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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

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

OR

- x **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

- o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
  For the transition period from to

OR

- o **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: 001-38201

Secoo Holding Limited

(Exact Name of Registrant as Specified in Its Charter)

Not Applicable

(Translation of Registrant's Name Into English)

Cayman Islands

(Jurisdiction of Incorporation or Organization)

Secoo Tower
Sanlitun Road A, No. 3 Courtyard Building 2
Chaoyang District, Beijing 100027
The People's Republic of China
Telephone: +86 10 6588-0135
Email: chenshaojun@secoo.com

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

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange On Which Registered
American depositary shares, two American depositary shares representing one Class A ordinary share	SECO	The NASDAQ Global Market
Class A ordinary shares, par value US$0.001 per share*		

* Not for trading, but only in connection with the listing on the NASDAQ Global 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:

As of December 31, 2019, there were 25,122,199 shares outstanding, par value $0.001 per share, being the sum of 18,550,770 Class A ordinary shares and 6,571,429 Class B ordinary shares.

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

o Yes x 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.

o Yes x No

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

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

x Yes o No

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.

o Yes x 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).

x Yes o No

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

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

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

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

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

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

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.

o Item 17 o 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).

o Yes x 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.

o Yes o No

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INTRODUCTION

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

- "ADRs" are to the American depositary receipts that evidence our ADSs;
- "ADSs" are to our American depositary shares, two of which represent one Class A ordinary share;
- "China" or the "PRC" is to the People's Republic of China, excluding, for the purposes of this annual only, Hong Kong, Macau and Taiwan;
- "Class A ordinary shares" are to our Class A ordinary shares, par value US$0.001 per share;
- "Class B ordinary shares" are to our Class B ordinary shares, par value US$0.001 per share;
- "ordinary shares" are to our Class A and Class B ordinary shares, par value US$0.001 per share;
- "GMV" for a given period is to the total value of all orders of products and services, excluding the value of whole car sales, placed on our online platform and in our offline experience centers for such period, regardless of whether the products are delivered or returned or whether the services are cancelled;
- "RMB" and "Renminbi" are to the legal currency of China;
- "Registered members" as of a specified date are to any consumer who has registered and created an account on our platform;
- "Secoo," "we," "us," "our company" and "our" are to Secoo Holding Limited, its subsidiaries and its consolidated variable interest entities;
- "SKUs" for a given period are to stock keeping units offered on our online platform and in our offline experience centers. The number of SKUs does not represent the number of distinct products offered on our online platform and in our offline experience centers;
- "Total orders" for a given period are to the total number of orders of products and services, excluding the number of whole car sales, placed on our online platform and in our offline experience centers for such period, regardless of whether the products are delivered or returned or whether the services are cancelled; and
- "US$," "U.S. dollars," "$," and "dollars" are to the legal currency of the United States.

Reliance on SEC Order Granting Conditional Exemptions Due to Circumstances Related to COVID-19

In accordance with an order issued by the Securities and Exchange Commission (the "SEC") on March 25, 2020 under Section 36 of the Securities and Exchange Act of 1934, as amended (the "Exchange Act;" such order, the "Order"), we filed a current report on Form 6-K on April 30, 2020 stating that we are relying on the Order to extend the due date for the filing our annual report on Form 20-F for the year ended December 31, 2019 within 45 days after the original due date of April 30, 2020. In order to contain the outbreak and spread of the coronavirus disease 2019 ("COVID-19"), the Chinese government has taken a number of 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. Furthermore, we adopted a series of measures, including temporarily closing offices, facilitating remote working arrangements for our employees and cancelling business meetings and travel. These actions and measures resulted in reduced efficiency in terms of our preparation of the financial statements and this annual report on Form 20-F.

FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains forward-looking statements that reflect our current expectations and views of future events. The forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. These statements are made under the "Safe Harbor" provisions of the U.S. Private Securities Litigations Reform A of 1995.

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

- our goals and strategies;
- our future business development, financial conditions and results of operations;
- the expected growth of the online and offline retail markets of upscale products and services market in China;
- our expectations regarding demand for and market acceptance of our products and services;
- our expectations regarding our relationships with customers, suppliers and third-party sellers;
- our plans to invest in our fulfillment infrastructure and technology platform;
- competition in our industry; and
- relevant government policies and regulations relating to our industry.

These forward-looking statements involve various risks and uncertainties. Although we believe that our expectations expressed in these forward-looking statements are reasonable, our expectations may later be found to be incorrect. Our actual results could be materially different from our expectations. Other sections of this annual report discuss factors which could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors emerge from time to time and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. You should thoroughly read this annual report and the documents that we refer to with the understanding that our actual future results may be materially different from and worse than what we expect. We qualify all of our forward-looking statements by these cautionary statements.

This annual report on Form 20-F contains certain data and information that we obtained from various government and private publications. Statistical data in these publications also include projections based on a number of assumptions. The upscale product retail industry may not grow at the rate projected by market data, or at all. Failure of this market to grow at the projected rate may have a material and adverse effect on our business and the market price of our ADSs. In addition, the rapidly changing nature of the upscale product retail industry results in significant uncertainties for any projections or estimates relating to the growth prospects or future condition of our market. Furthermore, if any one or more of the assumptions underlying the market data are later found to be incorrect, actual results may differ from the projections based on these assumptions. You should not place undue reliance on these forward-looking statements.

The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this annual report and the documents that we refer to in this annual report and have filed as exhibits to the registration statement, completely and with the understanding that our actual future results may be materially different from what we expect.

PART I.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

Our Selected Consolidated Financial Data

The following selected consolidated statements of comprehensive income (loss) data (other than US$ and ADS data) for the years ended December 31, 2017, 2018 and 2019, and selected consolidated balance sheets data (other than US$) as of December 31, 2018 and 2019 have been derived from our audited consolidated financial statement included elsewhere in this annual report. The selected consolidated statements of comprehensive income (loss) data (other than ADS data) for the years ended December 31, 2015 and 2016 and the selected consolidated balance sheets as of December 31, 2015, 2016 and 2017 have been derived from our audited consolidated financial statements not included in this annual report. Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP. Our historical results are not necessarily indicative of results expected for future periods.

You should read the selected consolidated financial data together with our consolidated financial statements and the related notes and "Item 5. Operating and Financial Review and Prospects" below. Our historical results are not necessarily indicative of our results expected for future periods.

	For the Year Ended December 31,					
	2015	2016	2017	2018	2019	
	RMB	RMB	RMB	RMB	RMB	US$
	(in thousands, except for share, per share and per ADS data)					
Selected Consolidated Statements of Comprehensive Income (loss) Data						
Total revenues	1,743,128	2,593,822	3,740,455	5,387,577	6,845,580	983,306
Cost of revenues	(1,526,047)	(2,193,676)	(3,128,441)	(4,427,844)	(5,648,633)	(811,375)
Gross profit	217,081	400,146	612,014	959,733	1,196,947	171,931
Total operating expenses	(428,869)	(429,378)	(517,193)	(740,458)	(980,474)	(140,836)
Income (loss) from operations	(211,788)	(29,232)	94,821	219,275	216,473	31,095
Net income (loss)	(222,003)	(44,573)	133,409	155,546	161,671	23,223
Net income (loss) attributable to ordinary shareholders of Secoo Holding Limited	(435,693)	(640,359)	(69,421)	151,833	154,423	22,182
Net income (loss) per Class A and Class B Ordinary share						
— Basic	(81.22)	(89.06)	(5.55)	6.02	6.15	0.88
— Diluted	(81.22)	(89.06)	(5.55)	5.80	5.89	0.85
Net income (loss) per ADS[(1)]						
— Basic	(40.61)	(44.53)	(2.78)	3.01	3.08	0.44
— Diluted	(40.61)	(44.53)	(2.78)	2.90	2.95	0.42
Weighted average number of Class A and Class B Ordinary shares outstanding used in computing net income (loss) per share						
— Basic	5,364,536	7,189,933	12,500,821	25,235,404	25,122,199	25,122,199
— Diluted	5,364,536	7,189,933	12,500,821	26,182,922	26,221,104	26,221,104

Note:

(1) Two ADSs represent one Class A ordinary share.

	As of December 31,					
	2015	2016	2017	2018	2019	
	RMB	RMB	RMB	RMB	RMB	US$
	(in thousands)					
Selected Consolidated Balance Sheets Data						
Cash and cash equivalents	284,622	55,555	453,425	1,034,385	709,823	101,960
Time deposits	—	—	292,318	68,632	—	—
Restricted cash	155,584	155,792	179,014	92,022	244,313	35,093
Investment securities	—	—	—	26,032	2,318	333
Accounts receivable, net	7,518	20,992	54,210	119,580	123,226	17,700
Inventories	464,488	752,103	1,189,885	1,712,740	2,680,428	385,019
Total assets	983,138	1,045,816	2,337,708	3,791,926	4,997,196	717,804
Accounts payable	289,061	274,629	318,414	498,579	569,045	81,738
Total liabilities	665,466	739,435	1,047,314	2,282,413	3,335,412	479,103
Total mezzanine equity	1,079,939	1,754,534	5,582	7,587	9,337	1,341
Total liabilities, mezzanine equity and shareholders' equity	983,138	1,045,816	2,337,708	3,791,926	4,997,196	717,804

We present our financial results in RMB. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade.

Translations of balances from RMB into US$ 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 in The City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2019.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risk Related to Our Business

Any harm to our Secoo brand or reputation may materially and adversely affect our business and growth prospects.

We believe that the recognition and reputation of our Secoo brand among our customers, suppliers, brands, third-party merchants and other service providers have contributed significantly to the growth and success of our business. Maintaining and enhancing the recognition and reputation of our brand are critical to our business and competitiveness. Many factors, some of which are beyond our control, are important to maintaining and enhancing our brand. These factors include our ability to:

- provide a good online shopping experience to customers;
- maintain the popularity, diversity, quality and authenticity of the products we offer;
- maintain the efficiency, reliability and quality of our fulfillment services;
- maintain or improve customer satisfaction with our after-sales services;
- increase brand awareness through advertising and brand promotion activities; and
- preserve our reputation and goodwill in the event of any negative publicity on customer services, internet security, product quality, price or authenticity, or other issues affecting us or the online retail industry in China in general.

A public perception that unauthorized, non-authentic, counterfeit or defective goods are sold on our platform or that we or our third-party service providers do not provide satisfactory customer service, regardless of veracity, could damage our reputation, diminish the value of our brand, undermine the trust and credibility we have established and have a negative impact on our ability to attract new customers or retain our current customers. If we are unable to maintain our reputation, enhance our brand recognition or increase positive awareness of our website, mobile applications, offline experience center, products and services, it may be difficult to maintain and grow our customer base, and our business and growth prospects may be materially and adversely affected.

If we are unable to manage our growth or execute our strategies effectively, our business and prospects may be materially and adversely affected.

We have been growing rapidly since we commenced our current business operations in 2011. To accommodate our growth, we anticipate that we will need to implement a variety of new and upgraded operational and financial systems, procedures and controls, including the improvement of our accounting and other internal management systems. We will also need to continue to expand, train, manage and motivate our workforce and manage our relationships with customers, suppliers, brand owners, third-party merchants and other service providers. As we selectively increase our product offerings, we will need to work with different groups of new suppliers and third-party merchants efficiently and establish and maintain mutually beneficial relationships with our existing and new suppliers, brand owners and third-party merchants. All of these endeavors involve risks, and will require substantial management effort and significant additional expenditures. We cannot assure you that we will be able to manage our growth or execute our strategies effectively, and any failure to do so may have a material adverse effect on our business and prospects.

We incurred and in the future may incur net losses and negative cash flow from operating activities.

We have accumulated net losses since we commenced our current business operations in 2011. Our net losses were RMB44.6 million in 2016. Although we recorded a net income of RMB133.4 million, RMB155.5 million, and RMB161.7 million (US$23.2 million) in 2017, 2018 and 2019, respectively, we cannot assure you that we will be able to continue to generate net income or positive cash flow from operating activities in the future. We anticipate that our profitability will depend in large part on our ability to increase our gross margin by obtaining more favorable terms from our suppliers as our business further grows in scale, managing our product mix, expanding our online platform and our offline experience centers and services and offering value-added services with higher margins. Accordingly, we intend to continue to invest heavily for the foreseeable future in our fulfillment infrastructure, website, mobile applications, offline experience centers and new technology to support an even larger selection of products and to offer additional value-added services. As a result of the foregoing, our net income margin may decline or we may incur net losses or negative cash flow in the future and may not be able to maintain profitability on a quarterly or annual basis.

If we fail to manage and expand our relationships with suppliers, or otherwise fail to procure products at favorable terms, our business and growth prospects may suffer.

We source products from third-party suppliers. Our suppliers include brands, brand authorized distributors and individual and corporate suppliers (including professional shoppers). Maintaining strong relationships with these suppliers is important to the growth of our business. In particular, we depend significantly on our ability to procure products from suppliers on favorable terms. We typically enter into one-year framework agreements with most of our suppliers on an annual basis, and these framework agreements do not ensure availability of products, continuation of particular pricing practices or payment terms beyond the end of the contractual term. We cannot assure you that our current suppliers will continue to sell products to us on commercially acceptable terms, or at all, after the expiration of their current contracts with us. Even if we maintain good relationships with our suppliers, their ability to supply products to us in sufficient quantities and at competitive prices may be adversely affected by economic conditions, labor actions, regulatory or legal decisions, natural disasters or other causes, such as the recent outbreak of a new type of severe pneumonia caused by novel coronavirus (COVID-19). Furthermore, as some of our suppliers source from brands with vertically integrated exclusive distribution channels, if these brands synchronize their global pricing strategies, our suppliers might not be able to source products with competitive prices. In the event that we are not able to source products at favorable prices, our revenues and gross profit as a percentage of revenues may be materially and adversely affected. In addition, brand suppliers may restrict us from sourcing their brand products from other sources to protect their brand, which may adversely and materially affect our global supply chain system, and hence reduce our operation efficiency.

