>Other comprehensive income/(loss)</b>			
Foreign currency exchange (losses)/gains, net of tax of nil	(274,045)	133,166	49,350
<b>Total comprehensive loss, net of tax</b>	<b>(1,885,159)</b>	<b>(475,186)</b>	<b>(1,150,768)</b>

**BITAUTO HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019**  
**(Amounts in thousands of Renminbi ("RMB"), except for share and per share data)**

**33. Parent company only condensed financial information (continued)**

*Condensed statements of cash flows*

	<b>For the year ended December 31,</b>		
	<b>2017</b> <b>RMB</b>	<b>2018</b> <b>RMB</b>	<b>2019</b> <b>RMB</b>
Net cash provided by operating activities	104,295	110,517	155,083
Net cash (used in)/provided by investing activities	(238,475)	92,800	545,399
Net cash provided by/(used in) financing activities	354,821	(296,719)	(833,128)
Effect of exchange rate changes on cash and cash equivalents	(307,999)	70,796	92,796
Decrease in cash and cash equivalents	(87,358)	(22,606)	(39,850)
Cash and cash equivalents at beginning of the year	<u>154,020</u>	<u>66,662</u>	<u>44,056</u>
Cash and cash equivalents at end of the year	<u>66,662</u>	<u>44,056</u>	<u>4,206</u>

*Basis of presentation*

The Company's accounting policies are the same as the Group's accounting policies with the exception of the accounting for the investments in subsidiaries, VIEs and subsidiaries of VIEs.

For the Company only condensed financial information, the Company records its investments in subsidiaries, VIEs and subsidiaries of VIEs under the equity method of accounting as prescribed in ASC 323 "Investments-Equity Method and Joint Ventures". Such investments are presented on the condensed balance sheets as "investment in subsidiaries, VIEs and subsidiaries of VIEs" and shares in the subsidiaries, VIEs and subsidiaries of VIEs' profit are presented as "equity in profit of subsidiaries, VIEs and subsidiaries of VIEs" on the condensed statements of comprehensive income/(loss). The cash flows used in the investing activities are primarily associated with the loans to the subsidiaries, VIEs and subsidiaries of VIEs. The parent company only condensed financial information should be read in conjunction with the Group' consolidated financial statements.

**BITAUTO HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019**  
**(Amounts in thousands of Renminbi (“RMB”), except for share and per share data)**

**34. Subsequent events**

Since the beginning of 2020, outbreak of COVID-19 has resulted in the temporary closure of many corporate offices, retail stores, and manufacturing facilities across China. As substantially all of the Group's revenue and workforce are concentrated in China, the Group's business operations and financial condition, results of operations and cash flows for 2020 have been and will likely continue to be adversely affected by the COVID-19 outbreak, including but not limited to negative impact to revenues, slower collection of receivables and potential additional credit loss for receivables or impairment for investment. Given the uncertainty surrounding the outbreak of COVID-19, the extent of the business disruption and the related financial impact cannot be reasonably estimated at this time.

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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

### **To the Board of Directors and Shareholders of Tuniu Corporation**

#### ***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of Tuniu Corporation and its subsidiaries (the “Company”) as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive loss, of changes in shareholders’ equity and of cash flows for each of the three years in the period ended December 31, 2019, including the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

#### ***Change in Accounting Principle***

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019.

#### ***Basis for Opinions***

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Annual Report on Internal Control over Financial Reporting appearing under Item 15. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As described in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 15, management has excluded two travel agencies acquired in 2019 from its assessment of internal control over financial reporting as of December 31, 2019 because the travel agencies were acquired by the Company in purchase business combinations during 2019. We have also excluded these travel agencies from our audit of internal control over financial reporting. These travel agencies are the Company's subsidiaries whose total assets and total revenues excluded from management's assessment and our audit of internal control over financial reporting represent 3.3% and 1.2%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2019.

#### ***Definition and Limitations of Internal Control over Financial Reporting***

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

#### ***Emphasis of Matter***

As discussed in Note 24 to the consolidated financial statements, the outbreak of a novel strain of coronavirus ("COVID-19") in January 2020 has had material adverse impact on the Company's business, results of operations, financial condition and cash flows. The current circumstances are dynamic and the impacts of COVID-19 on the Company's business operations are highly uncertain and cannot be reasonably estimated at this time.

/s/ PricewaterhouseCoopers Zhong Tian LLP

Shanghai, the People's Republic of China

May 22, 2020

We have served as the Company's auditor since 2010, which includes periods before the Company became subject to SEC reporting requirements.

**TUNIU CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

**As of December 31, 2018 and 2019**  
**(All amounts in thousands, except for share and per share data, or otherwise noted)**

	As of December 31,		
	2018 RMB	2019 RMB	US\$ (Note 2(d))
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	560,356	295,463	42,441
Restricted cash	270,670	327,052	46,978
Short-term investments	859,211	1,305,386	187,507
Accounts receivable, net	347,547	529,983	76,127
Amounts due from related parties	696,520	65,108	9,352
Prepayments and other current assets	1,673,584	1,300,284	186,774
<b>Total current assets</b>	<b>4,407,888</b>	<b>3,823,276</b>	<b>549,179</b>
<b>Non-current assets</b>			
Long-term investments	1,302,506	1,305,612	187,539
Property and equipment, net	187,360	223,340	32,081
Intangible assets, net	317,885	166,267	23,883
Land use right, net	100,836	98,774	14,188
Operating lease right-of-use assets, net	—	105,839	15,203
Goodwill	159,409	232,007	33,325
Other non-current assets	81,039	83,923	12,055
Long-term amounts due from related parties	—	557,582	80,092
<b>Total non-current assets</b>	<b>2,149,035</b>	<b>2,773,344</b>	<b>398,366</b>
<b>Total assets</b>	<b>6,556,923</b>	<b>6,596,620</b>	<b>947,545</b>
<b>LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY</b>			
<b>Current liabilities</b> (including current liabilities of the Affiliated Entities without recourse to the Company amounting to RMB2,691,090 and RMB3,350,631, as of December 31, 2018 and 2019, respectively)			
Short-term borrowings	49,312	203,845	29,281
Accounts and notes payable	1,305,610	1,311,963	188,452
Amounts due to related parties	77,159	29,755	4,274
Salary and welfare payable	104,480	112,511	16,162
Taxes payable	23,316	12,207	1,753
Advances from customers	1,058,946	1,113,879	159,999
Operating lease liabilities, current	—	57,490	8,258
Accrued expenses and other current liabilities	483,832	907,119	130,299
<b>Total current liabilities</b>	<b>3,102,655</b>	<b>3,748,769</b>	<b>538,478</b>
<b>Non-current liabilities</b>			
Operating lease liabilities, non-current	—	54,718	7,860
Deferred tax liabilities	19,855	23,658	3,398
Long-term borrowings	4,492	9,689	1,392
Other non-current liabilities	16,069	10,947	1,572
<b>Total non-current liabilities</b>	<b>40,416</b>	<b>99,012</b>	<b>14,222</b>
<b>Total liabilities</b>	<b>3,143,071</b>	<b>3,847,781</b>	<b>552,700</b>

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

**TUNIU CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

**As of December 31, 2018 and 2019**  
**(All amounts in thousands, except for share and per share data, or otherwise noted)**

	As of December 31,		
	2018 RMB	2019 RMB	US\$ (Note 2(d))
<b>Commitments and contingencies (Note 22)</b>			
Redeemable noncontrolling interests	69,319	37,200	5,343
<b>Equity</b>			
Ordinary shares (US\$0.0001 par value; 1,000,000,000 shares (including 780,000,000 Class A shares, 120,000,000 Class B shares and 100,000,000 shares to be designated by the Board of Directors) authorized as of December 31, 2018 and 2019; 389,331,544 shares (including 371,958,044 Class A shares and 17,373,500 Class B shares) issued and outstanding as of December 31, 2018 and 2019)	249	249	36
Less: Treasury stock	(304,535)	(310,942)	(44,664)
Additional paid-in capital	9,061,979	9,113,512	1,309,074
Accumulated other comprehensive income	284,079	293,784	42,199
Accumulated deficit	(5,691,409)	(6,385,974)	(917,288)
<b>Total Tuniu Corporation shareholders' equity</b>	<u>3,350,363</u>	<u>2,710,629</u>	<u>389,357</u>
Noncontrolling interests	(5,830)	1,010	145
<b>Total equity</b>	<u>3,344,533</u>	<u>2,711,639</u>	<u>389,502</u>
<b>Total liabilities, redeemable noncontrolling interests and equity</b>	<u>6,556,923</u>	<u>6,596,620</u>	<u>947,545</u>

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

**TUNIU CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

**For the Years Ended December 31, 2017, 2018 and 2019**  
 (All amounts in thousands, except for share and per share data, or otherwise noted)

	For the Years Ended December 31,			
	2017 RMB	2018 RMB	2019 RMB	US\$ (Note 2(d))
<b>Revenues</b>				
Packaged tours	1,589,353	1,830,630	1,886,822	271,025
Others	602,747	409,519	394,165	56,618
<b>Net revenues</b>	<b>2,192,100</b>	<b>2,240,149</b>	<b>2,280,987</b>	<b>327,643</b>
Cost of revenues	(1,024,206)	(1,065,022)	(1,200,012)	(172,371)
<b>Gross profit</b>	<b>1,167,894</b>	<b>1,175,127</b>	<b>1,080,975</b>	<b>155,272</b>
<b>Operating expenses</b>				
Research and product development	(541,126)	(315,222)	(303,561)	(43,604)
Sales and marketing	(894,148)	(778,126)	(923,273)	(132,620)
General and administrative	(637,795)	(487,372)	(749,404)	(107,645)
Other operating income	21,749	56,599	24,419	3,508
<b>Total operating expenses</b>	<b>(2,051,320)</b>	<b>(1,524,121)</b>	<b>(1,951,819)</b>	<b>(280,361)</b>
<b>Loss from operations</b>	<b>(883,426)</b>	<b>(348,994)</b>	<b>(870,844)</b>	<b>(125,089)</b>
Other income/(expenses)				
Interest and investment income, net	130,250	152,929	156,862	22,532
Interest expense	—	(7,918)	(34,052)	(4,891)
Foreign exchange losses, net	(2,394)	(11,729)	(1,131)	(162)
Other (loss)/income, net	(121)	16,494	18,509	2,658
Loss before income tax expense	(755,691)	(199,218)	(730,656)	(104,952)
Income tax expense	(15,625)	(153)	(949)	(136)
Equity in income of affiliates	—	—	2,223	320
<b>Net loss</b>	<b>(771,316)</b>	<b>(199,371)</b>	<b>(729,382)</b>	<b>(104,768)</b>
Net loss attributable to noncontrolling interests	(4,934)	(14,037)	(35,797)	(5,142)
Net income attributable to redeemable noncontrolling interests	922	178	980	141
<b>Net loss attributable to Tuniu Corporation</b>	<b>(767,304)</b>	<b>(185,512)</b>	<b>(694,565)</b>	<b>(99,767)</b>
Accretion on redeemable noncontrolling interests	(5,725)	(2,422)	(4,634)	(666)
<b>Net loss attributable to ordinary shareholders</b>	<b>(773,029)</b>	<b>(187,934)</b>	<b>(699,199)</b>	<b>(100,433)</b>
<b>Net loss</b>	<b>(771,316)</b>	<b>(199,371)</b>	<b>(729,382)</b>	<b>(104,768)</b>
Other comprehensive loss /(income)				
Foreign currency translation adjustment, net of nil tax	(128,539)	11,693	9,705	1,394
<b>Comprehensive loss</b>	<b>(899,855)</b>	<b>(187,678)</b>	<b>(719,677)</b>	<b>(103,374)</b>
Comprehensive loss attributable to noncontrolling interests	(4,934)	(14,037)	(35,797)	(5,142)
Comprehensive income attributable to redeemable noncontrolling interests	922	178	980	141
<b>Comprehensive loss attributable to Tuniu Corporation</b>	<b>(895,843)</b>	<b>(173,819)</b>	<b>(684,860)</b>	<b>(98,373)</b>
<b>Loss per share</b>				
Basic and diluted	(2.04)	(0.50)	(1.89)	(0.27)
Weighted average number of ordinary shares used in computing basic and diluted loss per share	<b>378,230,039</b>	<b>377,744,381</b>	<b>369,472,880</b>	<b>369,472,880</b>

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

**TUNIU CORPORATION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

For the Years Ended December 31, 2017, 2018 and 2019

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

	Ordinary shares		Treasury Stock		Additional paid-in capital	Accumulated other comprehensive income/(loss)	Accumulated deficit	Total Tuniu Corporation Shareholders' equity	Noncontrolling interests	Total Equity
	Shares	Amount RMB	Shares	Amount RMB	RMB	RMB	RMB	RMB	RMB	RMB
Balance as of January 1, 2017	379,470,757	242	(985,299)	(19,708)	8,855,991	400,925	(4,738,593)	4,498,857	798	4,499,655
Repurchase of ordinary shares	—	—	(8,986,053)	(165,711)	—	—	—	(165,711)	—	(165,711)
Issuance of ordinary shares pursuant to share incentive plan	9,447,258	6	—	—	67,587	—	—	67,593	—	67,593
Share-based compensation expenses	—	—	—	—	98,675	—	—	98,675	—	98,675
Capital contribution to a subsidiary with noncontrolling interest	—	—	—	—	(2,735)	—	—	(2,735)	6,334	3,599
Foreign currency translation adjustments	—	—	—	—	—	(128,539)	—	(128,539)	—	(128,539)
Accretion on redeemable noncontrolling interest	—	—	—	—	(5,725)	—	—	(5,725)	—	(5,725)
Net loss	—	—	—	—	—	—	(767,304)	(767,304)	(4,934)	(772,238)
Balance as of December 31, 2017	388,918,015	248	(9,971,352)	(185,419)	9,013,793	272,386	(5,505,897)	3,595,111	2,198	3,597,309

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

**TUNIU CORPORATION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

For the Years Ended December 31, 2017, 2018 and 2019

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

	Ordinary shares		Treasury Stock		Additional paid-in capital	Accumulated other comprehensive income/(loss)	Accumulated deficit	Total Tuniu Corporation Shareholders' equity	Noncontrolling interests	Total Equity
	Shares	Amount RMB	Shares	Amount RMB	RMB	RMB	RMB	RMB	RMB	RMB
Repurchase of ordinary shares	—	—	(9,917,211)	(141,471)	—	—	—	(141,471)	—	(141,471)
Issuance of ordinary shares pursuant to share incentive plan	413,529	1	564,663	22,355	(18,130)	—	—	4,226	—	4,226
Share-based compensation expenses	—	—	—	—	68,738	—	—	68,738	—	68,738
Capital contribution to a subsidiary with noncontrolling interest	—	—	—	—	—	—	—	—	2,117	2,117
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	3,892	3,892
Foreign currency translation adjustments	—	—	—	—	—	11,693	—	11,693	—	11,693
Accretion on redeemable noncontrolling interest	—	—	—	—	(2,422)	—	—	(2,422)	—	(2,422)
Net loss	—	—	—	—	—	—	(185,512)	(185,512)	(14,037)	(199,549)
Balance as of December 31, 2018	389,331,544	249	(19,323,900)	(304,535)	9,061,979	284,079	(5,691,409)	3,350,363	(5,830)	3,344,533
Repurchase of ordinary shares	—	—	(947,529)	(11,147)	—	—	—	(11,147)	—	(11,147)
Issuance of ordinary shares pursuant to share incentive plan	—	—	964,128	4,740	(4,600)	—	—	140	—	140
Share-based compensation expenses	—	—	—	—	61,736	—	—	61,736	—	61,736
Capital contribution to subsidiaries with noncontrolling interests	—	—	—	—	—	—	—	—	1,500	1,500
Acquisition of additional shares in subsidiaries	—	—	—	—	(1,134)	—	—	(1,134)	(2,281)	(3,415)
Disposal of shares in subsidiaries	—	—	—	—	165	—	—	165	(380)	(215)
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	43,798	43,798
Foreign currency translation adjustments	—	—	—	—	—	9,705	—	9,705	—	9,705
Accretion on redeemable noncontrolling interest	—	—	—	—	(4,634)	—	—	(4,634)	—	(4,634)
Net loss	—	—	—	—	—	—	(694,565)	(694,565)	(35,797)	(730,362)

Balance as of December 31, 2019	<u>389,331,544</u>	<u>249</u>	<u>(19,307,301)</u>	<u>(310,942)</u>	<u>9,113,512</u>	<u>293,784</u>	<u>(6,385,974)</u>	<u>2,710,629</u>	<u>1,010</u>	<u>2,711,639</u>
Balance as of December 31, 2019(US\$ (Note 2(d)))	<u>389,331,544</u>	<u>36</u>	<u>(19,307,301)</u>	<u>(44,664)</u>	<u>1,309,074</u>	<u>42,199</u>	<u>(917,288)</u>	<u>389,357</u>	<u>145</u>	<u>389,502</u>