In the event that any of our suppliers fail to obtain authorization from the relevant brands to sell certain products to us, they may be prevented from selling products to us or selling vintage goods at our online platform, which may adversely affect our business and revenues. In addition, if our suppliers cease to grant us favorable payment terms, our working capital requirements may increase and our operations may be materially and adversely affected. We will also need to establish new supplier relationships to ensure that we have access to a steady supply of products on favorable commercial terms. If we are unable to develop and maintain good relationships with suppliers that would allow us to obtain a sufficient amount and variety of authentic and quality products on acceptable commercial terms, we may be unable to meet customer demands for these products or to offer these products at attractive prices. Any negative developments in our relationships with our existing suppliers or failure to attract new suppliers and third party merchants could materially and adversely affect our business and growth prospects.

If we are unable to provide good customer experience, our business and reputation may be materially and adversely affected.

The success of our business hinges on our ability to provide good customer experience, which in turn depends on a variety of factors. These factors include our ability to continue to offer authentic products at competitive prices, source products to respond to evolving customer tastes and demands, maintain the quality of our products and services, and provide timely and reliable delivery, flexible payment options and good after-sales service.

We rely on contracted third-party delivery service providers to deliver our products and under some circumstances, collect payment. Interruptions to or failures in the delivery services could prevent the timely or successful delivery of our products. These interruptions or failures may be due to unforeseen events that are beyond our control or the control of our third-party delivery service providers, such as inclement weather, natural disasters, transportation disruptions or labor unrest. If our products are not delivered on time or are delivered in a damaged state, customers may refuse to accept delivery and have less confidence in our services. Furthermore, the delivery personnel of contracted third-party delivery service providers directly interact with our customers on our behalf. Any failure for these personnel to provide high-quality delivery and payment collection services to our customers may negatively impact the shopping experience of our customers, damage our reputation and cause us to lose customers.

If our customer service representatives, sales representatives or maintenance engineers and technicians fail to provide satisfactory service, our brand and customer loyalty may be adversely affected. In addition, any negative publicity or poor feedback regarding our customer service may harm our brand and reputation and in turn cause us to lose customers and market share.

If we are unable to offer products that attract new customers and new purchases from existing customers, our business, financial condition and results of operations may be materially and adversely affected.

Our future growth depends on our ability to continue to attract new customers as well as new purchases from existing customers. Constantly changing consumer preferences and product trends have affected and will continue to affect the online and offline upscale product retail industry in China. We must stay abreast of emerging consumer preferences and anticipate product trends that will appeal to existing and potential customers. Our platform makes product recommendations to customers based on their purchases or browsing history, and we also send e-mails to our customers with product recommendations tailored to their purchase profile. Our ability to make individually tailored recommendations is dependent on our business intelligence system, which tracks, collects and analyzes our users' browsing and purchasing behaviors, to provide accurate and reliable information. In addition, our customers choose to purchase authentic and quality products on our platform due in part to the attractive prices that we offer, and they may choose to shop elsewhere if we cannot match the prices offered by other websites or physical stores. If our customers cannot find their desired products on our website or offline experience centers at attractive prices, our customers may lose interest in us and visit our platform less frequently or even stop visiting our platform, which in turn may materially and adversely affect our business, financial condition and results of operations.

We plan to further expand our fulfillment infrastructure. If we are not able to manage such expansion successfully, or if we experience any interruption in the operation of our fulfillment infrastructure, our growth potential, business and results of operations may be materially and adversely affected.

We believe our fulfillment network, currently consisting of strategically located logistics centers in Beijing, Yichun, Hong Kong and Milan and supported by our offline experience centers in Beijing, Shanghai, Chengdu, Tianjin, Xiamen, Qingdao and Malaysia, which perform certain warehousing functions, is essential to our success. If any of the landlords terminates existing lease agreements with us, or materially alters any existing arrangements with us, we may be forced to leave the premises and may not be adequately compensated for our investment, or at all. We plan to establish more logistics centers to increase our warehouse capacity, accommodate more customer orders and provide better coverage of our target markets. As we continue to add logistics centers, our fulfillment network becomes increasingly complex and challenging to operate. We cannot assure you that we will be able to lease new facilities suitable to our needs on commercially acceptable terms or at all. We may not be able to recruit a sufficient number of qualified employees with regards to the expansion of our fulfillment network. In addition, the expansion of our fulfillment infrastructure may strain our managerial, financial, operational and other resources. If we fail to manage such expansion successfully, our growth potential, business and results of operations may be materially and adversely affected.

Further, our ability to process and fulfill orders accurately and provide high quality customer service depends on the smooth operation of our logistics centers. Our fulfillment infrastructure may be vulnerable to damage caused by fire, flood, power outage, telecommunications failure, break-ins, earthquake, human error and other events. If any of our logistics centers or offline experience centers were rendered incapable of operations, then we may be unable to fulfill any orders in the relevant regions. In addition, natural disastrous events, such as fire and flood, could damage our fulfillment infrastructure and result in damages to our inventory stored in or delivered through our fulfillment infrastructure, which would cause losses in our operations. We do not carry business interruption insurance, and the occurrence of any of the foregoing risks could have a material adverse effect on our business, prospects, financial condition and results of operations.

We have invested and will continue to invest in upgrading our technology platform and expanding our offline experience centers and logistics centers. We are likely to incur costs associated with these investments before receiving the anticipated return, and the actual return on these investments may be lower, or may develop more slowly, than we expect. We may not be able to recover our capital expenditures or investments, in part or in full, or the recovery of these capital expenditures or investments may take longer than expected. As a result, the carrying value of the related assets may be subject to an impairment charge, which could adversely affect our business, prospects, financial condition and results of operations.

We have a limited operating history with our current business model and business approach, which makes it difficult to predict our future prospects and financial performance.

We have a limited operating history with our current business model. We commenced our current merchandising sales business model in 2011. We opened our first offline experience center in Beijing and launched our website in April in the same year. We launched our mobile application and began to significantly expand our marketplace services business in 2013 and 2014, respectively. We expanded direct cooperation with top-tier global brands and offered omni-channel commerce solutions to physical boutiques and department stores in 2016. Under our current business model, we have generated limited revenues, and may not produce significant revenues in the near term which may harm our ability to obtain additional financing and may require us to reduce or discontinue our operations. The upscale product market in China is still in its early stage. You must consider our business and prospects in light of the risks and difficulties we will encounter as an early-stage operating company in a new and rapidly evolving industry. We may not be able to successfully address these risks and difficulties, which could significantly harm our business, operating results and financial condition.

We face intense competition. We may lose market share and customers if we fail to compete effectively.

The retail market of upscale products in China is fragmented and highly competitive. We face competition from traditional offline upscale product retailers and their online platforms, domestic and global brand online platforms, major domestic e-commerce platforms and global online upscale product retailers, such as *Net-A-Porter.com*. See “Item 4.B. Business Overview—Competition.” Our current or future competitors may have longer operating histories, greater brand recognition, better supplier relationships, larger customer bases, more cost-effective fulfillment capabilities or greater financial, technical or marketing resources than we do. Competitors may leverage their brand recognition, experience and resources to compete with us in a variety of ways, including investing more heavily in research and development and expanding of their product and service offerings through acquisition. Some of our competitors may be able to secure more favorable terms from suppliers, devote greater resources to marketing and promotional campaigns, adopt more aggressive pricing or inventory policies and devote substantially more resources to their websites and system development than us. In addition, new and enhanced technologies may increase the competition in the online retail market. Increased competition may reduce our revenues, market share, customer base and brand recognition. There can be no assurance that we will be able to compete successfully against current or future competitors, and such competitive pressures may have a material and adverse effect on our business, financial condition and results of operations.

We may incur liability or become subject to administrative penalties for counterfeit or unauthorized products sold on our platform, or for products sold on our platform that infringe on third-party intellectual property rights, or for other misconduct.

We source our products from third-party suppliers. Although we have adopted measures to verify the authenticity and authorization of products sold on our platform and avoid potential infringement on third-party intellectual property rights in the course of sourcing and selling products, we may not always be successful in these efforts.

In the event that counterfeit, unauthorized or infringing products are sold on our platform, we could face claims for which we may be held liable. We have not in the past received claims alleging our infringement on third parties’ rights, and if we receive such claims in the future irrespective of their validity, we could incur significant costs and efforts in either defending against or settling such claims. If there is a successful claim against us, we might be required to pay substantial damages or refrain from further sale of the relevant products. If we negligently participate or assist in infringement activities associated with counterfeit goods, we may be subject to potential liability under PRC law including injunctions to cease infringing activities, rectification, compensation, administrative penalties and even criminal liability. Moreover, such third-party claims or administrative penalties could result in negative publicity and our reputation could be severely damaged. Any of these events could have a material and adverse effect on our business, results of operations or financial condition.

In addition, we believe that, our suppliers include individuals who engaged in "parallel importing", the importing of legally obtained branded or patented products from one country or region into another country or region for sale without the consent of the intellectual property owner. Although our suppliers are responsible for the products they source, we have offered and are still offering products on our platform which we believe to be parallel imported. We may be subject to claims alleging that some products sold on our online platform or at our offline experience centers have not been authorized by the relevant brand owners, or may otherwise infringe upon third-party trademark rights.

Our form supply agreement requires suppliers to indemnify us for any losses we suffer or any costs that we incur arising from the quality, validity and legality of any products they supply to us. However, not all of our suppliers have entered into agreements with these terms, and for those suppliers entering into agreements with these terms, we may not be able to successfully enforce our contractual rights and may need to initiate costly and lengthy legal proceedings in China to protect our rights. See "Item 3.D. Risk Factors—Risks Related to Doing Business in China—We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of internet-related business and companies."

Any lack of requisite approvals, licenses or permits applicable to our business may have a material and adverse impact on our business, financial condition and results of operations.

Our business is subject to governmental supervision and regulation by the relevant PRC governmental authorities, including but not limited to the Ministry of Commerce, the Ministry of Industry and Information Technology, or MIIT, and the Cyberspace Administration of China, or CAC. Together, these government authorities promulgate and enforce regulations that cover many aspects of the operation of online retailing and distribution of upscale products, including entry into these industries, the scope of permissible business activities, licenses and permits for various business activities, and foreign investment. We are required to hold a number of licenses and permits in connection with our online platform operation, including the ICP license and the license for online data processing and transaction processing services, or the EDI license for *Secoo.com* and the ICP license and auction business permit for online auction business. See "Item 4.B. Regulation—Regulations Relating to Foreign Investment." and "Item 4.B. Business Overview—Regulation—Licenses and Permits."

As of the date of this annual report, we have not received any notice of warning or been subject to penalties or other disciplinary action from the relevant governmental authorities regarding improper use or lack of approvals, licenses and permits. However, we cannot assure you that we will not be subject to any penalties in the future. As online retailing is still evolving in China, new laws and regulations may be adopted from time to time to require additional approvals, licenses and permits other than those we currently have, and address new issues that arise from time to time. In addition, substantial uncertainties exist regarding the interpretation and implementation of current and any future PRC laws and regulations applicable to our businesses. For example, we offer mobile applications to mobile device users. It is uncertain if our variable interest entities will be required to obtain a separate operating license in addition to the valued-added telecommunications business operating licenses for internet content provision service. Although we believe that we are not required to obtain such separate license, which is in line with the current market practice, there can be no assurance that we will not be required to apply for an operating license for our mobile applications in the future. If the PRC government considers that we were operating without the proper approvals, licenses or permits or promulgates new laws and regulations that require additional approvals or licenses or imposes additional restrictions on the operation of any part of our business, it has the power, among other things, to levy fines, confiscate our income, revoke our business licenses, and require us to discontinue our relevant business or impose restrictions on the affected portion of our business. Any of these actions by the PRC government may have a material and adverse effect on our results of operations.

In August 2018, the Standing Committee of the National People's Congress promulgated the E-Commerce Law, which became effective on January 1, 2019. The E-Commerce Law imposes a number of new requirements and obligations on e-commerce platform operators. As no detailed interpretation and implementation rules have been promulgated, it remains uncertain how the newly adopted E-Commerce Law will be interpreted and implemented. We cannot assure you, however, that our current business operations meet the requirements under the E-Commerce Law in all respects. If the PRC governmental authorities determine that we are not in compliance with all the requirements under the E-Commerce Law and other applicable laws and rules, we may be subject to fines and/or other sanctions.

We may be challenged by relevant government authorities for products sold on our platform sourced from suppliers who fail to comply with PRC customs laws and regulations.

A large portion of products supplied by our suppliers are imported from countries or regions outside of China. Pursuant to relevant PRC customs laws and regulations, failure to complete proper import procedures or evading custom duties may lead to administrative or criminal sanctions imposed by competent PRC governmental or judicial authorities. Moreover, competent PRC governmental or judicial authorities may also impose sanctions on anybody who has (i) directly purchased illegally imported goods with the knowledge that such goods were illegally imported into China, or (ii) intentionally financed or otherwise assisted in such activities. Thus, our standard purchase agreement requires our suppliers to warrant to us as to the legality of the importing procedure of such products in either the purchase agreement with us or other written documents. According to our suppliers, for certain commercial and confidential reasons, they did not provide us with complete customs declaration documents or documents evidencing due payment of import duties. In addition, we cannot assure you that all of our suppliers are aware of customs laws and regulations that they should follow. Therefore, although our suppliers warrant that such products are imported legally through the proper import procedures and with the payment of the requisite custom duties, we cannot fully verify such statements ourselves.

Despite our efforts to distinguish and reject products with questionable sources, we have not been able to have full knowledge of the customs clearance procedures that have been conducted for such products and we cannot rule out the possibility that we may be subject to investigations or sanctions. We adopted a new standard purchase agreement in the first quarter of 2015 which requires suppliers to indemnify us for any losses we suffer or any costs that we incur due to the illegal sourcing of their products. However, we may not be able to successfully enforce our contractual rights and may resort to costly and lengthy legal proceedings in China to protect our rights, which may cause us to incur significant costs and efforts and may divert our management's attention from day-to-day operations. See "Item 3.D. Risk Factors—Risks Related to Doing Business in China—Uncertainties with respect to the PRC legal system could adversely affect us."

Although we have not in the past been the subject of any regulatory investigations or any civil, administrative or criminal sanctions under PRC customs laws and regulations, and, as of the date of this annual report, we are not aware of any such claims or actions by government authorities against us, and have no reason to believe that any such claims or actions will be brought forth in the foreseeable future, due to uncertainties in the interpretation and enforcement of PRC customs laws and regulations, we may be determined by competent governmental or judicial authorities to be in violation of PRC customs laws and regulations as a result of purchasing goods from law-breaking suppliers.

Starting from the first quarter of 2015, we further streamlined our supplier management including actively requesting our suppliers to produce complete customs declaration documents and documents evidencing due payment of import duties for products sold to us. However, we cannot guarantee you that we will be able to effectively manage our suppliers. Any adverse developments in our relationship with suppliers could materially and adversely affect our business reputation and growth prospects.

Our expansion into new product categories and new services may expose us to new challenges and more risks.

Since we commenced our current business operations in 2011, we have focused on selling upscale products such as watches, handbags and jewelry. We have expanded our product offerings in recent years to include selected categories of upscale lifestyle products and services, such as reservation services for luxury hotels or travel packages, and Secoo Check. Expansion into diverse new product categories and new services involves new business and legal risks and challenges. Our lack of familiarity with these products and services and lack of relevant customer data relating to these products and services may make it more difficult for us to anticipate customer demand and preferences. We might also incur additional costs to ensure compliance of laws and regulations. In addition, regulatory requirements relations to these products and services may be still evolving.

We may misjudge customer demand, resulting in excessive inventory and possible inventory write-down. It may also make it more difficult for us to inspect and control quality and ensure proper handling, storage and delivery of products. In addition, we may experience higher product returns on new categories of products we offer, receive more customer complaints about them and face costly product liability claims, which would harm our brand and reputation as well as our financial performance. Furthermore, we may not be able to negotiate favorable terms with suppliers. We may need to price aggressively to gain market share or remain competitive in new categories. It may be more difficult for us to achieve profitability in the new product categories and our profit margin, if any, may be lower than we anticipate, which would adversely affect our overall profitability and results of operations. We cannot assure you that we will be able to recoup our investments in introducing these new product categories.

Changes in our customers, product mix and pricing strategy could cause our gross profit margin percentage to decline in the future.

From time to time, we have experienced overall changes in the product mix demand of our customers. When our product mix changes, there can be no assurance that we will be able to maintain our historical gross profit margins. Changes in our customers, product mix, volume of orders or the prices charged could cause our gross profit margin percentage to decline. Our gross profit margin percentage may also come under pressure in the future if we increase the percentage of younger generations in our customer base, as sales to these customers are generally at lower margins. We have offered, and might continue to offer, greater product discounts to promote our mobile platform or flash sales and auction sales format which could result in the decrease of our gross profit margin percentage.

If we fail to forecast customer demand or manage our inventory effectively, our results of operations, financial condition and liquidity may be materially and adversely affected.

Our business requires us to manage a large volume of inventory effectively. We depend on our forecasts of demand for and popularity of various products to make purchase decisions and to manage our inventory. Demand for upscale products, however, may change significantly between the time a product is ordered by us and the date of sale on our platform. Demand may be affected by seasonality, new product launches, rapid changes in product cycles and pricing, product defects, changes in consumer spending patterns, changes in consumer tastes and other factors, and our customers may not order products in the quantities that we expect. It may be difficult to accurately forecast customer demand, and determine the appropriate products to procure.

If we fail to manage our inventory effectively, we may be subject to a heightened risk of inventory obsolescence, a decline in inventory values, and significant inventory write-downs or write-offs. In addition, we may be required to lower sale prices in order to reduce inventory level, which may lead to lower gross margins. High inventory levels may also require us to commit substantial working capital, preventing us from using that funding for other business purposes. Any of the above may materially and adversely affect our results of operations and financial condition.

On the other hand, if we underestimate demand for our products, or if our suppliers fail to supply quality products in a timely manner, we may experience inventory shortages, which might result in lost sales, diminished brand loyalty and lost revenues, any of which could harm our business and reputation.

If we are unable to conduct marketing and sales activities cost-effectively, or if our customer acquisition costs or costs associated with serving our customers increase, our results of operations and financial condition may be materially and adversely affected.

We have incurred significant expenses on a variety of advertising and brand promotion initiatives designed to enhance our brand recognition, acquire new customers and increase sales of our products. We incurred RMB246.0 million, RMB410.5 million and RMB480.4 million (US$69.0 million) of marketing expenses in 2017, 2018 and 2019, respectively. We expect to continue to spend significant amounts to acquire additional customers and retain existing customers, primarily through advertising and brand promotion initiatives. Our decisions regarding investments in customer acquisition are based upon our analysis of the revenue we have historically generated per customer over the expected lifetime value of the customer. Our analysis of the revenue that we expect a customer to generate over his or her lifetime depends upon several estimates and assumptions, including the demographic groups of the customers, whether a customer will make a second order, whether a customer will make multiple orders in a month, average sales per order and the predictability of a customer’s purchase pattern. Our experience in markets or customer demographic groups in which we presently have low penetration rates may differ from our more established markets.

Our brand promotion and marketing activities may not be as effective as we anticipate. If our estimates and assumptions regarding the revenue we can generate from customers prove incorrect, or if the revenue generated from new customers differs significantly from that of existing customers, we may be unable to recover our customer acquisition costs or generate profits from our investment in acquiring new customers. Moreover, if our customer acquisition costs or other operating costs increase, the return on our investment may be lower than we anticipate irrespective of the revenue generated from new customers. If we cannot generate profits from this investment, we may need to alter our growth strategy, and our growth rate and results of operations may be harmed. In addition, marketing approaches and tools in the upscale product retail market in China are evolving, which require us to keep pace with industry developments and changing preferences. Failure to refine our existing marketing approaches or to introduce new marketing approaches in a cost-effective manner could reduce our market share, cause our revenues to decline and negatively impact our profitability, if any.

We use third-party delivery companies to deliver our products to customers. If these couriers fail to provide reliable delivery services, our business and reputation may be materially and adversely affected.

We engage a number of third-party delivery companies to deliver our products to our customers. Interruptions to or failures in these third parties' delivery services could prevent the timely or proper delivery of our products to customers. These interruptions may be due to events that are beyond our control or the control of these delivery companies, such as inclement weather, natural disasters, transportation disruptions or labor unrest. In addition, if our third-party couriers fail to comply with applicable rules and regulations in China, our delivery services may be materially and adversely affected. We may not be able to find replacement delivery companies to provide delivery services in a timely and reliable manner, or at all. Delivery of our products could also be affected or interrupted by the merger, acquisition, insolvency or government shut-down of the delivery companies we engage, especially those local companies with relatively small business scales. If our products are not delivered in proper condition or on a timely basis, our business and reputation could suffer.

Uncertainties relating to the growth and profitability of the upscale product retail industry in China in general, and the online upscale product retail industry in particular, could adversely affect our revenues and business prospects.

We generate a significant portion of our revenues from online retail, especially mobile applications. While online retail has existed in China since the 1990s, only recently have certain large online retail companies become profitable. The long-term viability and prospects of various online retail business models in China remain relatively untested. Our future results of operations will depend on numerous factors affecting the development of the online retail industry in China, which may be beyond our control. These factors include:

- the growth of internet, broadband, personal computer and mobile penetration and usage in China, and the rate of any such growth;
- the trust and confidence level of online retail consumers in China, as well as changes in customer demographics and consumer tastes and preferences;
- the selection, price and popularity of products that we and our competitors offer online;

- whether alternative retail channels or business models that better address the needs of consumers emerge in China; and

- the development of fulfillment, payment and other ancillary services associated with online purchases.

A decline in the popularity of online shopping in general, or any failure by us to adapt our platform and improve the online shopping experience of our customers in response to trends and consumer requirements, may adversely affect our revenues and business prospects.

Furthermore, the upscale product retail industry in China is very sensitive to macroeconomic changes, particularly changes in disposable income, and retail purchases tend to decline during recessionary periods. Substantially all of our revenues are derived from retail sales in China. Many factors outside of our control, including inflation and deflation, volatility of stock and property markets, interest rates, tax rates and other government policies and unemployment rates can adversely affect disposable income level, consumer confidence and spending, which could in turn materially and adversely affect our growth and profitability, if any. Unfavorable developments in domestic and international politics, including military conflicts, political turmoil and social instability, may also adversely affect disposable income level, consumer confidence and reduce spending, which could in turn materially and adversely affect our growth and profitability, if any.

Inability to obtain additional financing on commercially reasonable terms in the future may materially and adversely affect our business, results of operations and financial condition.

The online retail industry in China is very competitive. Maintaining our competitiveness and implementing our growth strategies both require us to obtain sufficient funds to maintain and expand our online and offline upscale product retail platform. We believe that our current cash, together with our anticipated cash from operations, is sufficient to meet our anticipated working capital requirements and capital expenditures. We may, however, require additional cash resources due to changed business conditions or other future developments, including any changes in our account payable policy, marketing initiatives or investments we may decide to pursue. Such additional financing may not be available on commercially reasonable terms, or at all. If these resources are insufficient to satisfy our cash requirements, we may seek to obtain a credit facility or sell additional equity or debt securities. To the extent that we raise additional financing by issuing equity securities or convertible debt securities, our shareholders may experience substantial dilution, and to the extent we engage in debt financing, we may become subject to restrictive covenants that could limit our flexibility in conducting future business activities. Financial institutions may request credit enhancement such as third-party guarantee and pledge of equity interest in order to extend loans to us.

Our ability to obtain additional financing on acceptable terms is subject to a variety of uncertainties, including:

- PRC governmental policies relating to bank loans and other credit facilities;

- economic, political and other conditions in China;

- investors' perception of, and demand for, securities of online retail companies;

- conditions of the United States and other capital markets in which we may seek to raise funds; and

- our future results of operations, financial condition and cash flows.

If additional financing is not available on acceptable terms or at all, we may not be able to fund our expansion, enhance our products and services, respond to competitive pressures or take advantage of investment or acquisition opportunities, all of which may adversely affect our results of operations and business prospects.

If we fail to implement and maintain an effective system of internal controls or fail to remediate the material weakness in our internal control over financial reporting that has been identified, we may be unable to accurately report our results of operations or prevent fraud, and investor confidence and the market price of our ADSs may be materially and adversely affected.

In connection with the audits of our consolidated financial statements as of December 31, 2018 and 2019 and for the years ended December 31, 2017, 2018 and 2019, we and our independent registered public accounting firm identified a "material weakness" in our internal control over financial reporting, as defined in the standards established by the Public Company Accounting Oversight Board of the United States. The material weakness identified related to the lack of sufficient financial reporting and accounting personnel with appropriate knowledge to implement key controls over period end financial reporting and to properly prepare and review financial statements and related disclosures in accordance with U.S. GAAP and SEC reporting requirements. Our failure to correct the material weakness and control deficiencies or to discover and address any other material weakness or control deficiencies could result in inaccuracies in our financial statements and could also impair our ability to comply with applicable financial reporting requirements and related regulatory filings on a timely basis. As a result, our business, financial condition, results of operations and prospects, as well as the trading price of our ADSs, may be materially and adversely affected. Moreover, ineffective internal control over financial reporting significantly hinders our ability to prevent fraud.

Furthermore, it is possible that, had our independent accountant conducted an audit of our internal control over financial reporting, such accountant might have identified additional material weaknesses and deficiencies. We are subject to the Sarbanes-Oxley Act of 2002. Section 404 of the Sarbanes-Oxley Act, or Section 404, requires that we include a report from management on the effectiveness of our internal control over financial reporting in our annual report on Form 20-F. In addition, once we cease to be an "emerging growth company" as such term is defined in the JOBS Act, our independent accountant must report on the effectiveness of our internal control over financial reporting. Our management may conclude that our internal control over financial reporting is not effective. Moreover, even if our management concludes that our internal control over financial reporting is effective, after we cease to be an emerging growth company our independent accountant, after conducting its own independent testing, may issue a report that is unqualified if it is not satisfied with our internal controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us. In addition, as we are a public company, our reporting obligations may place a significant strain on our management, operational and financial resources and systems. We may be unable to timely complete our evaluation testing and any required remediation.

During the course of documenting and testing our internal control procedures, in order to satisfy the requirements of Section 404, we may identify other weaknesses and deficiencies in our internal control over financial reporting. In addition, if we fail to implement and maintain the adequacy of our internal control over financial reporting, as these standards are modified, supplemented or amended from time to time, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404. If we fail to achieve and maintain an effective internal control environment, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial information. This could in turn limit our access to capital markets, harm our results of operations, and lead to a decline in the trading price of our ADSs. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the stock exchange on which we list, regulatory investigations and civil or criminal sanctions. We may also be required to restate our financial statements from prior periods.