**TUNIU CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**For the Years Ended December 31, 2017, 2018 and 2019**  
**(All amounts in thousands, except for share and per share data, or otherwise noted)**

	For the Years Ended December 31,			
	2017 RMB	2018 RMB	2019 RMB	US\$ (Note 2(d))
<b>Cash flows from operating activities:</b>				
Net loss	(771,316)	(199,371)	(729,382)	(104,768)
Depreciation of property and equipment	65,704	66,903	87,887	12,624
Amortization of intangible assets and land use right	150,092	153,258	155,002	22,265
Amortization of right-of-use assets	—	—	79,683	11,446
Allowance for doubtful accounts	45,808	2,568	185,130	26,592
Change in fair value of contingent consideration	5,572	(5,242)	344	49
Foreign exchange loss	673	14,279	(82)	(12)
Loss from disposal of property and equipment	562	1,368	1,501	215
Loss from impairment of intangible asset	—	—	32,014	4,599
Share-based compensation expenses	98,675	68,738	61,736	8,867
Change in deferred tax liabilities	(2,314)	(2,362)	(2,727)	(392)
Remeasurement of equity investments	—	(12,581)	(18,356)	(2,637)
Change in fair value of investments	—	(8,153)	(17,977)	(2,582)
Gain from disposal of equity investment	—	(1,850)	(24)	(3)
Share of results of equity investees	—	—	(2,223)	(320)
<b>Changes in operating assets and liabilities:</b>				
Accounts receivable	(64,286)	(60,584)	(55,043)	(7,906)
Amounts due from related parties	283,901	14,810	49,815	7,156
Prepayments and other current assets	691,932	(1,867)	160,205	23,012
Accrued interests of yield enhancement products	15,114	10,580	—	—
Other non-current assets	(9,668)	(25,606)	103	15
Operating Lease Liabilities, current and non-current	—	—	(73,315)	(10,531)
Accounts and notes payable	(167,262)	553,445	(36,253)	(5,208)
Amounts due to related parties	54,398	(9,765)	(47,404)	(6,809)
Salary and welfare payable	(4,930)	(83,274)	5,860	842
Taxes payable	20,417	(8,748)	(11,383)	(1,635)
Advances from customers	(595,876)	(152,335)	44,498	6,392
Accrued expenses and other liabilities	(221,018)	(34,719)	15,234	2,188
Accrued interests of amounts due to the individual investors of yield enhancement products	(11,183)	(6,559)	—	—
Non-current liabilities	(3,644)	(4,844)	(5,304)	(762)
Net cash (used in)/provided by operating activities	(418,649)	268,089	(120,461)	(17,303)
<b>Cash flows from investing activities:</b>				
Purchase of short-term investments	(2,488,010)	(1,858,032)	(2,041,280)	(293,212)
Proceeds from maturity of short-term investments	3,271,860	4,067,804	1,614,098	231,851
Proceeds from maturity of yield enhancement products	434,977	172,458	—	—
Increase in loan receivable	(16,438)	(1,326,160)	(16,584)	(2,382)
Purchase of property and equipment and intangible assets	(160,497)	(119,442)	(122,479)	(17,593)
Cash paid for long-term investments	(426,227)	(874,120)	(547,205)	(78,601)
Proceeds from maturity of long-term investments	—	91,030	568,532	81,665
Cash received from disposal of equity investment	—	3,114	—	—
Cash paid for acquisition, net of cash received	(111)	(2,660)	(33,216)	(4,772)
Net cash provided by/(used in) investing activities	615,554	153,992	(578,134)	(83,044)

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

**TUNIU CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**For the Years Ended December 31, 2017, 2018 and 2019**  
**(All amounts in thousands, except for share and per share data, or otherwise noted)**

	For the Years Ended December 31,			
	2017 RMB	2018 RMB	2019 RMB	US\$ (Note 2(d))
<b>Cash flows from financing activities:</b>				
Cash paid for repurchase of ordinary shares	(166,149)	(139,070)	(13,547)	(1,946)
Proceeds from issuance of ordinary shares upon exercise of options	67,344	4,585	109	16
Contingent consideration paid for business acquisitions	(6,800)	(6,800)	(13,921)	(2,000)
Repurchase of redeemable noncontrolling interests	—	(30,000)	(37,733)	(5,420)
Acquisition of noncontrolling interests of subsidiaries	—	—	(3,415)	(490)
Cash contribution from noncontrolling interests	3,599	2,117	1,500	215
Proceeds from yield enhancement products	(682,760)	(171,412)	—	—
Repayment of short-term and long-term borrowings	—	(390)	(281,354)	(40,414)
Proceeds from short-term and long-term borrowings	—	195,758	833,471	119,721
Net cash (used in)/provided by financing activities	<u>(784,766)</u>	<u>(145,212)</u>	<u>485,110</u>	<u>69,682</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(46,025)	(21,754)	4,974	714
<b>Net (decrease)/increase in cash, cash equivalents and restricted cash</b>	<b>(633,886)</b>	<b>255,115</b>	<b>(208,511)</b>	<b>(29,951)</b>
Cash, cash equivalents and restricted cash at the beginning of year	1,209,797	575,911	831,026	119,370
Cash, cash equivalents and restricted cash at the end of year	<u>575,911</u>	<u>831,026</u>	<u>622,515</u>	<u>89,419</u>
<b>Supplemental disclosure of cash flow information</b>				
Income tax paid	12,199	3,740	2,286	328
<b>Supplemental disclosure of non-cash investing and financing activities</b>				
Accrual related to purchase of property and equipment	11,859	5,202	12,473	1,792
Receivables related to exercise of stock options	(385)	(23)	(55)	(8)
Accrual related to purchase business acquisitions	38,116	36,456	30,530	4,385

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(All amounts in thousands, except for share and per share data, or otherwise noted)**

### 1. Organization and Principal Activities

Tuniu Corporation (the “Company”) is an exempted company with limited liability incorporated in the Cayman Islands. The Company, its subsidiaries and the consolidated variable interest entity (“VIE”) and its subsidiaries (collectively referred to as the “Affiliated Entities”) are collectively referred to as the “Group”. The Group’s principal activity is the provision of travel-related services in the People’s Republic of China (“PRC”).

As of December 31, 2019, the Company’s significant consolidated subsidiaries and the consolidated Affiliated Entities are as follows:

Name of subsidiaries and Affiliated entities	Date of establishment/acquisition	Place of incorporation	Percentage of direct or indirect economic ownership
<b>Subsidiaries of the Company:</b>			
Tuniu (HK) Limited	Established on May 20, 2011	Hong Kong	100%
Tuniu (Nanjing) Information Technology Co., Ltd.	Established on August 24, 2011	PRC	100%
Beijing Tuniu Technology Co., Ltd. (“Beijing Tuniu”)	Established on September 8, 2008	PRC	100%
Jiangsu Kaihui Commercial Factoring Co., Ltd	Established on September 22, 2015	PRC	100%
Xiamen Suiwang International Travel Service Co., Ltd.	Established on January 26, 2016	PRC	100%
Tianjin Tuniu International Travel Service Co., Ltd.	Established on March 23, 2016	PRC	100%
Guangzhou Kaihui Internet Microcredit Co., Ltd.	Established on June 13, 2016	PRC	100%
Nanjing Kaihui Internet Microcredit Co., Ltd.	Established on December 28, 2016	PRC	90%
<b>Variable Interest Entity (“VIE”)</b>			
Nanjing Tuniu Technology Co., Ltd. (“Nanjing Tuniu”)	Established on December 18, 2006	PRC	100%
<b>Subsidiaries of VIE</b>			
Shanghai Tuniu International Travel Service Co., Ltd.	Acquired on August 22, 2008	PRC	100%
Nanjing Tuniu International Travel Service Co., Ltd.	Acquired on December 22, 2008	PRC	100%
Beijing Tuniu International Travel Service Co., Ltd.	Acquired on November 18, 2009	PRC	100%
Nanjing Tuzhilv Tickets Sales Co., Ltd.	Established on April 19, 2011	PRC	100%
Beijing Global Tour International Travel Service Co., Ltd.	Acquired on July 1, 2015	PRC	75.02%
Tuniu Insurance Brokers Co., Ltd.	Acquired on August 11, 2015	PRC	100%

### 2. Principal Accounting Policies

#### (a) Basis of Presentation

The consolidated financial statements of the Group have been prepared in accordance with the accounting principles generally accepted in the United States of America (“U.S. GAAP”).

#### *Liquidity*

The Group’s 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. The Group incurred net losses of approximately RMB767,304, RMB185,512 and RMB694,565 for the years ended December 31, 2017, 2018 and 2019, respectively. Net cash used in operating activities was approximately RMB418,649 and RMB120,461 for the years ended December 31, 2017 and 2019 respectively, and net cash provided by operating activities was RMB268,089 for the year ended December 31, 2018. Accumulated deficit was RMB5,505,897, RMB5,691,409 and RMB6,385,974 as of December 31, 2017, 2018 and 2019, respectively. As disclosed in note 24, Subsequent event, the outbreak of COVID-19 has had material adverse impacts on the Group’s cash flow for the first two quarters of 2020 with potential continuing impacts on subsequent periods. The conditions and events indicated there could cast substantial doubt on the Group’s ability to continue as a going concern. The Group has taken actions to manage its liquidity by reducing capital expenditures and operational expenses that are discretionary in nature and obtaining funding from the maturity of certain short-term and long-term investments. Based on management’s liquidity assessment, considering these actions taken, management believes that the Group’s available cash, cash equivalents, and cash generated from future operations and maturity of investments will be sufficient to meet its working capital requirements and capital expenditures in the ordinary course of business for the next twelve months from the issuance of these consolidated financial statements. Accordingly, the consolidated financial statements have been prepared on going concern basis.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(All amounts in thousands, except for share and per share data, or otherwise noted)**

**2. Principal Accounting Policies - continued**

**(b) Principles of Consolidation**

The consolidated financial statements include the financial statements of the Company, its subsidiaries, the Affiliated Entities for which the Company is the primary beneficiary. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power, has the power to appoint or remove the majority of the members of the board of directors, or to cast a majority of votes at the meeting of board of directors, or has the power to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

A VIE is an entity in which the Company, or its subsidiary, through contractual arrangements, has controlling interest and therefore the Company or its subsidiary is the primary beneficiary of the entity. In determining whether the Company or its subsidiary has controlling interests in a VIE, the Company considers whether the company or its subsidiary has the power to direct activities that most significantly impact the VIE's economic performance, and the right to receive benefits from the VIE or the obligation right to absorb losses of the VIE that could be potentially significant to the VIE.

All significant transactions and balances among the Company, its subsidiaries and the Affiliated Entities have been eliminated upon consolidation.

To comply with PRC laws and regulations that restrict foreign equity ownership of companies that operate internet content, travel agency and air-ticketing services, the Company operates its website and engaged in such restricted services through Nanjing Tuniu and its subsidiaries. Nanjing Tuniu's equity interests are held by Dunde Yu, the Company's Chief Executive Officer, Haifeng Yan, the Company's director, and several other PRC citizens. On September 17, 2008, Beijing Tuniu, one of the Company's wholly owned subsidiaries, entered into a series of agreements with Nanjing Tuniu and its shareholders. Pursuant to these agreements, Beijing Tuniu has the ability to direct substantially all the activities of Nanjing Tuniu, and absorb substantially all of the risks and rewards of the Affiliated Entities. As a result, Beijing Tuniu is the primary beneficiary of Nanjing Tuniu, and has consolidated the Affiliated Entities.

***Contractual arrangements***

On September 17, 2008, Beijing Tuniu entered into a series of contractual agreements with Nanjing Tuniu and its shareholders. The following is a summary of the agreements which allow the Company to exercise effective control over Nanjing Tuniu:

**(1) Purchase Option Agreement.**

Under the purchase option agreement entered between Beijing Tuniu and the shareholders of Nanjing Tuniu on September 17, 2008, Beijing Tuniu has the irrevocable exclusive right to purchase, or have its designated person or persons to purchase all or part of the shareholders' equity interests in Nanjing Tuniu at RMB1,800 which was increased to RMB2,430 in March 2014. The option term remains valid for a period of 10 years and can be extended indefinitely at Beijing Tuniu's discretion. The purchase consideration was paid by Beijing Tuniu to the shareholders of Nanjing Tuniu shortly after the purchase option agreement was entered. On January 24, 2014, the Company amended and restated the purchase option agreement, and the effective term of the purchase option agreement has been changed to until all equity interests held in Nanjing Tuniu are transferred or assigned to Beijing Tuniu or its designated person or persons.

**(2) Equity Interest Pledge Agreement.**

Under the equity interest pledge agreement entered between Beijing Tuniu and the shareholders of Nanjing Tuniu on September 17, 2008, the shareholders pledged all of their equity interests in Nanjing Tuniu to guarantee their performance of their obligations under the purchase option agreement. If the shareholders of Nanjing Tuniu breach their contractual obligations under the purchase option agreement, Beijing Tuniu, as the pledgee, will have the right to either conclude an agreement with the pledger to obtain the pledged equity or seek payments from the proceeds of the auction or sell-off of the pledged equity to any person pursuant to the PRC law. The shareholders of Nanjing Tuniu agreed that they will not dispose of the pledged equity interests or create or allow any encumbrance on the pledged equity interests. During the equity pledge period, Beijing Tuniu is entitled to all dividends and other distributions made by Nanjing Tuniu. The equity interest pledge agreement remains effective until the shareholders of Nanjing Tuniu discharge all their obligations under the purchase option agreement, or Beijing Tuniu enforces the equity interest pledge, whichever is earlier.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(All amounts in thousands, except for share and per share data, or otherwise noted)**

**2. Principal Accounting Policies - continued**

**(b) Principles of Consolidation - continued**

**(3) Shareholders' Voting Rights Agreement.**

Under the shareholders' voting rights agreement entered between Beijing Tuniu and the shareholders of Nanjing Tuniu on September 17, 2008, each of the shareholders of Nanjing Tuniu appointed Beijing Tuniu's designated person as their attorney-in-fact to exercise all of their voting and related rights with respect to their equity interests in Nanjing Tuniu, including attending shareholders' meetings, voting on all matters of Nanjing Tuniu, nominating and appointing directors, convene extraordinary shareholders' meetings, and other voting rights pursuant to the then effective articles of association. The shareholders' voting rights agreement will remain in force for an unlimited term, unless all the parties to the agreement mutually agree to terminate the agreement in writing or cease to be shareholders of Nanjing Tuniu.

**(4) Irrevocable Powers of Attorney.**

Under the powers of attorney issued by the shareholders of Nanjing Tuniu on September 17, 2008, the shareholders of Nanjing Tuniu each irrevocably appointed Mr. Tao Jiang, a person designated by Beijing Tuniu, as the attorney-in-fact to exercise all of their voting and related rights with respect to their equity interests in Nanjing Tuniu. Each power of attorney will remain in force until the shareholders' voting rights agreement expires or is terminated. On January 24, 2014, the shareholders of Nanjing Tuniu issued powers of attorney to irrevocably appoint Beijing Tuniu as the attorney-in-fact to exercise all of their voting and related rights with respect to their equity interests in Nanjing Tuniu. These powers of attorney replaced the powers of attorney previously granted to Mr. Tao Jiang on September 17, 2008.

**(5) Cooperation Agreement.**

Under the cooperation agreement entered between Beijing Tuniu and Nanjing Tuniu, Beijing Tuniu has the exclusive right to provide Nanjing Tuniu technology consulting and services related to Nanjing Tuniu's operations, which require certain licenses. Beijing Tuniu owns the exclusive intellectual property rights created as a result of the performance of this agreement. Nanjing Tuniu agrees to pay Beijing Tuniu a monthly service fee for services performed, and the monthly service fee shall not be lower than 100% of Nanjing Tuniu's profits generated from such cooperation, which equal revenues generated from such cooperation, after deducting the expenses it incurred. This agreement remains effective for an unlimited term, unless the parties mutually agree to terminate the agreement, one of the parties is declared bankrupt or Beijing Tuniu is not able to provide consulting and services as agreed for more than three consecutive years because of force majeure. On January 24, 2014, the Company amended and restated the Cooperation Agreement. In the amended and restated agreement, the service fee has been changed to a quarterly payment which equals the profits of each of Nanjing Tuniu and its subsidiaries, and that Beijing Tuniu can adjust the service fee at its own discretion. Also in the amended and restated Cooperation Agreement, Beijing Tuniu has the unilateral right to terminate the agreement.