If our senior management is unable to work together effectively or efficiently or if we lose their services, our business may be severely disrupted.

Our success heavily depends upon the continued services of our management. In particular, we rely on the expertise and experience of Mr. Richard Rixue Li, our founder, director and chief executive officer, and other executive officers. If they cannot work together effectively or efficiently, our business may be severely disrupted. If one or more of our senior management were unable or unwilling to continue in their present positions, we might not be able to replace them easily or at all, and our business, financial condition and results of operations may be materially and adversely affected. If any of our senior management joins a competitor or forms a competing business, we may lose customers, suppliers, know-how and key professionals and staff members. Each of our senior management has entered into employment agreements and confidentiality and non-competition agreements with us. However, if any dispute arises between our senior management and us, we may have to incur substantial costs and expenses in order to enforce such agreements in China or we may be unable to enforce them at all.

If we are unable to recruit, train and retain qualified personnel or sufficient workforce while controlling our labor costs, our business may be materially and adversely affected.

We intend to hire additional qualified employees to support our business operations and planned expansion. Our future success depends, to a significant extent, on our ability to recruit, train and retain qualified personnel, particularly experienced engineers and technicians with expertise in upscale product authentication. Our experienced mid-level managers are instrumental in implementing our business strategies, executing our business plans and supporting our business operations and growth. The effective operation of our managerial and operating systems, fulfillment infrastructure, customer service center and other back office functions also depends on the hard work and quality performance of our management and employees. Since our industry is characterized by high demand and intense competition for talent and labor, we can provide no assurance that we will be able to attract or retain qualified staff or other highly skilled employees that we will need to achieve our strategic objectives. Our fulfillment infrastructure is labor intensive and requires a substantial number of blue-collar workers, and these positions tend to have higher than average turnover. Labor costs in China have increased with China's economic development, particularly in the large cities where we operate our logistics centers. Rising inflation in China, which has had a disproportionate impact on everyday essentials such as food, is also putting pressure on wages. In addition, as we are still a company at an early stage of development, our ability to train and integrate new employees into our operations may also be limited and may not meet the demand for our business growth on a timely fashion, or at all. If we are unable to attract, train and retain qualified personnel, our business may be materially and adversely affected.

We may be the subject of anti-competitive, harassing, or other detrimental conduct by third parties including complaints to regulatory agencies, negative blog postings, short seller reports and the public dissemination of malicious characterization of our business.

We have been subject to negative postings and other media exposure in the past. We may become the target of anti-competitive, harassing, or other detrimental conduct by third parties. Such conduct includes complaints, anonymous or otherwise, to regulatory agencies and short seller reports. We may be subject to government or regulatory investigation as a result of such third-party conduct and may be required to expend significant time and incur substantial costs to address such third-party conduct, and there is no assurance that we will be able to conclusively refute each of the allegations within a reasonable period of time, or at all. Additionally, allegations, directly or indirectly against us, may be posted in internet chat-rooms or on blogs or any websites by anyone, whether or not related to us, on an anonymous basis. Consumers value readily available information concerning retailers and the goods and services offered by them and often act on such information without further investigation or authentication and without regard to its accuracy. Information on social media platforms and devices is easily accessible, and any negative publicity on us or our founders and management can be quickly and widely disseminated. Social media platforms and devices immediately publish the content their subscribers and participants post, often without filtering or verification of the content posted. Information posted may be inaccurate and may harm our reputation, performance, prospects or business. The harm may be immediate without affording us an opportunity for redress or correction. Our reputation may be negatively affected as a result of the public dissemination of anonymous allegations or malicious statements about our business, which in turn may cause us to lose market share, customers and revenues and adversely affect the price of our ADSs.

We may be subject to product liability claims if people or properties are harmed by the products or services we sell.

We sell products manufactured by third parties, some of which may be defectively designed or manufactured. As a result, sales of such products could expose us to product liability claims relating to personal injury or property damage and may require product recalls or other actions. Third parties subject to such injury or damage may bring claims or legal proceedings against us as the retailer of the product. Although we would have legal recourse against the manufacturer of such products under PRC law, enforcing our rights against the manufacturer may be expensive, time-consuming and ultimately futile. In addition, we do not currently maintain any third-party liability insurance or product liability insurance in relation to products we sell. As a result, any material product liability claim or litigation could have a material and adverse effect on our business, financial condition and results of operations. Even unsuccessful claims could result in the expenditure of funds and managerial efforts in defending them and could have a negative impact on our reputation.

The proper functioning of our technology platform is essential to our business. Any failure to maintain the satisfactory performance of our website and systems could materially and adversely affect our business and reputation.

The satisfactory performance, reliability and availability of our technology platform are critical to our success and our ability to attract and retain customers and provide quality customer service. The majority of our sales are made online through our website and mobile applications. Any system interruptions caused by telecommunications failures, computer viruses, hacking or other attempts to harm our systems that result in the unavailability or slowdown of our website or reduced order fulfillment performance could reduce the volume of products sold and the attractiveness of product offerings on our platform. Our servers may also be vulnerable to computer viruses, physical or electronic break-ins and similar disruptions, which could lead to system interruptions, website slowdown or unavailability, delays or errors in transaction processing, loss of data or the inability to accept and fulfill customer orders. Security breaches, computer viruses and hacking attacks have become more prevalent in our industry. Because of our brand recognition in the online retail industry in China, we believe we are a particularly attractive target for such attacks. We may experience such attacks and unexpected interruptions in the future. We can provide no assurance that our current security mechanisms will be sufficient to protect our IT systems from any third-party intrusions, viruses or hacker attacks, information or data theft or other similar activities. Any such future occurrences could reduce customer satisfaction, damage our reputation and result in a material decrease in our revenue.

Additionally, we must continue to upgrade and improve our technology platform to support our business growth, especially our big data technology, to effectively utilize the large amount of user behavioral data generated through our website and mobile applications. Failure to do so could impede our growth. However, we cannot assure you that we will be successful in executing these system upgrades and improvement strategies. In particular, our systems may experience interruptions during upgrades, and the new technologies or infrastructures may not be fully integrated with the existing systems on a timely basis, or at all. In addition, we experience surges in online traffic and orders associated with promotional activities and holiday seasons, such as Double 11 Singles Day Shopping Festival and December 17, which can put additional demands on our technology platform at specific times. If our existing or future technology platform does not function properly, we may experience system disruptions and slow response times, affecting data transmission, which in turn could materially and adversely affect our business, financial condition and results of operations.

Our business generates and processes a large amount of data, and we are required to comply with PRC and other applicable laws relating to privacy and cyber security. The improper use or disclosure of data could have a material and adverse effect on our business and prospects.

Our business generates and processes a large quantity of data. We face risks inherent in handling and protecting large volume of data. In particular, we face a number of challenges relating to data from transactions and other activities on our platforms, including:

- protecting the data in and hosted on our system, including against attacks on our system by outside parties or fraudulent behavior or improper use by our employees;
- addressing concerns related to privacy and sharing, safety, security and other factors; and
- complying with applicable laws, rules and regulations relating to the collection, use, storage, transfer, disclosure and security of personal information, including any requests from regulatory and government authorities relating to this data.

The PRC regulatory and enforcement regime with regard to data security and data protection is evolving. We may be required by Chinese governmental authorities to share personal information and data that we collect to comply with PRC laws relating to cybersecurity. See "Item 4. Information on the Company—B. Business Overview—Regulation— Regulations Relating to E-Commerce, Internet Content and Information Security and Privacy." According to the PRC Cybersecurity Law and relevant regulations, network operators, including us, are obligated to provide assistance and support in accordance with the law for public security and national security authorities to protect national security or assist with criminal investigations. In addition, the PRC Cybersecurity Law provides that personal information and important data collected and generated by operators of critical information infrastructure in the course of their operations in the PRC should be stored in the PRC, and the law imposes heightened regulation and additional security and privacy protection obligations on operators of critical information infrastructure. The PRC National Security Law covers various types of national security, including technology security and information security. All the relevant laws and regulations may result in additional expenses to us and any non-compliance and misuse of or failure to secure personal information could have a negative impact on our financial results and may subject us to negative publicity, which could harm our reputation and negatively affect the trading price of our ADSs. There are also uncertainties with respect to how these laws will be implemented in practice. PRC regulators, including the MIIT and the CAC, have been increasingly focused on regulation in the areas of data security and data protection. We expect that these areas will receive greater attention and focus from regulators, as well as attract continued or greater public scrutiny and attention going forward, which could increase our compliance costs and subject us to heightened risks and challenges associated with data security and protection. If we are unable to manage these risks, we could become subject to penalties, including fines, suspension of business and revocation of required licenses, and our reputation and results of operations could be materially and adversely affected.

In addition, the European Union General Data Protection Regulation ("GDPR"), which came into effect on May 25, 2018, includes operational requirements for companies that receive or process personal data of residents of the European Economic Area. The GDPR establishes new requirements applicable to the processing of personal data, affords new data protection rights to individuals and imposes penalties for serious data breaches. Individuals also have a right to compensation under the GDPR for financial or non-financial losses. Although we do not conduct any business in the European Economic Area, in the event that residents of the European Economic Area access our website and input protected information, we may become subject to provisions of the GDPR. If we are unable to manage these risks, we could become subject to penalties, fines, suspension of business and revocation of required licenses, and our reputation and results of operations could be materially and adversely affected. In addition, regulatory authorities around the world have recently adopted or are considering a number of legislative and regulatory proposals concerning data protection. These legislative and regulatory proposals, if adopted, and the uncertain interpretations and application thereof could, in addition to the possibility of fines, result in an order requiring that we change our data practices and policies, which could have an adverse effect on our business and results of operations.

Any deficiencies in China's internet infrastructure could impair our ability to sell products over our website and mobile applications, which could cause us to lose customers and harm our operating results.

The majority of our sales are made online through our website and mobile applications. Our business depends on the performance and reliability of the internet infrastructure in China. The availability of our website depends on telecommunications carriers and other third-party providers for communications and storage capacity, including bandwidth and server storage, among other things. If we are unable to enter into or renew agreements with these providers on commercially acceptable terms, or if any of our existing agreements with such providers are terminated as a result of our breach or otherwise, our ability to provide our services to our customers could be adversely affected. Almost all access to the internet in China is maintained through state-owned telecommunication carriers under administrative control, and we obtain access to end-user networks operated by such telecommunications carriers and internet service providers to give customers access to our website. We have experienced service interruptions in the past, which were typically caused by service interruptions at the underlying external telecommunications service providers, such as the internet data centers and broadband carriers from which we lease services. Service interruptions prevent consumers from accessing our website and mobile applications and placing orders, and frequent interruptions could frustrate customers and discourage them from attempting to place orders, which could cause us to lose customers and harm our operating results.

If we fail to adopt new technologies or adapt our website, mobile applications and systems to changing customer requirements or emerging industry standards, our business may be materially and adversely affected.

To remain competitive, we must continue to enhance and improve the responsiveness, functionality and features of our website and mobile applications. The internet and the online retail industry are characterized by rapid technological evolution, changes in customer requirements and preferences, frequent introductions of new products and services embodying new technologies and the emergence of new industry standards and practices, any of which could render our existing technologies and systems obsolete. Our success will depend, in part, on our ability to identify, develop, acquire or license leading technologies useful in our business, and respond to technological advances and emerging industry standards and practices, such as mobile internet, in a cost-effective and timely way. The development of websites, mobile applications and other proprietary technology entails significant technical and business risks. We cannot assure you that we will be able to use new technologies effectively or adapt our website, mobile applications, proprietary technologies and systems to meet evolving customer requirements or emerging industry standards. If we are unable to adapt in a cost-effective and timely manner in response to changing market conditions or customer requirements, whether for technical, legal, financial or other reasons, our business, prospects, financial condition and results of operations may be materially and adversely affected.

Customer growth and activity on mobile devices depends upon effective use of mobile operating systems, networks and standards that we do not control.

Purchases using mobile devices by consumers generally, and by our customers specifically, have increased significantly in recent years, and we expect this trend to continue. To optimize the mobile shopping experience, we are somewhat dependent on our customers downloading our specific mobile applications for their particular devices as opposed to accessing our sites from an internet browser on their mobile device. As new mobile devices and platforms are released, it is difficult to predict the problems we may encounter in developing applications for these alternative devices and platforms, and we may need to devote significant resources to the development, support and maintenance of such applications. In addition, our future growth and our results of operations could suffer if we experience difficulties in the future in integrating our mobile applications into mobile devices, if problems arise with our relationships with providers of mobile operating systems or mobile application stores, if our applications receive unfavorable treatment compared to competing applications on the stores, or if we face increased costs to distribute or market our mobile applications. We are further dependent on the interoperability of our sites with popular mobile operating systems that we do not control, such as iOS and Android, and any changes in such systems that degrade the functionality of our sites or mobile applications or give preferential treatment to competitive products could adversely affect the usage of our sites on mobile devices or mobile applications. In the event that it is more difficult for our customers to access and use our sites on their mobile devices or mobile applications, or if our customers choose not to access or to use our sites on their mobile devices or to use mobile products that do not offer access to our sites or incompatible with our mobile applications, our customer growth could be harmed and our business, financial condition and operating results may be adversely affected.

Failure to protect confidential information of our customers and network against security breaches could damage our reputation and brand and substantially harm our business and results of operations.

A significant challenge to the online retail industry is the secure storage of confidential information and its secure transmission over public networks. The majority of the orders and some of the payments for products we offer are made through our website and our mobile applications. In addition, some online payments for our products are settled through third-party online payment services providers. We also share certain non-sensitive personal information about our customers with contracted third-party couriers that are consented by our customers in advance, such as their names, addresses, phone numbers and transaction records.

Maintaining complete security for the storage and transmission of confidential information on our technology platform, such as customer names, personal information and billing addresses, is essential to maintaining customer confidence. We have adopted security policies and measures, including encryption technology, to protect our proprietary data and customer information. However, advances in technology, hacking, new discoveries in the field of cryptography or other events or developments could result in a compromise or breach of the technology that we use to protect confidential information. We may not be able to prevent third parties, especially hackers or other individuals or entities engaging in similar activities, from illegally obtaining such confidential or private information we hold as a result of customer visits to our website and use of our mobile applications. Such individuals or entities obtaining our customers' confidential or private information may further engage in various other illegal activities using such information. In addition, we have limited control or influence over the security policies or measures adopted by third-party providers of online payment services, through which some of our customers may elect to make payment for purchases. Our contracted third-party delivery companies we use may also violate their confidentiality obligations and disclose or use information about our customers illegally. Any negative publicity on our website's or mobile applications' safety or privacy protection mechanisms and policies, and any claims asserted against us or fines imposed upon us as a result of actual or perceived failures, could have a material and adverse effect on our public image, reputation, financial condition and results of operations. We cannot assure you that events of security breaches will not occur in the future. If we grant third parties greater access to our technology platform in the future as part of providing more technology services to third-party merchants and others, it may become more challenging for us to ensure the security of our systems. Any compromise of our information security or the information security measures of our contracted third-party couriers or third-party online payment service providers could have a material and adverse effect on our reputation, business, prospects, financial condition and results of operations.

Practices regarding the collection, use, storage, transmission and security of personal information by companies operating over the internet and mobile platforms have recently been subject to increased public scrutiny. As online retail continues to evolve, we believe that there will likely be increased regulation by the PRC government of data privacy on the internet. We may become subject to new laws and regulations on the solicitation, collection, processing or use of personal or consumer information that could affect how we store, process and share data with our customers, suppliers and third-party sellers. We generally comply with industry standards for data privacy and are subject to the terms of our own privacy policies. Compliance with any additional laws could be expensive, and may place restrictions on the conduct of our business and the manner in which we interact with our customers. Any failure to comply with applicable regulations could also result in regulatory enforcement actions against us.

Significant capital and other resources may be required to protect against information security breaches or to alleviate problems caused by such breaches or to comply with our privacy policies or privacy-related legal obligations. The resources required may increase over time as the methods used by hackers and others engaged in online criminal activities are increasingly sophisticated and constantly evolving. Any failure or perceived failure by us to prevent information security breaches or to comply with privacy policies or privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other customer data, could cause our customers to lose trust in us and could expose us to legal claims. Any perception by the public that online transactions or the privacy of user information are becoming increasingly unsafe or vulnerable to attacks could inhibit the growth of online retail and other online services generally, which may reduce the number of orders we receive.

The wide variety of payment methods that we accept subjects us to third-party payment processing-related risks.

We provide our customers with a variety of payment options, including online payments with credit cards and debit cards issued by major banks in China, payment through major third-party online payment platforms, such as Alipay, UnionPay and Wechat Pay, bank transfers, cash on delivery (for products with low purchase prices) and payment using our store credits. In 2016, we launched Secoo Check at our online platform, through which our customers can make payments for our merchandise products in installments. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower our profit margins. We may also be subject to fraud and other illegal activities in connection with the various payment methods we offer, including online payment and cash on delivery options.

We also rely on third parties to provide payment processing services. Given that customers place their orders online but may choose the cash-on-delivery option, the delivery personnel of our contracted third-party delivery companies collect payments on our behalf, and we require the contracted third-party couriers to remit the payment collected to us on a weekly basis. If these companies fail to remit the payment collected to us in a timely fashion or at all, if they become unwilling or unable to provide these services to us, or if their service quality deteriorates, our business could be disrupted. We are also subject to various rules, regulations and requirements, regulatory or otherwise, governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. If we fail to comply with these rules or requirements, we may be subject to fines and higher transaction fees and become unable to accept credit and debit card payments from our customers, process electronic funds transfers or facilitate other types of online payments, and our business, financial condition and results of operations could be materially and adversely affected.

Our delivery, return and exchange policies may adversely affect our results of operations.

We have adopted shipping policies that do not necessarily pass the full shipping cost on to our customers. We may also be required by laws and regulations to adopt new or amend existing return and exchange policies from time to time. For example, pursuant to the amended Consumer Protection Law, which became effective in March 2014, consumers are generally entitled to return products purchased within seven days upon receipt without giving any reasons when they purchase the products from business operators on the internet. See “Item 4.B. Business Overview—Regulation—Regulations Relating to Product Quality and Consumer Protection.” These policies improve customers’ shopping experience and promote customer loyalty, which in turn help us acquire and retain customers. However, these policies also subject us to additional costs and expenses which we may not recoup through increased revenue. Our ability to handle a large volume of returns is unproven. If our return and exchange policy is misused by a significant number of customers, our costs may increase significantly and our results of operations may be materially and adversely affected. If we revise these policies to reduce our costs and expenses, our customers may be dissatisfied, which may result in loss of existing customers or failure to acquire new customers in a timely manner, which may materially and adversely affect our results of operations.

Our use of some leased properties could be challenged by third parties or government authorities, which may cause interruptions to our business operations.

As of the date of this annual report, we leased 31 properties for our offices, offline experience centers, logistics centers, customer service center, and parking lots. The lessors of some leased properties have not been able to provide proper ownership certificates for the properties that we lease or prove their rights to sublease the properties to us or do not hold legal certificates to legally lease properties to us. If our lessors are not the owners of the properties and they have not obtained consents from the owners or their lessors or permits from the relevant government authorities, our leases could be invalidated. If this occurs, we may have to renegotiate the leases with the owners or the parties who have the right to lease the properties, and the terms of the new leases may be less favorable to us.

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

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

We adopted a share incentive plan in December 2014, or the 2014 Plan. Under the 2014 Plan, we are authorized to grant options or share purchase rights to purchase up to 1,307,672 ordinary shares as of the date of this annual report. In 2017, we, adopted a 2017 Employee Stock Incentive Plan, or the 2017 Plan, which has replaced all of the 2014 Plan in its entirety. The awards granted and outstanding under the 2014 Plan has survived the termination of the 2014 Plan and remains effective and binding under the 2014 Plan. As of December 31, 2019, options to purchase 1,176,888 ordinary shares are issued and outstanding under the 2014 and 2017 Plan. We have recognized share-based compensation expense in the amount of RMB8.8 million (US$1.3 million) for the year ended December 31, 2019. We believe the granting of share-based compensation is of significant importance to our ability to attract and retain key personnel and employees, and we will continue to grant share-based compensation to employees in the future. As a result, our expenses associated with share-based compensation may increase, which may have an adverse effect on our results of operations.

Our results of operations are subject to seasonal fluctuations.

We experience seasonality in our business, reflecting a combination of traditional retail seasonality patterns and new patterns associated with online retail in particular. For example, we generally experience less user traffic and purchase orders during national holidays in China, particularly during the Chinese New Year holiday season in the first quarter of each year. Furthermore, sales in the traditional retail industry are significantly higher in the fourth quarter of each calendar year than in the preceding three quarters. Many e-commerce companies in China hold special promotional campaigns on festivals or days popular among young people, many of which fall in the fourth quarter. We also hold a special promotional campaign in December each year. These special promotional campaigns typically increase the revenues in the relevant quarters. Our financial condition and results of operations for future periods may continue to fluctuate. As a result, the trading price of our ADSs may fluctuate from time to time due to seasonality.

Future strategic alliances, investments or acquisitions may have a material and adverse effect on our business, reputation and results of operations.

We may in the future enter into strategic alliances with various third parties to further our business purposes from time to time. Strategic alliances with third parties could subject us to a number of risks, including risks associated with sharing proprietary information, non-performance by the counterparty, and an increase in expenses incurred in establishing new strategic alliances, any of which may materially and adversely affect our business. We may have little ability to control or monitor their actions. To the extent the third parties suffer negative publicity or harm to their reputations from events relating to their business, we may also suffer negative publicity or harm to our reputation by virtue of our association with such third parties.

In addition, if we are presented with appropriate opportunities, we may invest in or acquire additional assets, technologies or businesses that are complementary to our existing business. Future investments or acquisitions and the subsequent integration of new assets and businesses into our own would require significant attention from our management and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our business operations. The costs of identifying and consummating investments and acquisitions may be significant. We may also incur significant expenses in obtaining necessary approvals from relevant government authorities in China and elsewhere in the world. Acquired assets or businesses may not generate the financial results we expect. In addition, investments and acquisitions could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, the occurrence of significant goodwill impairment charges, amortization expenses for other intangible assets and exposure to potential unknown liabilities of the acquired business. The cost and duration of integrating newly acquired businesses could also materially exceed our expectations. Any such negative developments could have a material adverse effect on our business, financial condition and results of operations.

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

We regard our trademarks, copyrights, patents, domain names, know-how, proprietary technologies, and similar intellectual property as critical to our success, and we rely on a combination of intellectual property laws and contractual arrangements, including confidentiality, invention assignment and non-compete agreements with our employees and others, to protect our proprietary rights. Although we are not aware of any copycat websites or platforms that attempt to cause confusion or diversion of traffic from us at the moment, we may become an attractive target to such attacks in the future because of our brand recognition in the online retail industry in China. Despite these measures, any of our intellectual property rights could be challenged, invalidated, circumvented or misappropriated, or such intellectual property may not be sufficient to provide us with competitive advantages. Further, because of the rapid technological changes in our industry, parts of our business rely on technologies developed or licensed by third parties, and we may not be able to obtain or continue to obtain licenses and technologies from these third parties at all or on reasonable terms.

It is often difficult to register, maintain and enforce intellectual property rights in China. Statutory laws and regulations are subject to judicial interpretation and enforcement and may not be applied consistently due to the lack of clear guidance on statutory interpretation. Confidentiality and non-compete agreements may be breached by counterparties, and there may not be adequate remedies available to us for any such breach. Accordingly, we may not be able to effectively protect our intellectual property rights or to enforce our contractual rights in China. Policing any unauthorized use of our intellectual property is difficult and costly and the steps we take may be inadequate to prevent the infringement or misappropriation of our intellectual property. In the event that we resort to litigation to enforce our intellectual property rights, such litigation could result in substantial costs and a diversion of our managerial and financial resources, and could put our intellectual property at risk of being invalidated or narrowed in scope. We can provide no assurance that we will prevail in such litigation, and even if we do prevail, we may not obtain a meaningful recovery. In addition, our trade secrets may be leaked or otherwise become available to, or be independently discovered by, our competitors. Any failure in maintaining, protecting or enforcing our intellectual property rights could have a material adverse effect on our business, financial condition and results of operations.

We may be subject to intellectual property infringement claims, which may be expensive to defend and may disrupt our business and operations.

We cannot be certain that our operations or any aspects of our business do not or will not infringe upon or otherwise violate trademarks, patents, copyrights or other intellectual property rights held by third parties. We have been, and from time to time in the future may be, subject to legal proceedings and claims relating to the intellectual property rights of others. In addition, there may be other third-party intellectual property that is infringed by our products, services or other aspects of our business. We cannot assure you that holders of patents or trademarks purportedly relating to some aspect of our technology platform or business, if any such holders exist, would not seek to enforce such patents against us in China, the United States or any other jurisdictions. If we are found to have violated the intellectual property rights of others, we may be subject to liability for our infringement activities or may be prohibited from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives of our own. In addition, we may incur significant expenses, and may be forced to divert management's time and other resources from our business and operations to defend against these third-party infringement claims, regardless of their merits. Successful infringement or licensing claims made against us may result in significant monetary liabilities and may materially disrupt our business and operations by restricting or prohibiting our use of the intellectual property in question. Finally, we use open source software in connection with our products and services. Companies that incorporate open source software into their products and services have, from time to time, faced claims challenging the ownership of open source software and compliance with open source license terms. As a result, we could be subject to suits by parties claiming ownership of what we believe to be open source software or noncompliance with open source licensing terms. Some open source software licenses require users who distribute open source software as part of their software to publicly disclose all or part of the source code to such software and make available any derivative works of the open source code on unfavorable terms or at no cost. Any requirement to disclose our source code or pay damages for breach of contract could be harmful to our business, results of operations and financial condition.

We have limited insurance coverage which could expose us to significant costs and business disruption.

We maintain various insurance policies to safeguard against risks and unexpected events. We have purchased property insurance covering our high-valued inventory in our logistics centers and our products sold under our cash on delivery payment method in transit.

We also provide social security insurance including pension insurance, unemployment insurance, work-related injury insurance and medical insurance for our employees. However, as the insurance industry in China is still in an early stage of development, insurance companies in China currently offer limited business-related insurance products. We do not maintain business interruption insurance or product liability insurance, nor do we maintain key-man life insurance. We cannot assure you that our insurance coverage is sufficient to prevent us from any loss or that we will be able to successfully claim our losses under our current insurance policy on a timely basis, or at all. If we incur any loss that is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our business, financial condition and results of operations could be materially and adversely affected.

One of our existing shareholders has substantial influence over our company and his interests may not be aligned with the interests of our other shareholders and holders of our ADSs.

Currently, Mr. Richard Rixue Li, our founder, director and chief executive officer beneficially owns 21.7% of our outstanding shares. As a result of his significant shareholding, Mr. Li has significant influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. He may take actions that are not in the best interests of us or our other shareholders. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our ADSs. These actions may be taken even if they are opposed by our other shareholders, including those who hold ADSs. For more information regarding our principal shareholders and their affiliated entities, see “Item 7.A. Major Shareholders.”