In the years ended December 31, 2017, 2018 and 2019, the Company and its subsidiaries received service fees of RMB138,054, RMB197,853 and RMB30,420, respectively, from its consolidated Affiliated Entities, which were eliminated in the consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(All amounts in thousands, except for share and per share data, or otherwise noted)**

**2. Principal Accounting Policies - continued**

**(b) Principles of Consolidation - continued**

*Risks in relation to the VIE structure*

The Group believes that each of the agreements and the powers of attorney under the contractual arrangements among Beijing Tuniu, Nanjing Tuniu and its shareholders is valid, binding and enforceable, and does not and will not result in any violation of PRC laws or regulations currently in effect. The legal opinion of Fangda Partners, which was the Company's PRC legal counsel, also supports this conclusion. The shareholders of Nanjing Tuniu are also shareholders, nominees of shareholders, or designated representatives of shareholders of the Company and therefore have no current interest in seeking to act contrary to the contractual arrangements. However, uncertainties in the PRC legal system could limit the Company's ability to enforce these contractual arrangements and if the shareholders of Nanjing Tuniu were to reduce their interest in the Company, their interests may diverge from that of the Company and that may potentially increase the risk that they would seek to act contrary to the contractual terms.

The Company's ability to control Nanjing Tuniu also depends on the power of attorney Beijing Tuniu has to vote on all matters requiring shareholder approval in Nanjing Tuniu. As noted above, the Company believes this power of attorney is legally enforceable but it may not be as effective as direct equity ownership.

In addition, if the legal structure and contractual arrangements were found to be in violation of any existing PRC laws and regulations, the PRC government could:

- levying fines or confiscate the Group's income;
- revoke the Group's business or operating licenses;
- require the Group to discontinue, restrict or restructure its operations;
- shut down the Group's servers or block the Group's websites and mobile platform;
- restrict or prohibit the use of the Group's financing proceeds to finance its business and operations in China; or
- take other regulatory or enforcement actions against the Group that could be harmful to the Group's business

The imposition of any of these penalties may result in a material and adverse effect on the Group's ability to conduct the Group's business. In addition, the imposition of any of these penalties may cause the Group to lose the right to direct the activities of Nanjing Tuniu (through its equity interest in its subsidiaries) or the right to receive economic benefits from the Affiliated Entities. Therefore, a risk exists in that the Group would no longer be able to consolidate Nanjing Tuniu and its subsidiaries. In March 2019, the PRC National People's Congress promulgated the Foreign Investment Law, or the 2019 PRC Foreign Investment Law, which will become effective on January 1, 2020 and will replace the major existing laws and regulations governing foreign investment in the PRC. The approved Foreign Investment Law does not touch upon the relevant concepts and regulatory regimes that were historically suggested for the regulation of VIE structures, and thus this regulatory topic remains unclear under the Foreign Investment Law. As the 2019 PRC Foreign Investment Law is newly adopted and relevant government authorities may promulgate more laws, regulations or rules on the interpretation and implementation of the 2019 PRC Foreign Investment Law, the possibility can't be ruled out that the VIE structure adopted by the Group may be deemed as a method of foreign investment by, any of such future laws, regulations and rules, which cause significant uncertainties as to whether the Group's VIE structures would be treated as a method of foreign investment. If the Group's VIE structure would be deemed as a method of foreign investment under any of such future laws, regulations and rules, and any of the Group's businesses operation would fall in the "negative list" for foreign investment that is subject to any foreign investment restrictions or prohibitions, the Group would be required to take further actions to comply with such laws, regulations and rules, which may materially and adversely affect the Group's current corporate structure, corporate governance, business, financial conditions and results of operations.

*Summary financial information of the Affiliated Entities in the consolidated financial statements*

As of December 31, 2019, the aggregate accumulated deficit of the Affiliated Entities was RMB4,099 million prior to the elimination of transactions between the Affiliated Entities and the Company or the Company's subsidiaries.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(All amounts in thousands, except for share and per share data, or otherwise noted)**

**2. Principal Accounting Policies - continued****(b) Principles of Consolidation - continued**

The following assets, liabilities, revenues and loss of the Affiliated Entities were included in the consolidated financial statements as of December 31, 2018 and 2019 and for the years ended December 31, 2017, 2018 and 2019:

	As of December 31,		
	2018 RMB	2019 RMB	US\$ (Note 2(d))
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	254,373	126,096	18,113
Restricted cash	261,559	318,826	45,797
Short-term investments	584,032	831,256	119,402
Accounts receivable, net	266,225	284,469	40,861
Intercompany receivables	499,276	870,818	125,085
Prepayments and other current assets	769,824	534,144	76,725
<b>Total current assets</b>	<b>2,635,289</b>	<b>2,965,609</b>	<b>425,983</b>
<b>Non-current assets</b>			
Long-term investments	1,022,453	1,009,049	144,941
Property and equipment, net	137,267	129,469	18,597
Intangible assets, net	85,388	91,953	13,208
Operating lease right-of-use assets, net	—	68,193	9,795
Goodwill	137,074	185,004	26,574
Other non-current assets	66,335	82,422	11,839
<b>Total non-current assets</b>	<b>1,448,517</b>	<b>1,566,090</b>	<b>224,954</b>
<b>Total assets</b>	<b>4,083,806</b>	<b>4,531,699</b>	<b>650,937</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Short-term borrowings	47,205	184,000	26,430
Accounts and notes payable	1,251,543	1,149,051	165,051
Intercompany payable	5,141,083	5,241,312	752,867
Salary and welfare payable	82,254	81,144	11,656
Taxes payable	11,809	6,519	937
Advances from customers	998,041	1,104,505	158,652
Operating lease liabilities, current	—	30,779	4,420
Accrued expenses and other current liabilities	300,238	794,633	114,142
<b>Total current liabilities</b>	<b>7,832,173</b>	<b>8,591,943</b>	<b>1,234,155</b>
<b>Non-current liabilities</b>			
Operating lease liabilities, non-current	—	42,155	6,055
Deferred tax liabilities	17,838	20,112	2,889
<b>Total non-current liabilities</b>	<b>17,838</b>	<b>62,267</b>	<b>8,944</b>
<b>Total liabilities</b>	<b>7,850,011</b>	<b>8,654,210</b>	<b>1,243,099</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(All amounts in thousands, except for share and per share data, or otherwise noted)**

**2. Principal Accounting Policies - continued****(b) Principles of Consolidation - continued**

	For the Years Ended December 31,			
	2017 RMB	2018 RMB	2019 RMB	US\$ (Note 2(d))
Net revenues	1,954,746	1,524,924	1,181,747	169,747
Net loss	(348,755)	(29,031)	(334,832)	(48,096)
Net cash (used in)/provided by operating activities	(232,926)	31,282	(505,492)	(72,609)
Net cash used in investing activities	(1,021,286)	(465,029)	(246,340)	(35,385)
Net cash provided by financing activities	1,303,661	569,565	680,822	97,794

Currently there is no contractual arrangement that could require the Company to provide additional financial support to the Affiliated Entities. As the Company is conducting its business mainly through the Affiliated Entities, the Company may provide such support on a discretionary basis in the future, which could expose the Company to a loss.

Under the contractual arrangements with Nanjing Tuniu and through its equity interest in its subsidiaries, the Group has the power to direct the activities of the Affiliated Entities and direct the transfer of assets out of the Affiliated Entities. As the consolidated Affiliated Entities are each incorporated as a limited liability company under the PRC Company Law, the creditors do not have recourse to the general credit of the Company for all of the liabilities of the consolidated Affiliated Entities.

**(c) Use of Estimates**

The preparation of the Group's consolidated financial statements in conformity with the U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. Actual results could differ materially from those estimates. Significant accounting estimates reflected in the Group's consolidated financial statements mainly include fair value of short-term and long-term investments, recoverability of receivables, estimated useful lives of property and equipment and intangible assets, impairment for goodwill and long-lived assets, the purchase price allocation and fair value of contingent considerations with respect to business combinations, fair value of share-based payment arrangements, subsequent measurement of equity investments using measurement alternative, valuation allowance for deferred tax assets and the determination of uncertain tax positions.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(All amounts in thousands, except for share and per share data, or otherwise noted)**

**2. Principal Accounting Policies - continued**

**(d) Functional Currency and Foreign Currency Translation**

The Group uses Renminbi (“RMB”) as its reporting currency. The functional currency of the Company and its subsidiaries incorporated outside of PRC is the United States dollar (“US\$”), while the functional currency of the PRC entities in the Group is RMB as determined based on ASC 830, *Foreign Currency Matters*.

Transactions denominated in other than the functional currencies are re-measured into the functional currency of the entity at the exchange rates prevailing on the transaction dates. Foreign currency denominated financial assets and liabilities are re-measured at the balance sheet date exchange rate. The resulting exchange differences are included in the consolidated statements of comprehensive loss as foreign exchange gains / losses.

When preparing the consolidated financial statements presented in RMB, assets and liabilities of the Company and its subsidiaries incorporated outside of PRC are translated into RMB at fiscal year-end exchange rates, and equity accounts are translated into RMB at historical exchange rates. Income and expense items are translated at average exchange rates prevailing during the respective fiscal years. Translation adjustments arising from these are reported as foreign currency translation adjustments and are shown as a component of accumulated other comprehensive income or loss in the consolidated statement of changes in shareholders’ equity.

The unaudited United States dollar amounts disclosed in the accompanying financial statements are presented solely for the convenience of the readers. Translations of amounts from RMB into US\$ for the convenience of the reader were calculated at the rate of US\$1.00 = RMB6.9618 on December 31, 2019, as set forth in H.10 statistical release of the Federal Reserve Board. No representation is made that the RMB amounts could have been, or could be, converted into US\$ at that rate on December 31, 2019, or at any other rate.

**(e) Fair Value Measurement**

The Group defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

The established fair value hierarchy 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. The three levels of inputs may be used to measure fair value include:

- |         |   |
|---------|---|
| Level 1 | applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.   |
| Level 2 | applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data. |
| Level 3 | applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.   |

The Group’s financial instruments include cash and cash equivalents, restricted cash, short-term investments, accounts receivable, accounts payable, amounts due from and due to related parties, long-term investments in financial products, borrowings, operating lease liabilities, contingent consideration for acquisitions and certain accrued liabilities and other current liabilities. The carrying values of these financial instruments approximated their fair values due to the short-term maturity of these instruments except for certain investments which are carried at fair value at each balance sheet date. Certain short-term and long-term investments in financial products and securities classified within Level 2 are valued using directly or indirectly observable inputs in the market place. Certain investments in financial products classified within Level 3 are valued based on a model utilizing unobservable inputs which require significant management judgment and estimation.

The Group’s assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurement Using Significant Other Observable Inputs (Level 2) As of December 31,		
			2019
	2018	RMB	RMB
Short-term investments	562,794	1,113,536	159,949
Long-term investments	52,441	282,995	40,650

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(All amounts in thousands, except for share and per share data, or otherwise noted)**

**2. Principal Accounting Policies - continued**

**(e) Fair Value Measurement - continued**

	Fair Value Measurement Using Unobservable Inputs (Level 3) As of December 31,		
	2018	2019	US\$ (Note 2(d))
	RMB	RMB	US\$ (Note 2(d))
Short-term investments	255,237	114,043	16,381
Long-term investments	844,843	711,927	102,262
Contingent consideration for acquisitions - short term	25,692	19,273	2,768
Contingent consideration for acquisitions - long term	10,764	10,947	1,573

The roll forward of major Level 3 investments are as following:

	As of December 31,		
	2018	2019	US\$ (Note 2(d))
	RMB	RMB	US\$ (Note 2(d))
Fair value of Level 3 investment at the beginning of the year	—	1,100,080	158,017
Addition	1,547,135	494,100	70,973
Decrease	(457,564)	(795,587)	(114,279)
The change in fair value of the investments	10,509	27,377	3,932
Fair value of Level 3 investment at the end of the year	<u>1,100,080</u>	<u>825,970</u>	<u>118,643</u>

The Company determined the fair value of its investments by using income approach with significant unobservable inputs of future cashflows and discount rate ranging from 2.0% to 10.0%.

The roll forward of contingent consideration for acquisitions is as below:

	As of December 31,		
	2018	2019	US\$ (Note 2(d))
	RMB	RMB	US\$ (Note 2(d))
Balance at the beginning of the year	38,116	36,456	5,237
Addition	10,382	7,341	1,055
Net change in fair value	(5,242)	344	49
Payment	(6,800)	(13,921)	(2,000)
Balance at the end of the year	<u>36,456</u>	<u>30,220</u>	<u>4,341</u>

Contingent consideration is valued using an expected cash flow method with unobservable inputs including the probability to achieve the operating and financial targets, which is assessed by the Group, in connection with the contingent consideration arrangements.

**(f) Cash and Cash Equivalents**

Cash and cash equivalents represent cash on hand and demand deposits placed with banks, other financial institutions and Alipay, a third party payment processor, which are unrestricted as to withdrawal or use.

**(g) Restricted Cash**

Restricted cash represents cash that cannot be withdrawn without the permission of third parties. The Group's restricted cash mainly represents (i) cash deposits required by tourism administration departments as a pledge to secure travellers' rights and interests, (ii) cash deposits required by China Insurance Regulatory Commission for engaging in insurance agency or brokering activities. (iii) the deposits held in designated bank accounts for issuance of bank acceptance notes and letter of guarantee, and required by the Group's business partners.

Cash, cash equivalents and restricted cash as reported in the consolidated statement of cash flows are presented separately on consolidated balance sheet as follows:

	As of December 31,			
	2017 RMB	2018 RMB	2019 RMB	US\$ (Note 2(d))
Cash and cash equivalents	484,101	560,356	295,463	42,441
Restricted cash	91,810	270,670	327,052	46,978
Total	<u>575,911</u>	<u>831,026</u>	<u>622,515</u>	<u>89,419</u>

**(h) Short-term Investments**

Short-term investments are comprised of (i) held-to-maturity investments such as time deposits, which are due between three months and one year and stated at amortized cost; and (ii) equity securities and investments in financial products issued by banks or other financial institutions, which contain a fixed or variable interest rate and with original maturities between three months and one year. Such investments are generally not permitted to be redeemed early or are subject to penalties for redemption prior to maturity. These investments are stated at fair value. Changes in the fair value are reflected in the consolidated statements of comprehensive loss. There was no other-than-temporary impairment of short-term investments measured at amortized cost for the years ended December 31, 2017, 2018 and 2019.

**(i) Accounts Receivable, net**

The Group's accounts receivable mainly consist of amounts due from the customers, travel agents, insurance companies and travel boards or bureaus, which are carried at the original invoice amount less an allowance for doubtful accounts. The Group reviews accounts receivable on a periodic basis and makes allowances when there is doubt as to the collectability of individual balances. The Group evaluates the collectability of accounts receivable considering many factors including reviewing accounts receivable balances, historical bad debt rates, payment patterns, counterparties' credit worthiness and financial conditions, and industry trend analysis. The Group recognized allowance for doubtful accounts of RMB13,332, RMB3,299 and RMB28,443 for the years ended December 31, 2017, 2018 and 2019, respectively.

The following table summarized the details of the Group's allowance for doubtful accounts:

	For the Years Ended December 31,			
	2017 RMB	2018 RMB	2019 RMB	US\$ (Note 2(d))
Balance at the beginning of year	4,856	16,905	20,204	2,902
Addition	13,332	4,200	30,023	4,313
Reversal	—	(901)	(1,580)	(227)
Write-offs	(1,283)	—	—	—
Balance at the end of year	<u>16,905</u>	<u>20,204</u>	<u>48,647</u>	<u>6,988</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(All amounts in thousands, except for share and per share data, or otherwise noted)**

**2. Principal Accounting Policies - continued**

**(j) Long-term investments**

Long-term investments include equity investments, held-to-maturity investments and other long-term investments.

*Equity investments*

The Group accounts for the investments in entities with significant influence under equity-method accounting. Under this method, the Group's pro rata share of income (loss) from an investment is recognized in the consolidated statements of comprehensive loss. Dividends received reduce the carrying amount of the investment. Equity-method investment is reviewed for impairment by assessing if the decline in fair 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 when a decline in value is deemed to be other-than-temporary.

The Group adopted the ASU 2016-01, "*Financial Instruments – Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities*", effective from January 1, 2018. The Group elects a measurement alternative for equity investments that do not have readily determinable fair values and where the Group does not have the ability to exercise significant influence over operating and financial policies of the entity. Under the measurement alternative, the Group measures these investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. An impairment loss is recognized in the consolidated statements of comprehensive loss equal to the excess of the investment's cost over its fair value when the impairment is deemed other-than-temporary.

*Held-to-maturity investments*

The investments that the Group intends and is able to hold to maturity are classified as held-to-maturity investments and are stated at amortized cost, and interest income is recorded in the consolidated statements of comprehensive income. The Group monitors these investments for other-than-temporary impairment by considering factors including, but not limited to, current economic and market conditions, the operating performance of the companies including current earnings trends and other company-specific information.

*Other long-term investments*

Other long-term investments include financial products with maturities over one year and investments in securities including corporate bonds, perpetual bonds and preferred shares issued by third party companies, which are carried at their fair value at each balance sheet date and changes in fair value are reflected in the consolidated statements of operations and comprehensive income.

No event had occurred and indicated that other-than-temporary impairment existed and therefore the Group did not record any impairment charges for its investments for the years ended December 31, 2017, 2018 and 2019.