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share in respect of matters requiring the votes of shareholders, while holders of Class B ordinary shares are entitled to twenty votes per share, subject to certain exceptions. We issued Class A ordinary shares represented by our ADSs in our initial public offering. Our founder, director and chief executive officer, Mr. Richard Rixue Li, who acquired our shares prior to our initial public offering, beneficially holds our Class B ordinary shares. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof, while Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Each Class B ordinary share shall automatically be converted into one Class A ordinary share without any action being required by the holders of Class B ordinary shares and whether or not the certificates representing such shares are surrendered to our company or our transfer agent, if at any time Mr. Li and his affiliates collectively hold less than 50% of the issued Class B ordinary shares in the capital of our company, and no Class B ordinary shares shall be issued by our company thereafter.

Due to the disparate voting powers associated with our two classes of ordinary shares, as of the date of this annual report, Mr. Li beneficially owns 84.7% of the aggregate voting power of our company through Siku Holding Limited. As a result, Mr. Li will have control over matters such as electing directors and approving material mergers, acquisitions or other business combination transactions. This concentrated control will limit your ability to influence corporate matters and could also discourage others from pursuing any potential merger, takeover or other change of control transactions, which could have the effect of depriving the holders of our Class A ordinary shares and our ADSs of the opportunity to sell their shares at a premium over the prevailing market price.

Changes in U.S. and international trade policies, particularly with regard to China, may adversely impact our business and operating results.

The U.S. government made statements and taken certain actions that may lead to potential changes to U.S. and international trade policies towards China. In January 2020, the "Phase One" agreement was signed between the United States and China on trade matters. However, it remains unclear what additional actions, if any, will be taken by the U.S. or other governments with respect to international trade agreements, the imposition of tariffs on goods imported into the U.S., tax policy related to international commerce, or other trade matters. While cross-border business may not be an area of our focus, any unfavorable government policies on international trade, such as capital controls or tariffs, may affect the demand for our products and services, impact the competitive position of our products or prevent us from selling products in certain countries. If any new tariffs, legislation and/or regulations are implemented, or if existing trade agreements are renegotiated, or, in particular, if the U.S. government takes retaliatory trade actions due to the recent U.S.-China trade tension, such changes could have an adverse effect on our business, financial condition and results of operations.

We face risks related to natural disasters, health epidemics and other outbreaks, such as the outbreak of COVID-19, which could significantly disrupt our operations.

Our business could be adversely affected by the effects of epidemics, including COVID-19, avian influenza, severe acute respiratory syndrome (SARS), influenza A (H1N1), Ebola or another epidemic, for instance the recent outbreak of COVID-19 which spread globally. Any such occurrences could cause severe disruption to our daily operations and may even require a temporary closure of our offices and facilities. In recent years, there have been outbreaks of epidemics in China and globally. For example, in early 2020, in connection with the intensifying efforts to contain the spread of COVID-19, the Chinese government took a number of actions, which included extending the Chinese New Year holiday, quarantining individuals infected with or suspected of having COVID-19, prohibiting residents from free travel, encouraging employees of enterprises to work remotely from home and cancelling public activities, among others. The COVID-19 has also resulted in temporary closure of many corporate offices, retail stores, manufacturing facilities and factories across China. We have taken a series of measures in response to the outbreak to protect our employees, including temporarily closing offices, facilitating remote working arrangements for our employees and cancelling business meetings and travel. These measures could reduce the capacity and efficiency of our operations and negatively impact the procurement of products, which in turn could negatively affect our results of operations. The extent to which COVID-19 impacts our results of operations will depend on the future developments of the outbreak, including new information concerning the global severity of and actions taken to contain the outbreak, which are highly uncertain and unpredictable. In addition, our results of operations could be adversely affected to the extent that the outbreak harms the Chinese economy in general. To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described in this annual report.

In addition to the impact of COVID-19, our business could be materially and adversely affected by natural disasters, other health epidemics or other public safety concerns affecting China, and particularly Beijing, where our headquarters are located. Natural disasters may give rise to server interruptions, breakdowns, system failures, technology platform failures or internet failures, which could disrupt our ability to operate our business and provide services. Our business could also be adversely affected if our employees are affected by health epidemics. In addition, our results of operations could be adversely affected to the extent that any health epidemic harms the Chinese economy in general. Consequently, if any natural disasters, health epidemics or other public safety concerns were to affect China, our operation may experience material disruptions, which may materially and adversely affect our business, financial condition and results of operations.

Our business has been and is likely to continue to be materially adversely affected by the outbreak of COVID-19 in China.

Recently, there was an outbreak of COVID-19 which has spread rapidly to many parts of the world. In March 2020, the World Health Organization declared COVID-19 a pandemic. The pandemic has resulted in quarantines, travel restrictions, the temporary closure of stores and facilities, and reducing budgets for advertising and marketing globally for the past few months. The population in most of the major cities in China was subject to lockdown, travel restrictions or other form of quarantine of various degrees. Most of our employees are located in Beijing. After the extended Chinese New Year Holiday, we prioritized the health and safety of our employees and implemented temporary remote working arrangements until the end of March. Normal economic life throughout China was sharply curtailed during the outbreak and opportunities for discretionary consumption were limited.

Consequently, our results of operations will likely be adversely, and may be materially, affected, to the extent that COVID-19 harms the Chinese and global economy in general. Any potential impact to our results will depend on, to a large extent, future developments and new information that may emerge regarding the duration and severity of COVID-19 and the actions taken by government authorities and other entities to contain COVID-19 or treat its impact, almost all of which are beyond our control. Potential impacts include, but are not limited to, the following:

· temporary closure of offices, travel restrictions or suspension of services of our customers and suppliers have negatively affected, and could continue to negatively affect, the demand for our services;

· our customers are mainly individuals who may be cut down by COVID-19, they are likely to decrease their budgets for upscale products and lifestyle services, which could in turn materially and negatively affect our business and results of operations;

· any disruption of our supply chain, logistics providers could adversely impact our business and results of operations, including causing our suppliers to cease manufacturing products for a period of time or materially delay delivery to customers, which may also lead to loss of customers, as well as reputational, competitive and business harm to us; and

· corporate social responsibility initiatives we put forth in response to the outbreak, such as, our efforts to leverage our technology, products and services to help contain the epidemic, may negatively affect our financial condition and operating results.

Since March, the situation in China has appeared to be on a path of slow recovery from the impact. While many of the restrictions on movement within China have been relaxed as of the date of this annual report, there is great uncertainty as to the future progress of the disease. Currently, there is no vaccine or specific anti-viral treatment for COVID-19. Relaxation of restrictions on economic and social life may lead to new cases which may lead to the re-imposition of restrictions. Our business and financial performance have been adversely affected by the outbreak of coronavirus in China and globally since the beginning of 2020. As a result, we expect soft performance in the first quarter of 2020. The full extent to which COVID-19 will impact our financial results and business condition will depend on future developments, which cannot be predicted.

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

COVID-19 had a severe and negative impact on the Chinese and the global economy in the first quarter of 2020. Whether this will lead to a prolonged downturn in the economy is still unknown. Even before the outbreak of COVID-19, the global macroeconomic environment was facing numerous challenges. The growth rate of the Chinese economy had already been slowing since 2010. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies which had been adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and China, even before 2020. Unrest, terrorist threats and the potential for war in the Middle East and elsewhere may increase market volatility across the globe. There have also been concerns about the relationship between China and other countries, including the surrounding Asian countries, which may potentially have economic effects. In particular, there is significant uncertainty about the future relationship between the United States and China with respect to trade policies, treaties, government regulations and tariffs. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. The recent COVID-19 pandemic has also caused significant downward pressure for the global economy. Any severe or prolonged slowdown in the global or Chinese economy may materially and adversely affect our business, results of operations and financial condition.

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

Auditors of companies that are registered with the SEC and traded publicly in the United States, including our independent registered public accounting firm, must be registered with the U.S. Public Company Accounting Oversight Board (United States), or PCAOB, and are subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess their compliance with the relevant professional standards. Because our auditor is located in the People's Republic of China, a jurisdiction where the PCAOB has been unable to conduct inspections without the approval of the PRC authorities, our auditor is nor currently inspected by the PCAOB. In May 2013, the PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the CSRC and the PRC Ministry of Finance, which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations undertaken by the PCAOB, the CSRC or the PRC Ministry of Finance in the United States and the PRC, respectively. The PCAOB continues to be in discussions with the CSRC and the PRC Ministry of Finance to permit joint inspections in the PRC of audit firms that are registered with the PCAOB and audit Chinese companies that trade on U.S. exchanges. On December 7, 2018, the SEC and the PCAOB issued a joint statement highlighting continued challenges faced by the U.S. regulators in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. However, it remains unclear what further actions the SEC and PCAOB will take to address the problem. On April 21, 2020, the SEC and the PCAOB issued another joint statement reiterating the greater risk that disclosures will be insufficient in many emerging markets, including China, compared to those made by U.S. domestic companies. In discussing the specific issues related to the greater risk, the statement again highlights the PCAOB's inability to inspect audit work paper and practices of accounting firms in China, with respect to their audit work of U.S. reporting companies. On June 4, 2020, the U.S. President issued a memorandum ordering the President's Working Group on Financial Markets to submit a report to the President within 60 days of the memorandum that includes recommendations for actions that can be taken by the executive branch and by the SEC or PCAOB on Chinese companies listed on U.S. stock exchanges and their audit firms, in an effort to protect investors in the U.S.

The PCAOB's inspections of other firms outside China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The lack of PCAOB's inspections in China prevents the PCAOB from regularly evaluating audits and quality control procedures of any auditors operating in China ,including our auditor. As a result, investors may be deprived of the benefits of PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

As part of a continued regulatory focus in the United States on access to audit and other information currently protected by national law, in particular China's, in June 2019, a bipartisan group of lawmakers introduced bills in both houses of the U.S. Congress, which if passed, would require the SEC to maintain a list of issuers for which the PCAOB is not able to inspect or investigate an auditor report issued by a foreign public accounting firm. The proposed Ensuring Quality Information and Transparency for Abroad-Based Listings on our Exchanges (EQUITABLE) Act prescribes increased disclosure requirements for these issuers and, beginning in 2025, the delisting from U.S. national securities exchanges of issuers included on the SEC's list for three consecutive years. On May 20, 2020, the U.S. Senate passed S. 945, the Holding Foreign Companies Accountable Act (the "Kennedy Bill"). If passed by the U.S. House of Representatives and signed by the U.S. President, the Kennedy Bill would amend the Sarbanes-Oxley Act of 2002 to direct the SEC to prohibit securities of any registrant from being listed on any of the U.S. securities exchanges or traded "over-the-counter" if the auditor of the registrant's financial statements is not subject to PCAOB inspection for three consecutive years after the law becomes effective. Enactment of any of such legislations or other efforts to increase U.S. regulatory access to audit information could cause investor uncertainty for affected issuers, including us, the market price of our ADSs could be adversely affected, and we could be delisted if we are unable to cure the situation to meet the PCAOB inspection requirement in time. It is unclear if and when any of such proposed legislations will be enacted. Furthermore, there have been recent media reports on deliberations within the U.S. government regarding potentially limiting or restricting China-based companies from accessing U.S. capital markets. If any such deliberations were to materialize, the resulting legislation may have material and adverse impact on the stock performance of China-based issuers listed in the United States.

If additional remedial measures are imposed on the Big Four PRC-based accounting firms, including our independent registered public accounting firm, in administrative proceedings brought by the SEC alleging the firms' failure to meet specific criteria set by the SEC, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act.

In December 2012, the SEC instituted administrative proceedings against the Big Four PRC-based accounting firms, including our independent registered public accounting firm, alleging that these firms had violated U.S. securities laws and the SEC's rules and regulations thereunder by failing to provide to the SEC the firms' audit work papers with respect to certain PRC-based companies that are publicly traded in the United States. On January 22, 2014, the administrative law judge, or the ALJ, presiding over the matter rendered an initial decision that each of the firms had violated the SEC's rules of practice by failing to produce audit work papers to the SEC. The initial decision censured each of the firms and barred them from practicing before the SEC for a period of six months. The Big Four PRC-based accounting firms appealed the ALJ's initial decision to the SEC. The ALJ's decision did not take effect unless and until it is endorsed by the SEC. On February 6, 2015, the four China-based accounting firms each agreed to a censure and to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC and audit U.S.-listed companies. The settlement required the firms to follow detailed procedures and to seek to provide the SEC with access to Chinese firms' audit documents via the CSRC in response to future document requests by the SEC made through the CSRC. The four-year mark occurred on February 6, 2019. If the accounting firms are subject to additional remedial measures, our ability to file our financial statements in compliance with SEC requirements could be impacted. A determination that we have not timely filed financial statements in compliance with SEC requirements could ultimately lead to the delisting of our ADSs from the NASDAQ Global Market or the termination of the registration of our ADSs under the Exchange Act, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

Risks Related to Our Corporate Structure

If the PRC government deems that the contractual arrangements in relation to Beijing Wo Mai Wo Pai Auction Co., Ltd ("Beijing Auction") and Beijing Secoo Trading Ltd. ("Beijing Secoo") do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.

Foreign ownership of certain internet related businesses is subject to restrictions under current PRC laws and regulations. For example, foreign investors are not allowed to own more than 50% of the equity interests in a value-added telecommunication service provider (subject to exceptions, such as platform e-commerce) and any such foreign investors must have experience in providing value-added telecommunication services overseas and maintain a good track record in accordance with the Special Management Measures (Negative List) for the Access of Foreign Investment (2019 Edition), or the 2019 Negative List, and other applicable PRC laws and regulations. The MIIT issued the Circular on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business, or the MIIT Circular, in July 2006. The MIIT Circular reiterated the regulations on foreign investment in telecommunications businesses, which require foreign investors to set up foreign invested enterprises and obtain business operating licenses for internet content provision to conduct any value-added telecommunications business in China. Under the MIIT Circular, a domestic company that holds an ICP license or EDI license is prohibited from leasing, transferring or selling the license to foreign investors in any form, and from providing any assistance, including providing resources, sites or facilities, to foreign investors that conduct value-added telecommunication business illegally in China.

We are a Cayman Islands company and our PRC subsidiaries are considered foreign-invested enterprises. Accordingly, none of these PRC subsidiaries is eligible to provide value-added telecommunication services in China. As a result, we conduct such business activities through our affiliated PRC entities Beijing Secoo and Beijing Auction, each of which holds an ICP license and Beijing Secoo also holds an EDI license. Beijing Auction and Beijing Secoo are 90% owned by Mr. Richard Rixue Li, our founder, director and chief executive officer, and 10% owned by Ms. Zhaohui Huang, our founder. Mr. Li and Ms. Huang are both PRC citizens. We have entered into a series of contractual arrangements with Beijing Auction and Beijing Secoo and their respective shareholders, which enable us to:

- exercise effective control over Beijing Secoo and Beijing Auction;
- receive substantially all of the economic benefits of Beijing Secoo and Beijing Auction; and
- have an exclusive option to purchase all or part of the equity interests in Beijing Auction and Beijing Secoo when and to the extent permitted by PRC law.

Because of these contractual arrangements, we are the primary beneficiary of Beijing Secoo and Beijing Auction and hence consolidate their financial results as our variable interest entities. For a detailed discussion of these contractual arrangements, see “Item 4.C. Organizational Structure — Contractual Arrangements with our Variable Interests Entities and their Shareholders.”

In the opinion of Han Kun Law Offices, our PRC legal counsel, (i) the ownership structures of Kutianxia Information, our PRC subsidiary, and Beijing Auction and Beijing Secoo, our variable interest entities in China, as of the date of this annual report, are not in violation of existing PRC laws and regulations; and (ii) the contractual arrangements between our PRC subsidiary, our variable interest entities, and their respective shareholders governed by PRC law are valid, binding and enforceable, and will not result in any violation of PRC laws or regulations currently in effect. However, our PRC legal counsel has also advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules; accordingly, the PRC regulatory authorities may take a view that is contrary to the opinion of our PRC legal counsel. It is uncertain whether any new PRC laws or regulations relating to variable interest entity structures will be adopted or if adopted, what they would provide. If we or any of our variable interest entities is found to be in violation of any existing or future PRC laws or regulations, or fails to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures, including:

- revoking the business licenses of such entities;
- discontinuing or restricting the conduct of any transactions between certain of our PRC subsidiaries and variable interest entities;
- imposing fines, confiscating the income from our variable interest entities, or imposing other requirements with which we or our variable interest entities may not be able to comply;
- requiring us to restructure our ownership structure or operations, including terminating the contractual arrangements with our variable interest entities and deregistering the equity pledges of our variable interest entities, which in turn would affect our ability to consolidate, derive economic interests from, or exert effective control over our variable interest entities; or
- restricting or prohibiting our use of the proceeds of our initial public offering to finance our business and operations in China.

The imposition of any of these penalties would result in a material and adverse effect on our ability to conduct our business. In addition, it is unclear what impact the PRC government actions would have on us and on our ability to consolidate the financial results of Beijing Auction and Beijing Secoo in our consolidated financial statements, if the PRC government authorities were to find our legal structure and contractual arrangements to be in violation of PRC laws and regulations. If the imposition of any of these government actions causes us to lose our right to direct the activities of Beijing Secoo and Beijing Auction or our right to receive substantially all the economic benefits and residual returns from Beijing Secoo and Beijing Auction and we are not able to restructure our ownership structure and operations in a satisfactory manner, we would no longer be able to consolidate the financial results of Beijing Secoo and Beijing Auction in our consolidated financial statements. Either of these results, or any other significant penalties that might be imposed on us in this event, would have a material adverse effect on our financial condition and results of operations.

We rely on contractual arrangements with our variable interest entities and their shareholders for substantially all of our business operations, which may not be as effective as direct ownership in providing operational control.

Due to the restrictions on foreign ownership of internet-based businesses in China, we depend on contractual arrangements with our consolidated variable interest entities, Beijing Auction and Beijing Secoo, in which we have no ownership interest, to conduct certain aspects of our operation. We have relied and expect to continue to rely on contractual arrangements with Beijing Auction and Beijing Secoo and their shareholders to hold our ICP license as an internet information provider, our EDI license as an e-commerce transaction platform and our auction business permit, respectively. For a description of these contractual arrangements, see "Item 4.C. Organizational Structure—Contractual Arrangements with our Variable Interests Entities and their Shareholders." These contractual arrangements may not be as effective as direct ownership in providing us with control over our variable interest entities. For example, our variable interest entities and their respective shareholders could breach their contractual arrangements with us by, among other things, failing to conduct their operations, including maintaining our website and using the domain names and trademarks, in an acceptable manner or taking other actions that are detrimental to our interests.

If we had direct ownership of Beijing Auction and Beijing Secoo, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of Beijing Auction and Beijing Secoo, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. However, under the current contractual arrangements, we rely on the performance by our variable interest entities and their respective shareholders of their obligations under the contracts to exercise control over our variable interest entities. However, the shareholders of our variable interest entities may not act in the best interests of our company or may not perform their obligations under these contracts. Such risks exist throughout the period in which we intend to operate our business through the contractual arrangements with our variable interest entities. We may replace the shareholders of our variable interest entities at any time pursuant to our contractual arrangements with them and their shareholders. However, if any dispute relating to these contracts remains unresolved, we will have to enforce our rights under these contracts through the operations of PRC law and courts and therefore will be subject to uncertainties in the PRC legal system. See "Item 3.D. Risk Factors—Risks Related to Our Corporate Structure—Any failure by our variable interest entities or their shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on our business." Therefore, our contractual arrangements with our variable interest entities may not be as effective in ensuring our control over the relevant portion of our business operations as direct ownership would be.

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

On January 1, 2020, the Foreign Investment Law and the Regulations for Implementation of the Foreign Investment Law, or the Implementation Regulations, came into effect and replaced the trio of prior laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations.

The Foreign Investment Law and the Implementation Regulations embody an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. However, since they are relatively new, uncertainties still exist in relation to its interpretation and implementation. For instance, under the Foreign Investment Law, "foreign investment" refers to the investment activities directly or indirectly conducted by foreign individuals, enterprises or other entities in China. Though it does not explicitly classify contractual arrangements as a form of foreign investment, there is no assurance that foreign investment via contractual arrangement would not be interpreted as a type of indirect foreign investment activities under the definition in the future. In addition, the definition contains a catch-all provision which includes investments made by foreign investors through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions promulgated by the Stale Council to provide for contractual arrangements as a form of foreign investment. In any of these cases, it will be uncertain whether our contractual arrangements will be deemed to be in violation of the market access requirements for foreign investment under the PRC laws and regulations. The "variable interest entity" structure, or VIE structure, has been adopted by many PRC-based companies, including us, to obtain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions in China. See "—Risks Related to Our Corporate Structure" and Item 4.C "—Organizational Structure."

Furthermore, if future laws, administrative regulations or provisions prescribed by the State Council mandate further actions to be taken by companies with respect to existing contractual arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure, corporate governance and business operations.

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

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

All the agreements under our contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal system in the PRC is not as developed as in some other jurisdictions, such as the United States. See "Item 3.D. Risk Factors—Risks Related to Doing Business in China—Uncertainties with respect to the PRC legal system could adversely affect us." Meanwhile, there are very few precedents and little formal guidance as to how contractual arrangements in the context of a variable interest entity should be interpreted or enforced under PRC law, and as a result it may be difficult to predict how an arbitration panel would view such contractual arrangements. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. Additionally, under PRC law, rulings by arbitrators are final, parties cannot appeal the arbitration results in courts, and if the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would require additional expenses and delay. Furthermore, if Beijing Secoo, Beijing Auction or the shareholders of Beijing Secoo and Beijing Auction fail to perform their obligations under these contractual arrangements, which allow us to maintain effective control over Beijing Secoo and Beijing Auction, we may not be able to continue to consolidate the financial results and assets and liabilities of Beijing Secoo and Beijing Auction and their subsidiaries in our consolidated financial statements in accordance with U.S. GAAP. Furthermore, our inability to exert effective control may negatively affect our ability to conduct our business, which could materially and adversely affect our results of operations and financial condition.

Our variable interest entities hold our ICP license, EDI license and auction business license and conduct our online sales and auctions businesses. In the event we are unable to enforce our contractual arrangements, we may not be able to exert effective control over our variable interest entities, and our ability to conduct these businesses may be negatively affected. We generate the majority of our revenues from products and services that are offered to customers through our website and mobile applications and any interruption in our ability to use our website and mobile applications may have a material and adverse effect on our financial condition and results of operations.

The shareholders of our variable interest entities may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.

Mr. Richard Rixue Li and Ms. Zhaohui Huang are the shareholders of each of our variable interest entities, Beijing Auction and Beijing Secoo. Mr. Richard Rixue Li is our founder, director and chief executive officer, while Ms. Zhaohui Huang is our founder. Mr. Richard Rixue Li and Ms. Zhaohui Huang holds 87.6% and 0.2% of the total voting rights of our company as of December 31, 2019, respectively, assuming the exercise of all outstanding options held by Mr. Richard Rixue Li and Ms. Zhaohui Huang as of such date. The equity interests of variable interest entities are legally held by Mr. Richard Rixue Li and Ms. Zhaohui Huang as nominee equity holders on behalf of us. The shareholders of Beijing Auction and Beijing Secoo may have potential conflicts of interest with us. We cannot assure that when conflicts of interest arise, either of the nominee equity holders will act in the best interests of the company or such conflicts will be resolved in the company's favor. These shareholders may breach, or cause our variable interest entities to breach, or refuse to renew, the existing contractual arrangements we have with them and our variable interest entities, which would have a material and adverse effect on our ability to effectively control our variable interest entities and receive substantially all the economic benefits from them. For example, the shareholders may be able to cause our agreements with Beijing Auction and Beijing Secoo to be performed in a manner adverse to us by, among other things, failing to remit payments due under the contractual arrangements to us on a timely basis. We cannot assure you that when conflicts of interest arise, any or all of these shareholders will act in the best interests of our company or such conflicts will be resolved in our favor.

Currently, we do not have any arrangements to address potential conflicts of interest between these shareholders and our company, except that we could exercise the purchase option under the exclusive option agreement with the nominee equity holders to request them to transfer all of their equity ownership in VIEs to a PRC entity or individual designated by us. Mr. Richard Rixue Li is also a director and executive officer of our company. We rely on Mr. Li to abide by the laws of the Cayman Islands and the PRC, which provide that directors owe fiduciary duties to the company that require them to act in good faith and in what they believe to be the best interests of the company and not to use their position for personal gains. If we cannot resolve any conflict of interest or dispute between us and the shareholders of Beijing Auction and Beijing Secoo, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business.

We are a holding company, and we may rely on dividends and other distributions on equity paid by our PRC subsidiaries like Kutianxia for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders and service any debt we may incur. If these subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us. In addition, the PRC tax authorities may require Kutianxia to adjust its taxable income under the contractual arrangements it currently has in place with our variable interest entities in a manner that would materially and adversely affect its ability to pay dividends and other distributions to us. See "Item 3.D. Risk Factors—Risks Related to Our Corporate Structure—Contractual arrangements in relation to our variable interest entities may be subject to scrutiny by the PRC tax authorities and they may determine that we or our PRC variable interest entities owe additional taxes, which could negatively affected our financial condition and the value of your investment."

Under PRC laws and regulations, our wholly foreign-owned subsidiaries in China may pay dividends only out of their respective accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise is required to set aside at least 10% of its accumulated after-tax profits each year, if any, to fund certain statutory reserve fund, until the aggregate amount of such fund reaches 50% of its registered capital. At its discretion, a wholly foreign-owned enterprise may allocate a portion of its after-tax profits based on PRC accounting standards to enterprise expansion fund and staff welfare and bonus fund. The statutory reserve fund, enterprise expansion fund and staff welfare and bonus fund are not distributable as cash dividends.

Any limitation on the ability of our PRC subsidiaries to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business. See also "Item 3.D. Risk Factors—Risks Related to Doing Business in China—If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders."

PRC regulation on loans to and direct investment in PRC entities by offshore holding companies and governmental control in currency conversion may delay or prevent us from making loans to our PRC subsidiaries and consolidated variable interest entities or making additional capital contributions to our wholly foreign-owned subsidiaries in China, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

We are an offshore holding company conducting our operations in China through our PRC subsidiaries and consolidated variable interest entities. We may make loans to our PRC subsidiaries and consolidated variable interest entities subject to the approval from governmental authorities and limitation of amount, or we may make additional capital contributions to our wholly foreign-owned subsidiaries in China.