**(k) Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation and impairment if applicable. Property and equipment are depreciated over the estimated useful lives on a straight-line basis. The estimated useful lives are as follows:

Category	Estimated useful life
Computers and equipment	3 - 5 years
Buildings	16 - 20 years
Furniture and fixtures	3 - 5 years
Vehicles	3 - 5 years
Software	5 years
Leasehold improvements	Over the shorter of the lease term or the estimated useful life of the asset ranging from 1 – 9 years

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(All amounts in thousands, except for share and per share data, or otherwise noted)**

**2. Principal Accounting Policies - continued**

**(k) Property and Equipment - continued**

Construction in progress represents leasehold improvements and office buildings under construction or being installed and is stated at cost. Cost comprises original cost of property and equipment, installation, construction and other direct costs. Construction in progress is transferred to leasehold improvements and buildings and depreciation commences when the asset is ready for its intended use.

Gain or loss on the disposal of property and equipment is the difference between the net sales proceeds and the carrying amount of the relevant assets and is recognized in the consolidated statements of comprehensive loss.

**(l) Land use right, net**

Land use right represents the payments for usage of land for office buildings, which is recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over their respective lease period which is 49.

**(m) Capitalized Software Development Cost**

The Group has capitalized certain direct development costs associated with internal-used software in accordance with ASC 350-40, “*Internal-use software*”, which requires the capitalization of costs relating to certain activities of developing internal-use software that occur during the application development stage. Costs capitalized mainly include payroll and payroll-related costs for employees who devoted time to the internal-use software projects during the application development stage. Capitalized internal-use software costs are stated at cost less accumulated amortization and the amount is included in “property and equipment, net” on the consolidated balance sheets, with an estimated useful life of five years. Software development cost capitalized amounted to RMB19,545, RMB75,443 and RMB56,927 for the years ended December 31, 2017, 2018 and 2019, respectively. The amortization expense for capitalized software costs amounted to RMB5,729, RMB14,699 and RMB36,983 for the years ended December 31, 2017, 2018 and 2019, respectively. The unamortized amount of capitalized internal use software development costs was RMB111,628 as of December 31, 2019.

**(n) Business combination**

U.S. GAAP requires that all business combinations not involving entities or businesses under common control be accounted for under the purchase method. The Group has adopted ASC 805 “*Business Combinations*”, and the cost of an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred and equity instruments issued. The transaction costs directly attributable to the acquisition are expensed as incurred. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any noncontrolling interests. The excess of the (i) the total of cost of acquisition, fair value of the noncontrolling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statements of operations and comprehensive income.

The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed is based on various assumptions and valuation methodologies requiring considerable management judgment. The most significant variables in these valuations are discount rates, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to forecast the future cash inflows and outflows. Management determines discount rates to be used based on the risk inherent in the related activity’s current business model and industry comparisons. Terminal values are based on the expected life of products and forecasted life cycle and forecasted cash flows over that period. Although management believes that the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ from the forecasted amounts and the difference could be material. The Group recognized adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined.

A noncontrolling interest is recognized to reflect the portion of a subsidiary’s equity which is not attributable, directly or indirectly, to the Group. Consolidated net loss on the consolidated statements of comprehensive loss includes the net loss attributable to noncontrolling interests when applicable. The cumulative results of operations attributable to noncontrolling interests are also recorded as noncontrolling interests in the Group’s consolidated balance sheets. Cash flows related to transactions with noncontrolling interests are presented under financing activities in the consolidated statements of cash flows when applicable.

Subsequent to the initial measurement of acquisition, adjustments to the amount of contingent consideration are recognized as a gain or loss during the period of adjustments, and are reflected in other operating income.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(All amounts in thousands, except for share and per share data, or otherwise noted)**

**2. Principal Accounting Policies - continued**

**(o) Intangible Assets**

Intangible assets purchased are recognized and measured at cost upon acquisition and intangible assets arising from acquisitions of subsidiaries are recognized and measured at fair value upon acquisition. The Company's purchased intangible assets include computer software, which are amortized on a straight-line basis over their estimated useful lives 1 to 5 years. Separable intangible assets arising from acquisitions consist of trade names, customer relationship, software, technology, non-compete agreements, travel licenses, insurance agency license and business cooperation agreement with JD.com Inc., which are amortized on a straight-line basis over their estimated useful lives of 1 to 20 years. The estimated life of intangible assets subject to amortization is reassessed if circumstances occur that indicate the life has changed. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The Group recognized impairment charges for intangible assets of nil, nil and RMB32,014 for the years ended December 31, 2017, 2018 and 2019. Refer to note 5 for details.

**(p) Goodwill**

Goodwill represents the excess of the purchase price over the fair value of identifiable assets and liabilities acquired in business combinations. Goodwill is not amortized, but tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

The Group early adopted ASU No. 2017-04, "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"), which removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. The Group first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill, so as to perform the quantitative goodwill impairment test. If determined to be necessary, the quantitative impairment test is used to identify goodwill impairment by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The loss recognized should not exceed the total amount of goodwill allocated to that reporting unit.

Management performed annual goodwill impairment test and no impairment loss was recognized for the years ended December 31, 2017 and 2018.

As of December 31, 2019, management performed qualitative assessment and determined it was necessary to perform a step 1 goodwill impairment test. Discounted cash flow analysis was used to estimate the fair value of the reporting unit with certain key assumptions including future revenue growth rate, gross margin, working capital level, capital expenditure, the terminal value of the reporting unit and the discount rate. Based on the result of the test, the fair value of the reporting unit was higher than its carrying value as at December 31, 2019 and therefore, no impairment loss was recognized for the year ended December 31, 2019.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(All amounts in thousands, except for share and per share data, or otherwise noted)**

**2. Principal Accounting Policies - continued**

**(q) Impairment of long-lived assets**

The Group evaluates its long-lived assets and finite lived intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When these events occur, the Group measures impairment by comparing the carrying amount of the assets to future undiscounted net cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flows is less than the carrying amount of the assets, the Group recognizes an impairment loss equal to the difference between the carrying amount and fair value of these assets. No impairment of long-lived assets was recognized during the years ended December 31, 2017, 2018 and 2019, except for impairment charges for intangible assets ( Note 2(o)).

**(r) Advances from Customers**

Advances from customers represent the amounts travellers pay in advance to purchase packaged tours or other travelling products. Among the cash proceeds from travellers, the amounts payable to tour operators are recorded as accounts payable and the remaining are recognized as revenues when revenue recognition criteria are met.

**(s) Revenue Recognition**

The Group's revenue is primarily derived from sales of packaged tours and other service fees.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"), which amends the existing accounting standards for revenue recognition. Subsequently, the FASB issued several amendments which amends certain aspects of the guidance in ASC 2014-09 (ASU No. 2014-09 and the related amendments are collectively referred to as "ASC 606"). According to ASC 606, revenue is recognized when control of the promised services is transferred to our customers, in an amount that reflects the consideration the Group expects to be entitled to in exchange for those services. The Group early adopted this new revenue standard effective from January 1, 2017 by applying the full retrospective method. There are no significant estimates in the Group's revenue arrangements.

*Packaged tours:* Packaged tours include organized tours which offer pre-arranged itineraries, transportations, accommodations, entertainments, meals and tour guide services; and self-guided tours which consist of combinations of air tickets and hotel bookings and other optional add-ons, such as airport pick-ups that the travellers choose at their discretion.

Since the beginning of 2017, the Group has implemented certain changes in its arrangements with the tour operators. The Group's role in the organized tour arrangements has changed from being a principal into an agent that provides tour booking services to the tour operators and travellers. Under the current organized tour arrangements, the tour operators are primarily responsible for all aspects of providing services relating to the tour and responsible for the resolution of customer disputes and any associated costs. As a result of the change of the Group's role, starting from January 1, 2017, revenues from organized tours (except for those that the Group takes substantive inventory risks and the self-operated local tour operator business in which the Group acts as a principal, as discussed below) are generally reported on net basis, representing the difference between what the Group receives from the travellers and the amounts due to the tour operators.

Revenues from self-guided tours are recognized on a net basis, as the Group has no involvement in determining the service, and provides no additional services to travellers other than the booking services. Suppliers are responsible for all aspects of providing the air transportation and hotel accommodation, and other travel-related services. As such, the Group is an agent for the travel service providers in these transactions and revenues are reported on a net basis.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(All amounts in thousands, except for share and per share data, or otherwise noted)**

**2. Principal Accounting Policies - continued**

**(s) Revenue Recognition - continued**

Under certain circumstances, the Group may enter into contractual commitments with suppliers to reserve tours, and is required to pay a deposit to ensure tour availabilities. Some of these contractual commitments are non-cancellable, and to the extent the reserved tours are not sold to customers, the Group would be liable to pay suppliers a pre-defined or negotiated penalty, thereby assuming inventory risks. For packaged tour arrangements that the Group undertakes inventory risk which is considered to be substantive, revenues are recognized on gross basis. Revenues for such arrangements that the Group undertakes substantive inventory risk were RMB497,918, RMB241,181 and RMB166,186 for the years ended December 31, 2017, 2018 and 2019, which were recorded in revenues from packaged tours.

From 2018, the Group expanded its self-operated local tour operator business in various destinations by directly providing destination-based services to the organized tour customers, starting from their arrival at the destination and all the way until they depart from the destination. As a self-operated local tour operator, the Group integrates the underlying resources such as transportations, accommodations, entertainments, meals and tour guide services from selected suppliers, directs the selected vendors to provide services on the Group's behalf, and hence sets up the price for the tour. Besides, the Group is primarily responsible for fulfilling the promise of the whole packaged tours service, which is a single performance obligation. Accordingly, the Group is a principal for the self-operated local tour operator business and recognizes revenue on a gross basis in accordance with ASC 606. Revenues from the self-operated tour operator business are recognized over time during the period of the tours when control over the tour services is transferred to the customers. Revenues for the self-operated local tour operator business were RMB509,737 and RMB724,239 for the years ended December 31, 2018 and 2019, which were recorded in revenues from packaged tours.

Under ASC 606, starting from January 1, 2017, under the current arrangements for the organized tours (except for the self-operated local tour operator business in which the Group acts as a principal, as discussed above), for which the Group's role was changed into an agent, revenues are recognized when the tours depart, as control over the tour booking services is transferred to the customers when the tour booking is completed and successful.

Under ASC 606, revenues from self-guided tours are recognized when the tours depart.

*Other revenues:* Other revenues primarily comprise revenues generated from (i) service fees received from insurance companies, (ii) commission fees from other travel-related products and services, such as tourist attraction tickets, visa application services, accommodation reservation and transportation ticketing, (iii) fees for advertising services that the Group provides primarily to domestic and foreign tourism boards and bureaus, fees for service that the Group provides for accommodation and transportation, and (iv) service fees for financial services and interest income for yield enhancement products. Revenue is recognized when the services are rendered or when the tickets are issued.

From 2016 in certain cases, the Group purchased yield enhancement products with maturities ranged from three months to two years from the Exchanges and trust companies and split these products into smaller amount yield enhancement products with lower yield rate and shorter maturities within one year, which were offered to individual investors through the Group's online platform. The split of the products were arranged by Exchanges. Interest revenue and interest cost of RMB50,867 and RMB34,499 were recorded in other revenue and cost of revenue, respectively, for the year ended December 31, 2017. This business was terminated in 2018.

The Group also provided account receivables factoring service and cash lending service to customers and fees charged in connection with these financial services were recorded as other revenue over the period of the service rendered. The amount of such service revenue for the years ended December 31, 2018 and 2019 were RMB117,537 RMB97,016, respectively.

The Group provided online lending service in 2017 and fees charged in connection with this service was RMB220,701 for the year ended December 31, 2017. This service was terminated in late 2017.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(All amounts in thousands, except for share and per share data, or otherwise noted)**

**2. Principal Accounting Policies - continued**

**(s) Revenue Recognition - continued**

*Customer incentives*

From time to time, travelers are offered coupons, travel vouchers, membership points, or cash rewards as customer incentives. For customer incentives offered where prior purchase is not required, the Group accounts for them as a reduction of revenue when the coupons and vouchers are utilized to purchase travelling products or as selling and marketing expenses when membership points are redeemed for merchandises. For customer incentives offered from prior purchase, the Group estimates the amount associated with the future obligation to customers, and records as a reduction of revenue when the prior purchase revenue is initially recognized. Unredeemed incentives are recorded in other current liabilities in the consolidated balance sheets. The Group estimates liabilities under the customer loyalty program based on accumulated customer incentives, and the estimate of probability of redemption in accordance with the historical redemption pattern. The actual expenditure may differ from the estimated liability recorded. As of December 31, 2018 and 2019, liabilities recorded related to membership points and cash rewards were RMB1,395 and RMB9,374, respectively.

*Value-added tax and surcharges*

The Group's business is subject to value-added tax ("VAT") since May 1, 2016, and the Group is permitted to offset input VAT (VAT that is paid in the acquisition of goods or services, and which is supported by valid VAT invoices received from vendors) against their VAT liability. VAT on the taxable revenue collected by the Group on behalf of tax authorities in respect of services provided, net of VAT paid for purchases, is recorded as a liability until it is paid to the tax authorities. The Group is also subject to certain government surcharges on VAT payable in the PRC and these surcharges are recorded in cost of revenues.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(All amounts in thousands, except for share and per share data, or otherwise noted)**

**2. Principal Accounting Policies - continued**

***(t) Cost of Revenues***

Cost of revenues mainly consists of salaries and other compensation-related expenses related to the Group's tour advisors, customer services representatives, and other personnel related to tour transactions, and other expenses directly attributable to the Group's principal operations, primarily including payment processing fees, telecommunication expenses, rental expenses, depreciation expenses, interest expenses for yield enhancement products, and other service fee for financial service. For the arrangements where the Group secures availabilities of tours and bears substantive inventory risks and for the self-operated local tour operator business since 2018, from which revenues are recognized on a gross basis, cost of revenues also includes the amount paid to tour operators or suppliers.

Losses arising from the committed tour reservations were recorded as deductions to revenues, which were RMB11,009 for the year ended December 31, 2017 and were insignificant for the years ended December 31, 2018 and 2019.

***(u) Advertising Expenses***

Advertising expenses, which primarily consist of online marketing expenses and brand marketing expenses through various forms of media, are recorded in sales and marketing expenses as incurred. Advertising expenses were RMB302,987, RMB222,073 and RMB223,522 for the years ended December 31, 2017, 2018 and 2019, respectively.

***(v) Research and Product Development Expenses***

Research and product development expenses include salaries and other compensation-related expenses for the Group's research and product development personnel, as well as office rental, depreciation and related expenses and travel-related expenses for the Group's research and product development team. The Group recognizes software development costs in accordance with ASC 350-40 "*Software—internal use software*". The Group expenses all costs that are incurred in connection with the planning and implementation phases of development, and costs that are associated with maintenance of the existing websites or software for internal use. Certain costs associated with developing internal-use software are capitalized when such costs are incurred within the application development stage of software development (Note 2(m)).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**2. Principal Accounting Policies - continued**

**(w) Leases**

The Company applied ASC 842, Leases, on January 1, 2019 by using the optional transition method at the adoption date without recasting comparative periods. The Company determines if an arrangement is a lease at inception. Operating leases are primarily for office and operation space and are included in operating lease right-of-use (“ROU”) assets, net, operating lease liabilities, current and operating lease liabilities, non-current on its consolidated balance sheets. ROU assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. The operating lease ROU assets and liabilities are recognized at lease commencement date based on the present value of lease payments over the lease term. As most of the Company’s leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at lease commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The Company’s lease terms may include options to extend or terminate the lease. Renewal options are considered within the ROU assets and lease liability when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

For operating leases with a term of one year or less, the Company has elected to not recognize a lease liability or ROU asset on its consolidated balance sheet. Instead, it recognizes the lease payments as expense on a straight-line basis over the lease term. Short-term lease costs are immaterial to its consolidated statements of operations and cash flows.

Upon the adoption of the new lease standard, on January 1, 2019, the Company recognized operating lease asset of RMB180,327 and total operating lease liabilities of RMB182,700 (including a current liability of RMB92,969) in the consolidated balance. There was no impact to retained earnings at adoption.

**(x) Share-based Compensation**

The Company applies ASC 718, “*Compensation — Stock Compensation*” to account for its share-based compensation program including share options and restricted shares. In accordance with the guidance, the Company determines whether a share-based award should be classified and accounted for as a liability award or equity award. All grants of share-based awards to employees classified as equity awards are recognized in the financial statements based on their grant date fair values. For options, the fair values are calculated using the binomial option pricing model. Share-based compensation expenses are recorded net of an estimated forfeiture rate over the required service period using the straight-line method. The modifications of the terms or conditions of the share-based award are treated as an exchange of the original award for a new award. The incremental compensation expense is equal to the excess of the fair value of the modified award immediately after the modification over the fair value of the original award immediately before the modification. For options already vested as of the modification date, the Company immediately recognized the incremental value as compensation expenses. For options still unvested as of the modification date, the incremental compensation expenses are recognized over the remaining service period of these options.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**(y) 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. Deferred income taxes are provided using the liability method. Under this method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. The effect on deferred taxes of a change in tax rates is recognized in the interim condensed consolidated statements of comprehensive loss in the period of change. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of the deferred tax assets will not be realized.

*Uncertain tax positions*

U.S. GAAP prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance also provides for the derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures. Significant judgment is required in evaluating the Group's uncertain tax positions and determining its provision for income taxes. As of December 31, 2018 and 2019, the Group did not have any significant unrecognized uncertain tax positions or any interest or penalties associated with tax positions.

In order to assess uncertain tax positions, the Group applies a more likely than not threshold and a two-step approach for the tax position measurement and financial statement recognition. Under the two-step approach, the first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(All amounts in thousands, except for share and per share data, or otherwise noted)**

**2. Principal Accounting Policies - continued**

**(z) Employee Benefits**

Full-time employees of the Group in the PRC are entitled to welfare benefits including pension, work-related injury benefits, maternity insurance, medical insurance, unemployment benefit and housing fund plans through a PRC government-mandated defined contribution plan. Chinese labor regulations require that the Group makes contributions to the government for these benefits based on certain percentages of employees' salaries, up to a maximum amount specified by the local government. The Group has no legal obligation for the benefits beyond the contributions. The Group recorded employee benefit expenses of RMB263,618, RMB222,304 and RMB217,199 for the years ended December 31, 2017, 2018 and 2019, respectively.

**(aa) Government Subsidies**

Government subsidies are cash subsidies received by the Group's entities in the PRC from provincial and local government authorities. The government subsidies are granted from time to time at the discretion of the relevant government authorities. These subsidies are granted for general corporate purposes and to support the Group's ongoing operations in the region. Cash subsidies are recorded in other operating income on the consolidated statements of comprehensive loss when received and when all conditions for their receipt have been satisfied. The Group recognized government subsidies of RMB27,322, RMB51,357 and RMB24,608 for the years ended December 31, 2017, 2018 and 2019, respectively.

**(ab) Earnings (Loss) Per Share**

Basic earnings (loss) per share is computed by dividing net income (loss) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Accretion of the redeemable noncontrolling interests is deducted from the net income (loss) to arrive at net income (loss) attributable to the Company's ordinary shareholders. Diluted earnings (loss) per share is calculated by dividing net income (loss) attributable to ordinary shareholders by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period. Ordinary equivalent shares consist of unvested restricted shares and shares issuable upon the exercise of share options using the treasury stock method. Ordinary equivalent shares are not included in the denominator of the diluted loss per share calculation when inclusion of such shares would be anti-dilutive. Except for voting rights, Class A and Class B shares have all the same rights and therefore the Group has elected not to use the two-class method.

**(ac) Comprehensive Income (Loss)**

Comprehensive income (loss) is defined as the change in equity of the Group during a period arising from transactions and other events and circumstances excluding transactions resulting from investments by shareholders and distributions to shareholders. Comprehensive income or loss is reported in the consolidated statements of comprehensive loss. Accumulated other comprehensive income (loss), as presented on the accompanying consolidated balance sheets, consists of accumulated foreign currency translation adjustments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(All amounts in thousands, except for share and per share data, or otherwise noted)**

**2. Principal Accounting Policies - continued**

***(ad) Treasury stock***

On January 12, 2018, the Company's board of directors authorized a share repurchase program under which the Company was authorized to repurchase up to US\$100 million worth of the Company's ordinary shares or American depositary shares representing ordinary shares over the next 12 months. The share repurchase programs permitted the Company to purchase shares from time to time on the open market at prevailing market prices, in privately negotiated transactions, in block trades and/or through other legally permissible means, depending on market conditions and in accordance with applicable rules and regulations. The repurchased shares were accounted for under the cost method and presented as "treasury stock" in equity on the Group's consolidated balance sheets. For the year ended December 31, 2019, the Group reissued 964,128 shares to employees upon their exercise of share options or vesting of restricted share units under the Group's share compensation plans. The Company recognizes the difference in additional paid-in capital on the reissuance of the shares when reissuing treasury stock at an amount different from the average cost the Company paid to repurchase the treasury stock.

***(ae) Segment Reporting***

In accordance with ASC 280, Segment Reporting, the Group's chief operating decision maker, the Chief Executive Officer, reviews the consolidated results when making decisions about allocating resources and assessing performance of the Group as a whole and hence, the Group has only one reportable segment.

The Group does not distinguish between markets or segments for the purpose of internal reporting. The Group's long-lived assets are substantially all located in the PRC and substantially all the Group's revenues are derived from within the PRC, therefore, no geographical segments are presented.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(All amounts in thousands, except for share and per share data, or otherwise noted)**

**2. Principal Accounting Policies - continued**

**(af) Recently Issued Accounting Pronouncements**

In June 2016, the FASB issued ASU No. 2016-13 (ASU 2016-13), “*Financial Instruments – Credit Losses*”, which introduces new guidance for credit losses on instruments within its scope. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments, including, but not limited to, trade and other receivables, held-to-maturity debt securities, loans and net investments in leases. The new guidance also modifies the impairment model for available-for-sale debt securities and requires the entities to determine whether all or a portion of the unrealized loss on an available-for-sale debt security is a credit loss. The standard also indicates that entities may not use the length of time a security has been in an unrealized loss position as a factor in concluding whether a credit loss exists. There is no specified method for measuring expected credit losses, and an entity is allowed to apply methods that reasonably reflect its expectations of the credit loss estimate. The ASU 2016-13 is effective for public companies for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted for all entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

The FASB further issued Accounting Standards Update No. 2018-19, “Codification Improvements to Topic 326, Financial Instruments—Credit Losses,” or ASU 2018-19, Accounting Standards Update No. 2019-04, “Codification Improvements to Topic 326, Financial Instruments—Credit Losses,” or ASU 2019-04, Accounting Standards Update No. 2019-05, “Financial Instruments-Credit Losses (Topic 326): Targeted Transition Relief,” or ASU 2019-05, Accounting Standards Update No. 2019-10, “Financial Instruments-Credit Losses (Topic 326): Effective Dates,” or ASU 2019-10 and Accounting Standards Update No. 2019-11, “Codification Improvements to Topic 326, Financial Instruments—Credit Losses,” or ASU 2019-11. The amendments in these ASUs provide clarifications to ASU 2016-13.

The Group will adopt the new standard effective from January 1, 2020, which is not expected to have a material impact on the Company’s consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(All amounts in thousands, except for share and per share data, or otherwise noted)**

**2. Principal Accounting Policies - continued**

**(af) Recently Issued Accounting Pronouncements - continued**

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* (“ASU 2018-13”) which eliminates, adds and modifies certain disclosure requirements for fair value measurements. Under the guidance, public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The guidance is effective for all entities for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years, but entities are permitted to early adopt either the entire standard or only the provisions that eliminate or modify the requirements. The Group does not expect a significant impact on its consolidated financial statements.

**3. Risks and Concentration**

**(a) Credit and Concentration Risks**

The Group’s credit risk arises from cash and cash equivalents, restricted cash, short-term investments, prepayments and other current assets, accounts receivables balances, due from related parties and long-term investments. The maximum exposure of such assets to credit risk is their carrying amounts as of the balance sheet dates.

The Group expects that there is no significant credit risk associated with the cash and cash equivalents, restricted cash and time deposit, which are held by reputable financial institutions in the jurisdictions where the Company, its subsidiaries and the Affiliated Entities are located. The Group believes that it is not exposed to unusual risks as these financial institutions have high credit quality.

The Group has no significant concentrations of credit risk with respect to its customers, as customers usually prepay for travel services. Accounts receivable are typically unsecured and are primarily derived from revenue earned from individual customers, corporate customers, travel agents, insurance companies and travel boards or bureaus. The risk with respect to accounts receivable is mitigated by credit evaluations performed on those customers and ongoing monitoring processes on outstanding balances. No individual customer accounted for more than 10% of net revenues for the years ended December 31, 2017, 2018 and 2019.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**3. Risks and Concentration - continued**

***(a) Credit and Concentration Risks - continued***

The Group has purchased equity securities, securities including corporate bonds, perpetual bonds and preferred shares and financial products issued by banks, companies and other financial institutions. The Group also provided account receivables factoring service and cash lending service to customers. The Group has set up a risk evaluation system on the issuers of credit quality, ultimate borrowers of asset management schemes, and conducts collectability assessment of the financial assets and loan receivables on timely basis.

For balances where there is indication of impairment, the Group's collectability assessment considers duration of credit periods, the credit standing of the borrowers and parties that have guaranteed the repayment of the debts, the quality of assets pledged, the borrowers' repayment plans and an evaluation of default risk by reference to relevant information that is publicly available.

***(b) Foreign Currency Risk***

The Group's operating transactions and its assets and liabilities are mainly denominated in RMB. RMB is not freely convertible into foreign currencies. The value of RMB is subject to changes influenced by central government policies, and international economic and political developments. In the PRC, certain foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the People's Bank of China (the "PBOC"). Remittances in currencies other than RMB by the Group in China must be processed through the PBOC or other China foreign exchange regulatory bodies which require certain supporting documentation in order to affect the remittance.

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#### 4. Business acquisition

##### Travel agencies

During the year ended December 31, 2019, the Group acquired 51% and 63.51% of controlling equity interests in an offline agency and an online travel agency, respectively. The Group expanded its tours market and improved its capability of direct procurement of travel related products by means of these acquisitions. The total purchase price of RMB59,981 including cash consideration of RMB52,640 and an accrual in the amount of RMB7,341 representing the fair value of contingent consideration to be made based on the achievement of profit target over the next four years. The fair value of the contingent cash consideration was estimated using a probability-weighted scenario analysis method. Key assumption included probabilities assigned to each scenario and a discount rate. During the year ended December 31, 2019, the Group made an upward adjustment of the fair value of the contingent consideration by RMB2,265 based on the reassessment of achievement of profit target. The contingent consideration is due in installments annually over the next four years.

The business acquisition was accounted for using purchase accounting. The following is the summary of the fair values of the assets acquired and liabilities assumed:

	<u>Amount</u>	<u>Estimated useful lives</u>
Net assets (including cash acquired of RMB18.9 million)	37,712	
Including:		
Customer Relationship	16,889	5.75-11.2 years
Technology	9,230	5.5 years
Goodwill	72,598	
Deferred tax liability	(6,530)	
Noncontrolling interests	(43,799)	
Total consideration	59,981	

During the year ended December 31, 2018, the Group acquired 80% of controlling equity interests of an online travel agency to expand Tuniu's overseas business network and further enhance the Company's competitive position. The total purchase price of RMB20,234 including cash consideration of RMB9,852 and an accrual in the amount of RMB10,382 representing the fair value of contingent consideration to be made based on the achievement of profit target over the next four years. The fair value of the contingent consideration was estimated using a probability-weighted scenario analysis method. Key assumption included probabilities assigned to each scenario and a discount rate. During the year ended December 31, 2019, the Group paid RMB3,800 of the contingent consideration, and made an downward adjustment of the fair value of the contingent consideration by RMB2,311 based on the reassessment of achievement of profit target. As of December 31, 2019, the carrying value of total unpaid contingent consideration was RMB4,271, which is expected to be paid in increments annually over the next three years.

The business acquisition was accounted for using purchase accounting. The following is the summary of the fair values of the assets acquired and liabilities assumed:

	<u>Amount</u>	<u>Estimated useful lives</u>
Net assets (including cash acquired of RMB6.4 million)	13,430	
Including:		
Technology	4,300	9.4 years
Goodwill	11,770	
Deferred tax liability	(1,075)	
Noncontrolling interests	(3,891)	
Total consideration	20,234	

During the year ended December 31, 2016, the Group acquired 100% of controlling equity interests of an offline travel agency to further expand the Group's overseas tourism market and promote the Group's destination service. The total purchase price of RMB28,077, including cash consideration of RMB16,507 and an accrual in the amount of RMB11,570 representing the fair value of contingent consideration to be made based on the achievement of certain revenue and profit target over the next four years. The fair value of the contingent consideration was estimated using a probability-weighted scenario analysis method. Key assumption included probabilities assigned to each scenario and a discount rate. During the year ended December 31, 2017, the Group paid RMB3,600 of the contingent consideration, and made an upward adjustment of the fair value of the contingent consideration by RMB1,030 based on the reassessment of achievement of revenue and profit target. During the year ended December 31, 2018, the Group paid RMB3,600 of the contingent consideration, and made an upward adjustment of the fair value of the contingent consideration by RMB730. During the year ended December 31, 2019, the Group paid RMB3,100 of the contingent consideration, and made an upward adjustment of the fair value of the contingent consideration by RMB390 based on the reassessment of achievement of revenue and profit target. As of December 31, 2019, the carrying value of total unpaid contingent consideration was RMB4,100, which is expected to be paid next year.

The business acquisition was accounted for using purchase accounting. The following is the summary of the fair values of the assets acquired and liabilities assumed:

	<u>Amount</u>	<u>Estimated useful lives</u>
Net assets (including cash acquired of RMB8.3 million)	19,047	
Including:		
Trade names	2,464	9.5years
Non-compete agreement	3,676	6 years
Goodwill	10,565	
Deferred tax liability	(1,535)	
Total consideration	28,077	

During the year ended December 31, 2015, the Group acquired the 100%, 100%, 75.02% and 80% of controlling equity interests in four offline travel agencies, respectively. The Group expanded its tours market and improved its capability of direct procurement of travel related products by means of these acquisitions. The total purchase price of RMB115,498 included cash consideration of RMB100,163 and RMB15,335 representing the fair value of contingent consideration to be made based on the achievement of certain revenue and profit target over the next three to four years. During the year ended December 31, 2017, the Group paid RMB3,200 of the contingent consideration, and made an upward adjustment of the fair value of the contingent consideration by RMB4,542. During the year ended December 31, 2018, the Group paid RMB3,200 of the contingent consideration, and made an downward adjustment of the fair value of the contingent consideration by RMB5,972 based on the reassessment of achievement of revenue and profit target. During the year ended December 31, 2019, the Group paid RMB7,021 of the contingent consideration.

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**4. Business acquisition - continued**

***Travel agencies - continued***

The business acquisitions were accounted for using purchase accounting. The following is the summary of the fair values of the assets acquired and liabilities assumed:

	<u>Amount</u>	<u>Estimated useful lives</u>
Net assets (including the cash acquired of 24 million)	22,501	
Including:		
Travel licenses	25,100	20 years
Customer relationship	13,458	14.25-14.5 years
Trade names	39,170	7-14 years
Software	3,013	5 years
Non-compete agreement	1,683	3.5-5.25 years
Goodwill	133,324	
Deferred tax liability	(20,606)	
Noncontrolling interests	<u>(19,721)</u>	
<b>Total considerations</b>	<b>115,498</b>	

The Group measured the fair value of the trade names and travel licenses under the relief-from-royalty method. Under the methodology, fair value is calculated as the discounted cash flow savings accruing to the owner for not having to pay the royalty. Key assumptions included expected revenue attributable to the assets, royalty rates, discount rate and estimated asset lives. Customer relationships and technology were valued using the excess-earnings method, which measures the present value of the projected cash flows that are expected to be generated by the existing intangible asset after deduction of cash flows attributable to other contributory assets to realize the projected earnings attributable to the intangible asset. Key assumptions included discounted cash flow analyses, for other contributory assets, discount rate, remaining useful life, income tax amortization benefit and customer attrition rates. The Group measured the fair value of non-compete agreements based on incremental discounted cash flow analyses computed with and without the non-compete terms as described in share purchase agreement and the probability that such competition exists. The Group measured the fair value of the software under the replacement cost method.

Pro forma results of operations for all of the acquisitions described above have not been presented because they are not material to the Group's consolidated income statements, either individually or in aggregate.

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**5. Transaction with JD.com, Inc.**

On May 8, 2015, the Company entered into a share subscription agreement with Fabulous Jade Global Limited, an affiliate of JD.com, Inc., and a Business Cooperation Agreement (“BCA”) with JD. Com, Inc. (“JD”) for a period of five years. Pursuant to these agreements, the Company issued 65,625,000 Class A ordinary shares for a cash consideration of RMB1,528.2 million (US\$250 million) and the business resource contributed by JD. According to BCA, the business resource includes the exclusive rights to operate the leisure travel channel for both JD’s website and mobile application and JD’s preferred partnership for hotel and air ticket reservation service, the internet traffic support and marketing support for the leisure travel channel for a period of five years started from August 2015.

The acquisition of BCA is considered as assets acquisition and the intangible assets acquired include the exclusive operation right of leisure travel channel, preferred partnership of hotel and air ticket reservation service, traffic and marketing supports. The Group estimated the fair value of exclusive operation right and preferred partnership using a form of the income approach known as excess earning method. The key assumption includes expected revenue attributable to assets, margin discount rate and the remaining useful life. The Group estimated the fair value of internet traffic support and marketing support using a form of income approach known as operating cost saving method. Key assumption includes the market price of the services to be provided, the volume of the services to be provided, discount rate and the remaining useful life. The Group made estimates and judgments in determining the fair value of the assets with assistance from an independent valuation firm.

The summary of the fair value of acquired intangible assets as of the transaction date was as follows:

	<u>Amount</u>	<u>Estimated useful lives</u>
Exclusive operation right of leisure travel channel	405,406	5 years
Preferred partnership of hotel and air ticket reservation service	1,431	5 years
Internet traffic support	139,358	5 years
Marketing support	114,020	5 years
<b>Total consideration</b>	<b><u>660,215</u></b>	

As of December 31, 2019, the net carrying value of the exclusive operation right of leisure travel channel was below its fair value determined using the excess earning method with certain key assumption including revenue, EBIT margin and discount rate. Accordingly, an impairment charge of RMB32,014 was recognized for the year ended December 31, 2019.

**6. Prepayments and other current assets**

The following is a summary of prepayments and other current assets:

	<u>As of December 31,</u>		
	<u>2018</u>	<u>2019</u>	<u>US\$ (Note 2(d))</u>
	<u>RMB</u>	<u>RMB</u>	
Prepayments to suppliers	716,761	475,828	68,348
Interest income receivable	11,984	14,876	2,137
Prepayment for advertising expenses	9,536	8,417	1,209
Receivables in relation to factoring business	324,577	204,954	29,440
Loan receivables	454,953	439,189	63,086
Others	155,773	157,020	22,554
<b>Total</b>	<b><u>1,673,584</u></b>	<b><u>1,300,284</u></b>	<b><u>186,774</u></b>

Receivable in relation to factoring business and loan receivable are recorded in connection with the Group’s account receivable factoring service and cash lending service.

The Group recognized a net provision for other current assets of RMB32,476 and RMB124,581 for the years ended December 31, 2017 and 2019, respectively, and had a net reversal of RMB731 for the year ended December 31, 2018.

The following table summarized the details of the Group's provision for prepayments and other current assets:

	For the Years Ended December 31,			
	2017 RMB	2018 RMB	2019 RMB	USS\$ (Note 2(d))
Balance at the beginning of year	25,622	30,632	29,901	4,295
Addition	32,476	6,009	132,825	19,079
Reversal	—	(6,740)	(8,244)	(1,184)
Transfer-out	(27,466)	—	—	—
Write-offs	—	—	—	—
Balance at the end of year	<u>30,632</u>	<u>29,901</u>	<u>154,482</u>	<u>22,190</u>

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**7. Long-term investments**

The Group's long-term investments consist of equity investments, held-to-maturity investments and other long-term investments.

	As of December 31,		
	2018 RMB	2019 RMB	US\$ (Note 2(d))
Equity investments – equity method	42,500	99,338	14,269
Equity investments – measurement alternative	165,253	200,850	28,850
Held-to-maturity investments	197,469	10,502	1,508
Other long-term investments	897,284	994,922	142,912
<b>Total</b>	<b>1,302,506</b>	<b>1,305,612</b>	<b>187,539</b>

*Equity investments*

In February 2019, the Group invested RMB54,616 for 21.33% of equity interest in Nanjing Tengbang Jinhong Tourism Industry Investment Fund Partnership ("Tengbang"). The investment was accounted for as an equity-method investment due to the significant influence the Group has over the operating and financial policies of Tengbang as the Group has one of the five board seats of Tengbang. The group recognized a gain of RMB1,031 for the year ended December 31, 2019 from this investment. As of December 31, 2019, the carrying value of its equity investment was RMB55,647.

In December 2016, Nanjing Zhongshan Financial Leasing Co., Ltd. ("Zhongshan") was established and the Group invested RMB42,500 for 25% of equity interest in Zhongshan. This investment was accounted for as an equity-method investment due to the significant influence the Group has over the operating and financial policies of Zhongshan as the Group has one of the five board seats of Zhongshan. The group recognized a gain of RMB1,191 for the year ended December 31, 2019 from this investment. As of December 31, 2019, the carrying value of its equity investment was RMB43,691.

Financial information of above investees described above have not been presented because they are not material to the Group's consolidated income statements, either individually or in aggregate.

With the adoption of ASU 2016-01 effective from 1 January 2018, the Group elected a measurement alternative for equity investments that do not have readily determinable fair values and where the Group does not have the ability to exercise significant influence over operating and financial policies of the entity. During the years ended December 31, 2018 and 2019, the Group remeasured certain equity investments based on the information obtained from observable transactions and recognized gains of RMB12,581 and RMB18,356, respectively. In addition, the Group made several equity investments of this kind with the total cost of RMB17,240 for the year ended December 31, 2019.

*Held-to-maturity investments*

During 2018, the Group made investments in time deposits and several corporate bonds that the Group has intention and ability to hold these investments till maturity. The Group classified these investments as held-to-maturity investments, and the carrying value of such investments was RMB197,469 as of December 31, 2018. In 2019, the Group disposed one of these corporate bonds and classified the remaining corporate bonds as other long-term investments, which are subsequently measured at fair value as the intention of holding to maturity was no longer existing. As of December 31, 2019, the carrying value of RMB10,502 represented the Group's investments in time deposits.

*Other long-term investments*

The Group also made several investments in financial products with maturities over one year and securities including corporate bonds, perpetual bonds and preferred shares issued by companies. The Group measured these other long-term investments at the fair value and the carrying value was RMB897,284 and RMB994,922 as of December 31, 2018 and 2019, respectively.

No impairment loss was recognized for long-term investments for the years ended December 31, 2017, 2018 and 2019.

# TUNIU CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except for share and per share data, or otherwise noted)

### 8. Property and equipment, net

The following is a summary of property and equipment, net:

	As of December 31,		
	2018 RMB	2019 RMB	US\$ (Note 2(d))
Computers and equipment	149,634	149,191	21,430
Leasehold improvements	106,871	119,934	17,227
Buildings	5,547	4,466	642
Furniture and fixtures	18,334	18,339	2,634
Vehicles	6,744	15,483	2,224
Software	127,354	184,282	26,470
Others	—	2,044	294
<b>Subtotal</b>	<b>414,484</b>	<b>493,739</b>	<b>70,921</b>
<b>Less: Accumulated depreciation</b>	<b>(241,030)</b>	<b>(325,304)</b>	<b>(46,727)</b>
<b>Property and equipment subject to depreciation</b>	<b>173,454</b>	<b>168,435</b>	<b>24,194</b>
Construction in progress	13,906	54,905	7,887
<b>Total</b>	<b>187,360</b>	<b>223,340</b>	<b>32,081</b>

Depreciation expense for the years ended December 31, 2017, 2018 and 2019 was RMB65,704, RMB67,077 and RMB84,273, respectively.

### 9. Intangible assets, net

Intangible assets, net, consist of the following:

	As of December 31,		
	2018 RMB	2019 RMB	US\$ (Note 2(d))
Travel license	30,956	31,056	4,461
Insurance agency license	11,711	11,711	1,682
Software	58,187	74,535	10,706
Technology	4,300	4,300	618
Trade names	41,634	41,634	5,980
Business Cooperation Agreements	660,215	660,215	94,834
Supplier relationship	—	8,560	1,230
Customer relationship	13,458	21,787	3,130
Non-compete agreements	6,399	6,399	919
<b>Subtotal</b>	<b>826,860</b>	<b>860,197</b>	<b>123,560</b>
<b>Less: Accumulated amortization</b>	<b>(508,975)</b>	<b>(661,916)</b>	<b>(95,078)</b>
<b>Less: Impairment</b>	<b>—</b>	<b>(32,014)</b>	<b>(4,599)</b>
<b>Total</b>	<b>317,885</b>	<b>166,267</b>	<b>23,883</b>

During 2015, the Group acquired an insurance agency for the total consideration of RMB58,720 to acquire the insurance agency license. The insurance agency was a dormant company and was not qualified as a business as it had no input or process to create output. The Group accounted for this transaction as an asset acquisition and the difference between the cash consideration and net assets of the insurance agency was recorded as an insurance agency license at the amount of RMB11,711 which is amortized over 20 years on a straight line basis.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**9. Intangible assets, net - continued**

Amortization expenses for intangible assets were RMB150,092, RMB153,087 and RMB152,941 for the years ended December 31, 2017, 2018 and 2019, respectively.

Impairment charges for Business Cooperation Agreements were RMB32,014 for the year ended December 31, 2019 (Note 5).

The annual estimated amortization expense for the above intangible assets for the following years is as follows:

<u>Years Ending December 31,</u>	<b>Amortization for Intangible Assets</b>	
	<b>RMB</b>	<b>US\$ (Note 2(d))</b>
2020	69,332	9,959
2021	19,124	2,747
2022	13,444	1,931
2023	11,466	1,647
2024	10,458	1,502
Thereafter	42,443	6,097
<b>Total</b>	<b>166,267</b>	<b>23,883</b>

**10. Land use right, net**

Land use right, net, consist of the following:

	<b>As of December 31,</b>	
	<b>2018</b>	<b>2019</b>
<b>RMB</b>	<b>RMB</b>	<b>US\$ (Note 2(d))</b>
Land use right	101,007	101,007
Less: Accumulated amortization	(171)	(2,233)
<b>Net book value</b>	<b>100,836</b>	<b>98,774</b>
		<b>14,188</b>

In December 2018, the Group obtained the certificate for a land use right and started to amortize over the remaining lease period. Amortization expenses for land use right were RMB171 and RMB2,062 for the years ended December 31, 2018 and 2019, respectively.

**11. Goodwill**

The changes in the carrying amount of goodwill for the years ended December 31, 2018 and 2019 were as follows:

	<b>As of December 31,</b>	
	<b>2018</b>	<b>2019</b>
<b>RMB</b>	<b>RMB</b>	<b>US\$ (Note 2(d))</b>
Balance at the beginning of year	147,639	159,409
Increase in goodwill related to acquisitions during the year	11,770	72,598
Accumulated impairment loss	—	—
<b>Balance at the end of year</b>	<b>159,409</b>	<b>232,007</b>
		<b>33,325</b>

**12. Other non-current assets**

Other non-current assets consist of the following:

	<b>As of December 31,</b>	
	<b>2018</b>	<b>2019</b>
<b>RMB</b>	<b>RMB</b>	<b>US\$ (Note 2(d))</b>
Deposits	43,510	42,357
Loans receivables	31,501	36,003
Others	6,028	5,563
<b>Balance at the end of year</b>	<b>81,039</b>	<b>83,923</b>
		<b>12,055</b>

# TUNIU CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except for share and per share data, or otherwise noted)

### 13. Short-term and long-term borrowings

The following is a summary of short-term borrowings:

	As of December 31,		
	2018 RMB	2019 RMB	US\$ (Note 2(d))
Short-term borrowings	49,312	203,845	29,281
Long-term borrowings	4,492	9,689	1,392

As of December 31, 2018 and 2019, the Group had short-term borrowings from banks which were repayable within one year, with interests charged at rates ranging from 5.7% to 7.5% and 0.4% to 6.3% per annum, respectively, among which RMB144,000 short-term borrowings were collateralized by time deposits of RMB53,650 classified as short-term investments as of December 31, 2019.

As of December 31, 2018 and 2019, the Group had long-term borrowings from banks which were repayable over one year, with interests charged at rates ranging from 0.4% to 1.0% and 0.4% to 6.0% per annum, respectively, among which RMB2,300 long-term borrowings were guaranteed by a subsidiary of the Group and pledged by the land use right owned by the Group.

### 14. Leases

The Group has operating leases primarily for office and operation space. The Group's operating lease arrangements have remaining lease terms of one month to fifteen years.

Total lease costs were RMB110,993 for the year ended December 31, 2019, including short-term lease costs within 12 months of RMB21,726.

Consolidated balance sheet information related to leases is presented as follows:

	As of December 31, 2019	
	RMB	US\$ (Note 2(d))
<b>ASSETS</b>		
Operating lease right-of-use assets, net	105,839	15,203
<b>LIABILITIES</b>		
Operating lease liabilities, current	57,490	8,258
Operating lease liabilities, non-current	<u>54,718</u>	<u>7,860</u>
Total	<u>112,208</u>	<u>16,118</u>

Supplemental cash flow information related to leases is as follows:

	As of December 31, 2019	
	RMB	
Cash paid for amounts included in the measurement of lease liabilities	73,315	
Right-of-use assets obtained in exchange for operating lease liabilities	68,825	

Other information related to lease is as follows:

	As of December 31, 2019	
	Weighted average remaining lease term(years)	4.85
Weighted average discount rate		5%

As of December 31, 2019, maturities of lease liabilities (excluding lease payments of RMB 6,498 for the leases with lease terms less than one year) are as follows:

	<u>As of December 31, 2019 RMB</u>
2020	59,719
2021	27,145
2022	8,869
2023	4,034
2024 and thereafter	<u>27,356</u>
Total minimum lease payments	127,123
Less: interest	<u>(14,915)</u>
Present value of lease obligations	<u>112,208</u>

As of December 31, 2018, minimum lease payments under the previous lease standard (“ASC 840”) were as follows:

	<u>As of December 31, 2018 RMB</u>
2019	101,947
2020	75,523
2021	33,952
2022	3,712
2023 and thereafter	<u>2,124</u>
Total minimum lease payments	<u>217,258</u>

For the years ended December 31, 2017 and 2018, the Group recognized lease expense for RMB76,599 and RMB71,379, respectively, under ASC 840.

## 15. Accrued expenses and other current liabilities

The following is a summary of accrued expenses and other current liabilities:

	<u>As of December 31,</u>	<u>2018 RMB</u>	<u>2019 RMB</u>	<u>US\$ (Note 2(d))</u>
Deposits from packaged-tour users	35,119	32,416	4,656	
Payable for business acquisition	25,722	20,032	2,877	
Accrued liabilities related to customers incentive program	1,395	9,374	1,347	
Accrued professional service fees	8,028	15,298	2,197	
Accrued advertising expenses	63,531	34,755	4,992	
Deposits received from suppliers	90,853	164,456	23,623	
Accrued operating expenses	32,391	29,840	4,286	
Advanced payment from banks	15,567	25,095	3,605	
Discounted bank acceptance notes	142,000	537,000	77,135	
Others	<u>69,226</u>	<u>38,853</u>	<u>5,581</u>	
<b>Total</b>	<b><u>483,832</u></b>	<b><u>907,119</u></b>	<b><u>130,299</u></b>	

Deposits from packaged-tour users represent cash paid to the Group as a deposit for overseas tours, and such amount is refundable upon completion of the tours.

Advanced payment from banks represent cash received by the Group for promotional and marketing campaigns. Banks participating in these campaigns would reimburse the Group for tours sold to their credit card holders at a specified discount. Such advanced payment is recognized as revenues when revenues from the related tour are recognized.

Discounted bank acceptance notes represent cash received from financial institutions by discounting of bank acceptance notes issued between the Company’s subsidiaries, which are repayable within one year with interest ranging from 2.8% to 5.7%.

## 16. Income Taxes

The Company is registered in the Cayman Islands. The Company generates substantially all of its income (loss) from its PRC operations for the years ended December 31, 2017, 2018 and 2019.

### Cayman Islands (“Cayman”)

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gain. Additionally, upon payments of dividends to shareholders, no Cayman Islands withholding tax will be imposed.

*Hong Kong*

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% since January 1, 2010. The operations in Hong Kong have incurred net accumulated operating losses for income tax purposes.

*PRC*

On March 16, 2007, the National People's Congress of the PRC enacted an Enterprise Income Tax Law ("EIT Law"), under which Foreign Investment Enterprises ("FIEs") and domestic companies are subject to EIT at a uniform rate of 25%. The EIT law became effective on January 1, 2008.

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**16. Income Taxes – continued**

The EIT Law also imposes a withholding income tax of 10% on dividends distributed by a FIE to its immediate holding company outside of China, if such immediate holding company is considered as a non-resident enterprise without any establishment or place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. The Cayman Islands, where the Company incorporated, does not have such tax treaty with China. According to the arrangement between Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by a FIE in China to its immediate holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% if the immediate holding company in Hong Kong owns directly at least 25% of the shares of the FIE and could be recognized as a Beneficial Owner of the dividend from PRC tax perspective.

Nanjing Tuniu originally obtained its HNTE certificate in 2010 with a valid period of three years and successfully obtained the third renewal of such certificate in December 2019 for another three years. Similarly, Tuniu Nanjing Information Technology and Beijing Tuniu also obtained their HNTE certificates in December 2017 and November 2018 respectively. Therefore, Nanjing Tuniu, Tuniu Nanjing Information Technology and Beijing Tuniu are eligible to enjoy a preferential tax rate of 15% in 2019 to the extent they have taxable income under the EIT Law, as long as they maintain the HNTE qualifications and duly conduct relevant EIT filing procedures with the relevant tax authorities. If Nanjing Tuniu, Tuniu Nanjing Information Technology and Beijing Tuniu fail to maintain their HNTE qualifications or renew their qualifications when their current terms expire, their applicable enterprise income tax rates may increase to 25%, which could have an adverse effect on our financial condition and results of operations.

A reconciliation between the effective income tax rate and the PRC statutory income tax rate is as follows:

	For the Years Ended December 31,		
	2017 %	2018 %	2019 %
PRC Statutory income tax rates	25.0	25.0	25.0
Change in valuation allowance	(17.3)	(37.7)	(15.8)
R&D expenses super-deduction	(2.3)	(20.5)	(3.8)
Non-deductible expenses and non-taxable income incurred	(1.7)	39.9	(2.1)
Difference in EIT rates of certain subsidiaries	(5.8)	(0.1)	(0.3)
Effect of preferential income tax rates	—	(6.5)	(3.1)
<b>Total</b>	<b>(2.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>

The aggregate amount and per share effect of the tax holidays are as follows:

	For the Years Ended December 31,			
	2017 RMB	2018 RMB	2019 RMB	US\$ (Note 2(d))
Aggregate amount	—	12,877	22,274	3,199
Basic net loss per share effect	—	—	—	—
Diluted net loss per share effect	—	—	—	—

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**16. Income Taxes - continued**

The following table sets forth the significant components of deferred tax assets and liabilities:

	<b>As of December 31,</b>		
	<b>2018</b> <b>RMB</b>	<b>2019</b> <b>RMB</b>	<b>US\$ (Note 2(d))</b>
<b>Non-current deferred tax assets:</b>			
Accruals and others	4,468	10,485	1,506
Net operating loss carry forwards	1,180,159	1,161,298	166,810
Carryforwards of deductible advertising expenses	9,842	12,237	1,758
Allowance for doubtful accounts	12,957	62,276	8,945
Subtotal	1,207,426	1,246,296	179,019
Less: valuation allowance	(1,207,426)	(1,246,296)	(179,019)
Total non-current deferred tax assets, net	—	—	—
<b>Non-current deferred tax liabilities:</b>			
Recognition of intangible assets arising from business combination	(19,855)	(23,658)	(3,398)
Total non-current deferred tax liabilities, net	(19,855)	(23,658)	(3,398)

As of December 31, 2019, the Group had net operating loss carryforwards of RMB1,161,298 which can be carried forward to offset taxable income. The carryforwards period for net operating losses under the EIT Law is five years. The net operating loss carry forward of the Group will start to expire in 2020 for the amount of RMB1,220,669 if not utilized. The remaining net operating loss carryforwards will expire in varying amounts between 2021 and 2024. Other than the expiration, there are no other limitations or restrictions upon the Group's ability to use these operating loss carryforwards. There is no expiration for the advertising expenses carryforwards.

A valuation allowance is provided against deferred tax assets when the Group determines that it is more likely than not that the deferred tax assets will not be utilized in the future. In making such determination, the Group evaluates a variety of factors including the Group's operating history, accumulated deficit, existence of taxable temporary differences and reversal periods.

As of December 31, 2018 and 2019, valuation allowances of RMB1,207,426 and RMB1,246,296 were provided because it was more likely than not that the Group will not be able to utilize certain tax losses carry forwards and other deferred tax assets generated by its subsidiaries and Affiliated Entities. If events occur in the future that allow the Group to realize more of its deferred tax assets than the presently recorded amount, an adjustment to the valuation allowances will increase income when those events occur.

*Movement of valuation allowance*

	<b>For the Years Ended December 31,</b>			
	<b>2017</b> <b>RMB</b>	<b>2018</b> <b>RMB</b>	<b>2019</b> <b>RMB</b>	<b>US\$ (Note 2(d))</b>
Balance at the beginning of the year	1,068,082	1,198,872	1,207,426	173,436
Additions	189,090	128,464	143,227	20,573
Written-off for expiration of net operating losses	(16,421)	(10,584)	(98,818)	(14,194)
Utilization of previously unrecognized tax losses and deductible advertising expenses	(41,879)	(109,326)	(5,539)	(796)
Balance at the end of the year	<u>1,198,872</u>	<u>1,207,426</u>	<u>1,246,296</u>	<u>179,019</u>

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**17. Redeemable noncontrolling interests**

In December 2016, the Group entered into an investment agreement with certain investors (“noncontrolling shareholders”) to establish a subsidiary. The noncontrolling shareholders contributed RMB90,000 and held 30% equity interest. Pursuant to the investment agreement, the noncontrolling shareholders have the option to request the Group to redeem their equity interests at an agreed price after three years of the investment. In April 2018, the Group agreed with one of the noncontrolling shareholders to purchase its 10% equity interest of the subsidiary at the cost of RMB30,000. In December 2019, the Group agreed with one of the noncontrolling shareholders to purchase its 10% equity interest of the subsidiary at the cost of RMB37,733.

The Group recorded the noncontrolling interests as redeemable noncontrolling interests, outside of permanent equity in the Group’s consolidated balance sheets in accordance with ASC 480. The Group uses the effective interest method for the changes of redemption value over the period from the date of issuance to the earliest redemption date of the noncontrolling interests. The accretion, which increases the carrying value of the redeemable noncontrolling interests, is recorded against additional paid-in capital.

The change in the carrying amount of redeemable noncontrolling interests for the years ended December 31, 2017, 2018 and 2019 is as follows:

	For the Years Ended December 31,		
	2017 RMB	2018 RMB	2019 RMB US\$ (Note 2(d))
Balance as of January 1	90,072	96,719	69,319 9,956
Repurchase of redeemable noncontrolling interests	—	(30,000)	(37,733) (5,420)
Net income attributable to redeemable noncontrolling interests	922	178	980 141
Accretion on redeemable noncontrolling interests	5,725	2,422	4,634 666
Balance as of December 31	<u>96,719</u>	<u>69,319</u>	<u>37,200</u> <u>5,343</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(All amounts in thousands, except for share and per share data, or otherwise noted)**

**18. Ordinary Shares**

On February 13, 2014, the Board approved that all of the Company's existing ordinary shares would be redesignated as Class B ordinary shares and all of the Company's outstanding preferred shares would be redesignated or automatically converted into Class B ordinary shares immediately prior to the completion of the Company's initial public offering ("IPO"). All options, regardless of grant dates, will entitle holders to the equivalent number of Class A ordinary shares once the vesting and exercising conditions on such share-based compensation awards are met. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to ten votes per share on all matters subject to shareholders' vote. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any transfer of Class B ordinary shares by a holder to any person or entity which is not an affiliate of such holder, such Class B ordinary shares will be automatically and immediately converted into the equivalent number of Class A ordinary shares.

On May 9, 2014, concurrently with the completion of the Company's IPO, the Company issued 5,000,000, 1,666,666 and 5,000,000 shares of Class A ordinary shares at a price per share equal to the IPO price to DCM Hybrid RMB Fund, L.P., the Company's existing shareholder, Qihoo 360 Technology Co. Ltd. and Ctrip Investment Holding Ltd., respectively.

On December 15, 2014, the Company entered into share subscription agreements with Unicorn Riches Limited, JD.com E-commerce (Investment) Hong Kong Corporation Limited, Ctrip Investment Holding Ltd. and the respective personal holding companies of the Group's chief executive officer and chief operating officer, pursuant to which the Company issued 36,812,868 numbers of Class A ordinary shares for a total proceeds of RMB905,792 (US\$148 million), net of issuance cost of RMB14,279. The transaction was closed on December 31, 2014.

On May 8, 2015, the Company entered into share subscription agreements with Fabulous Jade Global Limited, Unicorn Riches Limited, Ctrip Investment Holding Ltd., Esta Investments Pte. Ltd., DCM Ventures China Turbo Fund, L.P. and DCM Ventures China Turbo Affiliates Fund, L.P., and Sequoia Capital 2010 CV Holdco, Ltd., pursuant to which the Company issued 93,750,000 Class A ordinary shares for the cash consideration of US\$400 million (RMB2,445 million) and certain business resource contributed by JD as part of Business Cooperation Agreement with the Company. The total consideration was RMB3,104,457, including fair value of acquired Business Cooperation Agreement of RMB660,215(Note 5), net of issuance cost of RMB1,078. The transaction was closed on May 22, 2015.

On November 20, 2015, the Company entered into a share subscription agreement with HNA Tourism Holdings Group Co., Ltd. ("HNA Tourism"), pursuant to which the Company issued 90,909,091 Class A ordinary shares for a total proceeds of RMB3,279 million (US\$500 million). The transaction was closed on January 21, 2016.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(All amounts in thousands, except for share and per share data, or otherwise noted)**

**19. Share-based Compensation Expenses**

The Company's 2008 Incentive Compensation Plan (the "2008 Plan") allows the plan administrator to grant share options and restricted shares to the Company's employees, directors, and consultants, up to a maximum of 11,500,000 ordinary shares. In December 2012, the Board of Directors approved an increase in the number of shares available for issuance under the plan to 18,375,140 ordinary shares. In April 2014 the Company adopted the 2014 Share Incentive Plan (the "2014 Plan"). The maximum aggregate number of shares which may be issued pursuant to all awards under the 2014 Plan was initially 5,500,000 ordinary shares as of the date of its approval. The number of shares reserved for future issuances under the 2014 Plan will be increased automatically if and whenever the ordinary shares reserved under the 2014 Plan account for less than 1% of the total then-issued and outstanding ordinary shares on an as-converted basis, as a result of which increase the ordinary shares reserved under the 2014 Plan immediately after each such increase shall equal 5% of the then-issued and outstanding ordinary shares on an as-converted basis. Pursuant to the Evergreen Provision, the maximum aggregate number of shares which may be issued under the 2014 Plan increased automatically by an aggregate of 36,464,263 Class A ordinary shares in December 2014, August 2015 and December 2016, respectively, reaching a total of 41,964,263 Class A ordinary shares.

The share options and restricted shares granted under the 2008 plan initially have a contractual term of six years, and grants under the 2014 plan have a contractual term of ten years. The incentive awards under both 2008 plan and 2014 plan generally vest over a period of four years of continuous service, one fourth (1/4) of which vest upon the first anniversary of the stated vesting commencement date and the remaining vest ratably over the following 36 months. Under the 2008 plan, incentive awards are only exercisable upon occurrence of certain defined exercisable events. The Group did not recognize any share-based compensation expense for the awards granted until the completion of the Company's IPO on May 9, 2014 upon which the performance condition was satisfied. As of December 31, 2019, 19,872,396 options and 126,894 restricted shares were outstanding under the 2008 and 2014 plan.

The Group recognized share-based compensation expense of RMB98,675 RMB68,738 and RMB61,736 for the years ended December 31, 2017, 2018 and 2019, respectively, which was classified as follows:

	For the Years Ended December 31,		
	2017 RMB	2018 RMB	2019 RMB US\$ (Note 2(d))
Cost of revenue	1,075	1,483	4,006
Research and product development	6,864	9,124	12,057
Sales and marketing	1,650	1,305	3,321
General and administrative	89,086	56,826	42,352
Total	<u>98,675</u>	<u>68,738</u>	<u>61,736</u>
			<u>8,867</u>

*Share options*

The following table summarizes the Company's option activities:

	Number of share options	Weighted Average Exercise Price US\$	Weighted Average Remaining Contractual Life In Years	Aggregate Intrinsic Value US\$'000
Outstanding at January 1, 2019	20,507,371	1.81	6.77	6,879
Granted	4,340,586	0.0033		
Exercised	(897,549)	0.02		
Forfeited	(1,735,099)	1.78		
Modified	(2,342,913)	0.0033		
Outstanding at December 31, 2019	<u>19,872,396</u>	<u>1.74</u>	<u>5.85</u>	<u>3,914</u>
Vested and expected to vest at December 31, 2019	<u>18,248,502</u>	<u>1.75</u>	<u>5.73</u>	<u>3,701</u>
Exercisable at December 31, 2019	<u>15,285,810</u>	<u>1.73</u>	<u>5.17</u>	<u>3,818</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(All amounts in thousands, except for share and per share data, or otherwise noted)**

**19. Share-based Compensation Expenses - continued**

On February 15, 2017, the Company extended the contract life of 2,435,709 share options granted under the 2008 plan from six years to ten years. On March 1, 2018, the Company extended the contract life of 200,523 share options granted under the 2008 plan from six years to ten years. The incremental compensation expense for the modifications were insignificant and were recognized immediately since the share options were fully vested at the time of the modifications.

In June 2019, the Company completed a one-time modification of share options, pursuant to which certain eligible employees were offered to replace certain unvested share options granted to them with cash awards. The price of cash awards were the same as the fair value of share options on grant date and still requires the same employees' continuous employments with the Company for the remaining period and will be paid in installment. As a result, 2,342,913 options were replaced. The incremental compensation cost of this modification was immaterial. As of December 31, 2019, the unpaid liabilities associated with these cash awards were RMB4,543.

The total intrinsic value of options exercised for the years ended December 31, 2017, 2018 and 2019 was RMB103,082, RMB11,026 and RMB6,857(US\$985), respectively.

The weighted-average grant date fair value for options granted during the years ended December 31, 2017, 2018 and 2019 was US\$2.66, US\$1.28 and US\$1.50, respectively, computed using the binomial option pricing model.

The total fair value of share options vested during the years ended December 31, 2017, 2018, and 2019 was RMB82,814, RMB73,997 and RMB25,461(US\$3,657), respectively.

The Company estimated the expected volatility at the date of grant date and each option valuation date based on the annualized standard deviation of the daily return embedded in historical share prices of comparable companies. Risk free interest rate was estimated based on the yield to maturity of US treasury bonds denominated in US\$ at the option valuation date. The exercise multiple is estimated as the ratio of fair value of underlying shares over the exercise price as at the time the option is exercised, based on a consideration of research study regarding exercise pattern based on empirical studies on the actual exercise behavior of employees. The Company has never declared or paid any cash dividends on its capital stock, and the Company does not anticipate any dividend payments on its ordinary shares in the foreseeable future. Time to maturity is the contract life of the option, and estimated forfeiture rates are determined based on historical employee turnover rate.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(All amounts in thousands, except for share and per share data, or otherwise noted)**

**19. Share-based Compensation Expenses - continued**

The grant date fair value of each option is calculated using a binomial option pricing model with the following assumptions:

	<b>2017</b>	<b>2018</b>	<b>2019</b>
Expected volatility	51.39%-52.4%	49.9%	48.05%
Risk-free interest rate	2.21%-2.45%	2.97%	2.72%
Exercise multiple	2.2-2.8	2.2-2.8	2.2-2.8
Expected dividend yield	0%	0%	0%
Time to maturity (in years)	10	10	10
Expected forfeiture rate (post-vesting)	0%-20%	0%-20%	0%-20%
Fair value of the common share on the date of option grant	US\$1.39-2.92 (RMB9.05-18.98)	US\$1.24-1.35 (RMB8.54-9.31)	US\$1.5 (RMB10.42)

As of December 31, 2019, there was RMB1,915 in total unrecognized compensation expense related to unvested options, which is expected to be recognized over a weighted-average period of 2.35 years.

*Restricted shares*

The total intrinsic value of restricted shares vested for the years ended December 31, 2017, 2018 and 2019 were RMB2,468, RMB1,470 and RMB610(US\$88), respectively.

The fair value of restricted shares with service conditions is based on the fair market value of the underlying ordinary shares on the date of grant.

The following table summarizes the Company's restricted shares activity under the plans:

	<b>Numbers of restricted shares</b>	<b>Weighted average grant date fair value</b>
Restricted shares as of January 1, 2019	223,399	2.54
Granted	—	—
Vested	(66,579)	2.59
Forfeited	(29,926)	3.76
Restricted shares as of December 31, 2019	126,894	2.23
Vested and expected to vest at December 31, 2019	<u>126,894</u>	<u>2.23</u>

As of December 31, 2019, there was RMB1,915 in total unrecognized compensation expense related to restricted shares, which is expected to be recognized over a weighted-average period of 2.35 years.

# TUNIU CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except for share and per share data, or otherwise noted)

### 20. Loss Per Share

The following table sets forth the computation of basic and diluted loss per share for the periods indicated:

	For the Years Ended December 31,			
	2017 RMB	2018 RMB	2019 RMB	US\$ (Note 2(d))
<b>Numerator:</b>				
Net loss attributable to Tuniu Corporation	(767,304)	(185,512)	(694,565)	(99,767)
Accretion on redeemable noncontrolling interests	(5,725)	(2,422)	(4,634)	(666)
<b>Numerator for basic and diluted net loss per share</b>	<b>(773,029)</b>	<b>(187,934)</b>	<b>(699,199)</b>	<b>(100,433)</b>
<b>Denominator:</b>				
Weighted average number of ordinary shares outstanding-basic and diluted	378,230,039	377,744,381	369,472,880	369,472,880
<b>Loss per share-basic and diluted</b>	<b>(2.04)</b>	<b>(0.50)</b>	<b>(1.89)</b>	<b>(0.27)</b>

The Company had securities which could potentially dilute basic loss per share in the future, which were excluded from the computation of diluted loss per share as their effects would have been anti-dilutive. Such outstanding securities consist of the share options and unvested restricted shares with the number of 17,269,396, 8,316,843 and 8,776,330, for the years ended December 31, 2017, 2018 and 2019, respectively.

### 21. Restricted Net Assets

Pursuant to laws applicable to entities incorporated in the PRC, the Group's subsidiaries and Affiliated Entities in the PRC must make appropriations from after-tax profit to non-distributable reserve funds. These reserve funds include one or more of the following: (i) a general reserve, (ii) an enterprise expansion fund and (iii) a staff bonus and welfare fund. Subject to certain cumulative limits, the general reserve fund requires an annual appropriation of 10% of after tax profit (as determined under accounting principles generally accepted in the PRC at each year-end) until the accumulative amount of such reserve fund reaches 50% of a company's registered capital; the other fund appropriations are at the subsidiaries' discretion. These reserve funds can only be used for specific purposes of enterprise expansion and staff bonus and welfare and are not distributable as cash dividends. In addition, due to restrictions on the distribution of share capital from the Group's PRC subsidiaries and Affiliated Entities and also as a result of these entities' unreserved accumulated losses, total restrictions placed on the distribution of the Group's PRC subsidiaries and Affiliated Entities' net assets was RMB1,356 million, or 50.0% of the Group's total consolidated net assets as of December 31, 2019.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(All amounts in thousands, except for share and per share data, or otherwise noted)**

**22. Commitments and Contingencies**

**(a) Capital Commitments**

As of December 31, 2019, capital commitments relating to leasehold improvement, purchase of equipment and construction of office building were approximately RMB220,355.

**(b) Contingencies**

From time to time, the Group is involved in claims and legal proceedings that arise in the ordinary course of business. Based on currently available information, management does not believe that the ultimate outcome of these unresolved matters, individually and in the aggregate, is likely to have a material adverse effect on the Group's financial position, results of operations or cash flows. However, litigation is subject to inherent uncertainties and the Group's view of these matters may change in the future. If an unfavorable outcome were to occur, there exists the possibility of a material adverse impact on the Group's financial position and results of operations for the periods in which the unfavorable outcome occurs.

**(c) Other commitments**

Deposits or guarantees are required by the Group's business partners for air ticketing and tourist attraction tickets. Letters of guarantee are issued by banks to the Group's business partners with total amount of RMB242 million and RMB446 million as of December 31, 2018 and 2019, respectively.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(All amounts in thousands, except for share and per share data, or otherwise noted)**

**23. Related party transactions and balances**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The following entities are considered to be related parties to the Group:

Name of related parties	Relationship with the Group
Ctrip Investment Holding Co., Ltd. ("Ctrip")	one board director of the Group
JD.com, Inc. ("JD")	one board director of the Group
HNA Tourism Holdings Group Co., Ltd. ("HNA Tourism")	two board directors of the Group
Black Fish Group Ltd. ("Black Fish")	founded by one of the former principal shareholders of the Group
Fullshare Holdings Limited ("Fullshare")	a principal shareholder of the Group

On May 25, 2018, Fullshare completed the purchase of 4,104,137 Class A ordinary shares and 6,949,997 Class B ordinary shares from the Group's previous principal shareholder Mr. Haifeng Yan. Since then, Haifeng Yan was no longer the Group's principal shareholder and Black Fish founded by Mr. Haifeng Yan ceased to be the Group's related party.

a) Transactions with related parties:

Ctrip purchased 5,000,000 Class A ordinary shares in a private placement concurrent with the Group's initial public offering, an additional 3,731,034 Class A ordinary shares for a total of US\$15 million through a private placement transaction in December 2014 as well as an additional 3,750,000 Class A ordinary shares for a total of US\$20 million through a private placement transaction in May 2015.

The Group sells packaged tours through Ctrip's online platform and the commission fees to Ctrip were insignificant. The Group purchased travelling products from Ctrip's online platform, which were insignificant. Revenues from Ctrip consist of commission fees for the booking of hotel rooms and air tickets through the Group's online platform, amounted of RMB61.5 million, RMB161.7 million and RMB65.7 million (US\$9.4 million) for the years ended December 31, 2017, 2018 and 2019, respectively.

On May 8, 2015, the Company issued 65,625,000 Class A ordinary shares to Fabulous Jade Global Limited, a subsidiary of JD, for cash consideration of RMB1,528.2 million (US\$250 million) and RMB660.2 million representing the fair value of business resource contributed by JD, which include the exclusive rights to operate the leisure travel channel for both JD's website and mobile application, JD's preferred partnership for hotel and air ticket reservation service, internet traffic support and marketing support for the leisure travel channel for a period of five years starting from August 2015.

The Group also purchased travelling products from JD's channels at the amount of RMB nil, RMB23,509 and RMB49,399 for the years ended December 31, 2017, 2018 and 2019, respectively.

In 2017, the Group disposed several subsidiaries to Black Fish with nominal consideration. As of the disposal date, these subsidiaries were in deficit positions and disposal gain was insignificant in the Group's consolidated statement of comprehensive income.

Black Fish entered into cooperation agreements with the Group in 2017 for provision of services in relation to the Group's online lending services. The amount of service fees charged by Black Fish was RMB155.9 million (US\$24.0 million) for the year ended December 31, 2017. Black Fish also purchased loan receivable assets related to the lending business from the Group at the consideration of RMB140.0 million as the Group terminated these cooperation agreements and stopped granting loans to individuals in 2017. The Group have not transacted with Black Fish for the years ended December 31, 2018 and 2019.

On January 21, 2016, the Company issued 90,909,091 Class A ordinary shares to HNA Tourism for total consideration of RMB3,279 million (US\$500 million).

HNA Tourism agreed to provide the Group with access to its premium airlines and hotels resources at a preferential rate, under fair competition market rules, and the Group undertook to acquire no less than US\$100 million products and services sourced from HNA Tourism over the next two years. The Group purchased RMB394.7 million, RMB588.9 million, RMB443.1 million (US\$63.6 million) air tickets from HNA Tourism for the year ended December 31, 2017, 2018 and 2019, respectively. The Group sold travelling products through an affiliate of HNA Tourism's distribution channels and the revenues were insignificant.

In December 2017, the Group provided financing to an affiliate of HNA Tourism (the "HNA Affiliate") amounting to RMB40.0 million (US\$5.7 million) by purchasing private placement notes issued by the HNA Affiliate (the "Notes Financing"), with the interest rate of 8.5%, which was repayable in one year. The Notes Financing was guaranteed by another affiliate of HNA Tourism. The Notes Financing was extended for one year upon original maturity in December 2018 with the same interest rate and was further pledged by certain equity investment held by HNA Affiliate. In May 2018, the Group provided financing in the form of accounts receivable factoring arrangement (the "Loan Financings") to another affiliate of HNA Tourism amounting to RMB500 million (US\$71.8 million) with the average interest rate of 14% per annum and service fee rate of 6%, which were repayable in one year. The Loan Financings were guaranteed by another affiliate of HNA Tourism. The Loan Financings were extended for one year upon original maturity in May 2019 with interest rate decreased to 6% per annum. The Group has received requests from these borrowers for extension of maturity of the Notes Financing and Loan Financings for another one year to December 2020 and May 2021, respectively.

As of December 31, 2019, the Group reviewed the recoverability of above Notes Financing and Loan Financings to reflect the credit risk associated with the respective outstanding balances. As of December 31, 2019, the Group recorded an allowance provision of RMB1.9 million and RMB21.3 million for the Notes Financing and the Loan Financings, respectively. As of December 31, 2019, the carrying value of the Notes Financing and the Loan Financings were RMB44.8 million and RMB512.8 million, respectively, which were presented in non-current assets, based on management's estimates of time for collection. The interest income and service fee for the Notes Financing and the Loan Financings were RMB70.0 million and RMB27.8 million for the years ended 2018 and 2019, respectively.

During the year ended December 31, 2018, Fullshare made several prepayments to the Group for travelling products, which was RMB1.6 million in 2018. Fullshare has not made any prepayments to the Group in 2019.

**TUNIU CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(All amounts in thousands, except for share and per share data, or otherwise noted)**

**23. Related party transactions and balances - continued**

b) Balances with related parties:

	As of December 31,		
	2018 RMB	2019 RMB	US\$ (Note 2(d))
<b>Current:</b>			
Amounts due from Ctrip	11,091	23,759	3,413
Amounts due from JD	50,336	3,685	529
Amounts due from HNA Tourism	635,093	37,664	5,410
Total	<u>696,520</u>	<u>65,108</u>	<u>9,352</u>
<b>Non-Current:</b>			
Long-term amounts due from HNA Tourism	—	557,582	80,092
Total	<u>—</u>	<u>557,582</u>	<u>80,092</u>
<b>Current:</b>			
Amounts due to Ctrip	73,229	27,128	3,897
Amounts due to JD	2,350	136	19
Amounts due to HNA Tourism	—	2,491	358
Amounts due to Fullshare	1,580	—	—
Total	<u>77,159</u>	<u>29,755</u>	<u>4,274</u>

# TUNIU CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (All amounts in thousands, except for share and per share data, or otherwise noted)

### 24. Subsequent events

From January 2020, the outbreak of a novel strain of coronavirus, named as COVID-19, has spread rapidly to many parts of the world. The epidemic has resulted in quarantines, travel restrictions, and the temporary closure of facilities in China and many other countries for the past a few months.

The travel industry was particularly hard hit. Major airlines have cancelled flights to and from China for an extended period of time, which will further impact travel and tourism in China and across the world. Meanwhile, major governments across the world have implemented strict travel bans and adopted different control measures to curb the spread of the disease. In connection with intensifying efforts to contain the spread of COVID-19, the Ministry of Culture and Tourism of the People's Republic of China issued an notice on January 24, 2020 requiring travel agencies, including online travel agencies throughout the country to suspend the operation of organized tours and the provision of a combination of flight and hotel bookings, pursuant to which the Group was not able to sell packaged tours, which is a primary part of the Group's business operation. Furthermore, Chinese government has taken a number of other actions, which included extending the Chinese New Year holiday, quarantining individuals infected with or suspected of having COVID-19, restricting residents from travel, encouraging employees of enterprises to work remotely from home and cancelling public activities, among others. The spread or fear of spread of contagious disease, such as COVID-19 has caused a significant decline in the level of business and leisure travel in certain regions or as a whole, and a significant decrease in the demand for the Group's products and services, resulting in customer cancellations and refund requests and reduced new orders relating to the Group's services. In addition, the Group's business partners and travel suppliers, including overseas suppliers are also experiencing similar or more serious disruptions to their business operation. Furthermore, the Group has been taking other measures in response to the outbreak, including the adoption of modified operating hours, remote working arrangement and more stringent workplace sanitation measures.

As a result of the outbreak of COVID-19, the Group's business, results of operations, financial positions and cash flows have been materially and adversely affected for the first two quarters of 2020 with potential impacts on subsequent periods, including but not limited to the significant decline in revenue and significant operating cash outflow due to the incremental cost incurred in responses to travelers' cancellations and refund requests. The impacts of COVID-19 may also include additional allowance for doubtful accounts and impairment to the Group's long-term assets. Because of the significant uncertainties surrounding the COVID-19, the exact financial impact is unpredictable and will depend on future developments, including new information which may emerge concerning the duration, severity, the reach of the COVID-19 outbreak globally and the actions taken by authorities and other entities to contain the COVID-19 outbreak, among others, all of which are beyond the Group's control. The Group will continue to closely monitor the impacts of COVID-19.

### FINANCIAL STATEMENT SCHEDULE I TUNIU CORPORATION

#### CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY

##### CONDENSED BALANCE SHEETS

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

	As of December 31,		
	2018 RMB	2019 RMB	US\$ (Note 2(d))
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	250	336	48
Amounts due from subsidiaries and Affiliated Entities	7,116,514	7,082,315	1,017,311
Prepayments and other current assets	226	237	34
<b>Total current assets</b>	<b>7,116,990</b>	<b>7,082,888</b>	<b>1,017,393</b>
Intangible assets	211,540	47,484	6,821
<b>Total assets</b>	<b>7,328,530</b>	<b>7,130,372</b>	<b>1,024,214</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Accrued expenses and other current liabilities	10,989	9,102	1,307
<b>Total current liabilities</b>	<b>10,989</b>	<b>9,102</b>	<b>1,307</b>
<b>Non-current liabilities</b>			
Investment deficit in subsidiaries and Affiliated Entities	3,967,178	4,410,640	633,549
<b>Total non-current liabilities</b>	<b>3,967,178</b>	<b>4,410,640</b>	<b>633,549</b>
<b>Total liabilities</b>	<b>3,978,167</b>	<b>4,419,742</b>	<b>634,856</b>
<b>Equity</b>			
Ordinary shares (US\$0.0001 par value; 1,000,000,000 shares (including 780,000,000 Class A shares, 120,000,000 Class B shares and 100,000,000 shares to be designated by the Board of Directors) authorized as of December 31, 2018 and 2019; 389,331,544 shares (including 371,958,044 Class A shares and 17,373,500 Class B shares) issued and outstanding as of December 31, 2018 and 2019)	249	249	36
Less: Treasury stock	(304,535)	(310,942)	(44,664)
Additional paid-in capital	9,061,979	9,113,512	1,309,074
Accumulated other comprehensive income	284,079	293,784	42,199
Accumulated deficit	(5,691,409)	(6,385,974)	(917,288)
<b>Total Tuniu Corporation shareholders' equity</b>	<b>3,350,363</b>	<b>2,710,629</b>	<b>389,357</b>
<b>Total liabilities and equity</b>	<b>7,328,530</b>	<b>7,130,371</b>	<b>1,024,213</b>



**FINANCIAL STATEMENT SCHEDULE I**  
**TUNIU CORPORATION**

**CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY**

**CONDENSED STATEMENTS OF COMPREHENSIVE LOSS**

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

	For the Years Ended December 31,			
	2017 RMB	2018 RMB	2019 RMB	US\$ (Note 2(d))
<b>Operating expenses</b>				
General and administrative	(6,715)	(3,147)	(3,903)	(561)
Share of loss of subsidiaries and affiliated entities	(761,841)	(183,670)	(689,252)	(99,005)
<b>Total operating expenses</b>	<u>(768,556)</u>	<u>(186,817)</u>	<u>(693,155)</u>	<u>(99,566)</u>
<b>Loss from operations</b>				
Other income/(expenses)				
Interest income	6	—	—	—
Foreign exchange losses, net	(12)	—	(2,457)	(353)
Other income, net	1,258	1,305	1,047	152
Loss before income tax expense	<u>(767,304)</u>	<u>(185,512)</u>	<u>(694,565)</u>	<u>(99,767)</u>
<b>Net loss</b>				
Accretion on redeemable noncontrolling interests	(5,725)	(2,422)	(4,634)	(666)
<b>Net loss attributable to ordinary shareholders</b>	<u>(773,029)</u>	<u>(187,934)</u>	<u>(699,199)</u>	<u>(100,433)</u>
<b>Net loss</b>				
Other comprehensive income/(loss)				
Foreign currency translation adjustment, net of nil tax	(128,539)	11,693	9,705	1,394
<b>Comprehensive loss</b>	<u>(895,843)</u>	<u>(173,819)</u>	<u>(684,860)</u>	<u>(98,373)</u>

**FINANCIAL STATEMENT SCHEDULE I**  
**TUNIU CORPORATION**

**CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY**

**CONDENSED STATEMENTS OF CASH FLOWS**

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

	For the Years Ended December 31,			
	2017 RMB	2018 RMB	2019 RMB	US\$ (Note 2(d))
Cash (used in)/provided by operating activities	(5,507)	1,266	(4,739)	(681)
Cash provided by investing activities	402,418	133,189	18,268	2,624
Cash used in financing activities	(98,805)	(134,485)	(13,438)	(1,930)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(301,241)	(13)	(5)	(1)
Net (decrease)/increase in cash, cash equivalents and restricted cash	(3,135)	(43)	86	12
Cash, cash equivalents and restricted cash at the beginning of year	3,428	293	250	36
Cash, cash equivalents and restricted cash at the end of year	293	250	336	48
<b>Supplemental disclosure of non-cash investing and financing activities</b>				
Receivables related to exercise of stock option	(385)	(23)	(55)	(8)

**FINANCIAL STATEMENT SCHEDULE I**  
**TUNIU CORPORATION**

**CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY**

**Note to Financial Statement Schedule I**

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, change 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.

The condensed financial information has been prepared using the same accounting policies as set out in the accompanying consolidated financial statements except that the equity method has been used to account for investments in its subsidiaries and Affiliated Entities. Such investments in subsidiaries and Affiliated Entities are presented as investment deficit in subsidiaries and Affiliated Entities and the loss of the subsidiaries and Affiliated Entities is presented as share of loss of subsidiaries and Affiliated Entities.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The footnote disclosures to the consolidated financial statements contain information relating to the operations of the parent company and, as such, this schedule should be read in conjunction with the notes to the accompanying consolidated financial statements.

As of December 31, 2019, the parent company had no significant capital and other commitments, long-term obligations, or guarantee, except for those which have separately disclosed in the consolidated financial statements.