Any loans to our wholly foreign-owned subsidiaries in China, which are treated as foreign-invested enterprises under PRC law, are subject to PRC regulations and foreign exchange loan registrations. For example, loans by us to our wholly foreign-owned subsidiaries in China to finance their activities cannot exceed statutory limits and must be filed with the State Administration of Foreign Exchange, or SAFE. The statutory limit for the total amount of foreign debts of a foreign-invested company is the difference between the amount of total investment and the amount of registered capital of such foreign-invested company. According to two notices respectively issued by the People's Bank of China and/or SAFE regarding foreign debt on January 11, 2017 and March 11, 2020, the maximum amount of foreign debt that each of our PRC subsidiaries or consolidated variable interest entities or other PRC domestic entities is allowed to borrow is 2.5 times of their respective net assets. Pursuant to these notices, within a one-year grace period starting from January 11, 2017, the statutory limit for the total amount of foreign debt of a foreign-invested company, which is subject to its own election, is either the difference between the amount of total investment and the amount of registered capital of such foreign-invested company, or 2.5 times of its net assets. Although the one-year grace period has expired, the statutory limit is still subject to the notices in practice. With respect to our consolidated variable interest entities or other domestic PRC entities, the limit for the total amount of foreign debt is 2.5 times of their respective net assets pursuant to the notices.

We may also finance our PRC wholly foreign-owned subsidiaries by means of capital contributions, in which case such subsidiaries are required to register the details of the capital contribution with the local counterparts of the State Administration for Market Regulation, or SAMR, and submit a report on the capital contribution via the online enterprise registration system to the Ministry of Commerce. Meanwhile, we are not likely to finance the activities of our consolidated variable interest entities by means of capital contributions given the restrictions on foreign investment in the businesses that are currently conducted by our consolidated variable interest entities.

SAFE issued SAFE Circular No. 19, which took effect on June 1, 2015. SAFE Circular No. 19 allows for the use of RMB converted from the foreign currency-denominated capital for equity investments in the PRC. Foreign-invested enterprises' use of the converted RMB for purposes beyond the business scope, for entrusted loans or for inter-company RMB loans, however, are subject to SAFE restrictions under SAFE Circular No. 19. On June 9, 2016, the SAFE promulgated the Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts, or SAFE Circular No. 16. SAFE Circular No. 16 stipulates that the use of capital by foreign-invested enterprises, or FIEs shall follow "the principle of authenticity and self-use" within the business scope of such FIEs. The capital of an FIE and capital in RMB obtained by the FIE from foreign exchange settlement shall not be used for the following purposes: (i) directly or indirectly used for payment beyond the business scope of the enterprises or the payment prohibited by relevant laws and regulations; (ii) directly or indirectly used for investment in securities or investments other than banks' principal-secured products unless otherwise provided by relevant laws and regulations; (iii) the granting of loans to non-affiliated enterprises, except where it is expressly permitted in the business license; and (iv) paying the expenses related to the purchase of real estate that is not for self-use (except for the foreign-invested real estate enterprises). On October 23, 2019, the SAFE issued the Circular on Further Promoting Cross-border Trade and Investment Facilitation, or SAFE Circular No. 28. Among others, SAFE Circular No. 28 relaxes prior restrictions and allows foreign-invested enterprises that do not have equity investments in their approved business scope to use their capital obtained from foreign exchange settlement to make domestic equity investments as long as the investments are real and in compliance with the foreign investment-related laws and regulations.

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

Contractual arrangements in relation to our variable interest entities may be subject to scrutiny by the PRC tax authorities and they may determine that we or our PRC variable interest entities owe additional taxes, which could negatively affect our financial condition and the value of your investment.

Under applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that the contractual arrangements between Kutianxia, our wholly owned subsidiary in China, Beijing Auction and Beijing Secoo, our variable interest entities in China, and their respective shareholders were not entered into on an arm's-length basis in such a way as to result in an impermissible reduction in taxes under applicable PRC laws, rules and regulations, and adjust Beijing Auction and Beijing Secoo's income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction of expense deductions recorded by Beijing Auction and Beijing Secoo for PRC tax purposes, which could in turn increase their tax liabilities. In addition, the PRC tax authorities may impose punitive interest on Beijing Auction and Beijing Secoo for the adjusted but unpaid taxes at the rate of 5% over the basic RMB lending rate published by the People's Bank of China for a period according to the applicable regulations. Our financial position could be materially and adversely affected if our variable interest entities' tax liabilities increase or if they are required to pay punitive interest.

If Beijing Auction and Beijing Secoo become the subject of a bankruptcy or liquidation proceeding, we may lose the ability to use and enjoy substantially all of our assets, which could reduce the size of our operations and materially and adversely affect our business, ability to generate revenues and the market price of our ADSs.

As part of the contractual arrangements with Beijing Auction and Beijing Secoo, their shareholders and their subsidiaries, Beijing Auction and Beijing Secoo and their subsidiaries hold operating permits and licenses and substantially all of the assets that are important to the operation of our business, including our ICP license, EDI license, auction license, domain names and trademarks. We expect to continue to be dependent on Beijing Auction and Beijing Secoo and its subsidiaries to operate our business in China. If Beijing Auction and Beijing Secoo go bankrupt and all or part of their assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business activities, which would materially and adversely affect our business, financial condition and results of operations. Under the contractual arrangements, Beijing Auction and Beijing Secoo may not, in any manner, sell, transfer, mortgage or dispose of their assets or legal or beneficial interests in their business without our prior consent. If Beijing Auction and Beijing Secoo undergo a voluntary or involuntary liquidation proceeding, their equity holders or unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which would materially and adversely affect our business, our ability to generate revenues and the market price of our ADSs.

Risks Related to Doing Business in China

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

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

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

While the Chinese economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy, and the growth of the Chinese economy has slowed down in recent years, especially in light of the challenges the global economy is facing due to the COVID-19 global pandemic. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations. In addition, in the past the Chinese government has implemented certain measures, including interest rate increases, to control the pace of economic growth. These measures may cause decreased economic activity in China, which may adversely affect our business and operating results.

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

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

In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past decades has significantly enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully integrated legal system, and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited number of published decisions and their nonbinding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all, and which may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation.

Any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into and could materially and adversely affect our business and results of operations.

We are subject to consumer protection laws that could require us to modify our current business practices and incur increased costs.

We are subject to numerous PRC laws and regulations that regulate retailers generally or govern online retailers specifically, such as the Consumer Protection Law. If these regulations were to change or if we, suppliers or third-party sellers on our marketplace were to violate them, the costs of certain products or services could increase, or we could be subject to fines or penalties or suffer reputational harm, which could reduce demand for the products or services offered on our platform and hurt our business and results of operations. For example, the amended Consumer Protection Law, which became effective in March 2014, further strengthens the protection of consumers and imposes more stringent requirements and obligations on business operators, especially on businesses that operate on the internet. Pursuant to the Consumer Protection Law, consumers are generally entitled to return goods purchased within seven days upon receipt without giving any reasons if they purchased the goods over the internet. Consumers whose interests have been damaged due to their purchase of goods or acceptance of services on online marketplace platforms may claim damages from sellers or service providers. Where the operators of an online marketplace platform are unable to provide the real names, addresses and valid contact details of the sellers or service providers, the consumers may also claim damages from the operators of the online marketplace platforms. Operators of online marketplace platforms that know or should have known that sellers or service providers use their platforms to infringe upon the legitimate rights and interests of consumers but fail to take necessary measures must bear joint and several liability with the sellers or service providers. Moreover, if business operators deceive consumers or knowingly sell substandard or defective products, they should not only compensate consumers for their losses, but also pay additional damages equal to three times the price of the goods or services. Legal requirements are frequently changed and subject to interpretation, and we are unable to predict the ultimate cost of compliance with these requirements or their effect on our operations. We may be required to make significant expenditures or modify our business practices to comply with existing or future laws and regulations, which may increase our costs and materially limit our ability to operate our business.

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

The PRC government extensively regulates the internet industry, including foreign ownership of, and the licensing and permit requirements pertaining to, companies in the internet industry. These internet related laws and regulations are relatively new and evolving, and their interpretation and enforcement involve significant uncertainties. As a result, in certain circumstances it may be difficult to determine what actions or omissions may be deemed to be in violation of applicable laws and regulations. Issues, risks and uncertainties relating to PRC government regulation of the internet industry include, but are not limited to, the following:

We only have control over our website and mobile applications through contractual arrangements. We do not own the website in China due to the restriction of foreign investment in businesses providing value-added telecommunication services in China, including internet information provision services and online data processing and transaction processing services. This may significantly disrupt our business, subject us to sanctions, compromise enforceability of related contractual arrangements, or have other harmful effects on us.

The evolving PRC regulatory system for the internet industry may lead to the establishment of new regulatory agencies. For example, in May 2011, the State Council announced the establishment of a new department, the CAC. The primary role of this new agency is to facilitate the policy-making and legislative development in this field to direct and coordinate with the relevant departments in connection with online content administration and to deal with cross-ministry regulatory matters in relation to the internet industry.

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

The Circular on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business, issued by the MIIT in July 2006, prohibits domestic telecommunication service providers from leasing, transferring or selling telecommunications business operating licenses to any foreign investor in any form, or providing any resources, sites or facilities to any foreign investor for their illegal operation of a telecommunications business in China. According to this circular, either the holder of a value-added telecommunication services operation permit or its shareholders must directly own the domain names and trademarks used by such license holders in their provision of value-added telecommunication services. The circular also requires each license holder to have the necessary facilities, including servers, for its approved business operations and to maintain such facilities in the regions covered by its license. If an ICP license or EDI license holder fails to comply with the requirements and also fails to remediate such non-compliance within a specified period of time, the MIIT or its local counterparts have the discretion to take administrative measures against such license holder, including revoking its ICP license or EDI license. Currently, Beijing Secoo, one of our PRC consolidated variable interest entities, holds an ICP license and an EDI license and operates our *Secoo.com* website. Beijing Secoo owns the relevant domain names and registered trademarks and has the necessary personnel to operate such website.

The interpretation and application of existing PRC laws, regulations and policies and possible new laws, regulations or policies relating to the internet industry have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, internet businesses in China, including our business. We cannot assure you that we have obtained all the permits or licenses required for conducting our business in China or will be able to maintain our existing licenses or obtain new ones.

Failure to make adequate contributions to various employee benefit plans as required by PRC regulations may subject us to penalties.

Companies operating in China are required to participate in various government sponsored employee benefit plans, including certain social insurance, housing funds and other welfare-oriented payment obligations, and contribute to the plans in amounts equal to certain percentages of salaries, including bonuses and allowances, of employees up to a maximum amount specified by the local government from time to time at locations where they operate their businesses. The requirement of employee benefit plans has not been implemented consistently by the local governments in China given the different levels of economic development in different locations. If we fail to make contributions to various employee benefit plans and comply with applicable PRC labor-related laws, we may be subject to late payment penalties and required to make up the contributions for these plans. If we are subject to late fees or fines in relation to the underpaid employee benefits, our financial condition and results of operations may be adversely affected.

We may be required to register our operating offices outside of our registered addresses as branch offices under PRC law.

Under PRC law, a company setting up premises for business operations outside its registered address must register them as branch offices with the relevant local market regulation bureau at the place where the premises are located and obtain business licenses for them as branch offices. We currently have six branch offices across China. We may expand our business in the future to additional locations in China, and we may not be able to register branch offices in a timely manner due to complex procedural requirements and relocation of branch offices from time to time. If the PRC regulatory authorities determine that we are in violation of the relevant laws and regulations, we may be subject to penalties, including fines, confiscation of income and suspension of operation. If we become subject to these penalties, our business, results of operations, financial condition and prospects could be materially and adversely affected.

Fluctuations in exchange rates could have a material and adverse effect on our results of operations and the value of your investment.

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

Any significant appreciation or depreciation of Renminbi may materially and adversely affect our revenues, earnings and financial position, and the value of, and any dividends payable on, our ADSs in U.S. dollars. For example, to the extent that we need to convert U.S. dollars we receive from our initial public offerings or convertible senior notes offering into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us.

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

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

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in RMB. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries and variable interest entities to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. Under our current corporate structure, our company in the Cayman Islands may rely on dividend payments from our PRC subsidiaries to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. Therefore, our wholly foreign-owned subsidiaries in China are able to pay dividends in foreign currencies to us without prior approval from SAFE, subject to the condition that the remittance of such dividends outside of the PRC complies with certain procedures under PRC foreign exchange regulation, such as the overseas investment registrations by our shareholders or the ultimate shareholders of our corporate shareholders who are PRC residents. But approval from or registration with appropriate government authorities or authorized banks is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

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

PRC regulations and rules concerning mergers and acquisitions including the Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the M&A Rules, adopted by six PRC regulatory agencies in 2006 and amended in 2009, established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time consuming and complex. For example, the M&A Rules require that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, if (i) any important industry is concerned, (ii) such transaction involves factors that have or may have impact on the national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honored brand. Mergers, acquisitions or contractual arrangements that allow one market player to take control of or to exert decisive impact on another market player must also be notified in advance to the Ministry of Commerce when the threshold under the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings, or the Prior Notification Rules, issued by the State Council in August 2008 is triggered. In addition, the security review rules issued by the Ministry of Commerce that became effective in September 2011 specify that mergers and acquisitions by foreign investors that raise “national defense and security” concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise “national security” concerns are subject to strict review by the Ministry of Commerce, and the rules prohibit any activities attempting to bypass a security review, including by structuring the transaction through a proxy or contractual control arrangement. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time consuming, and any required approval processes (if any), including obtaining approval from the Ministry of Commerce or its local counterparts may delay or inhibit our ability to complete such transactions, which could affect our ability to further expand our business or maintain our market share. It is unclear whether our business would be deemed to be in an industry that raises “national defense and security” or “national security” concerns. However, the Ministry of Commerce or other government agencies may publish explanations in the future determining that our business is in an industry subject to the security review, in which case our future acquisitions in the PRC, including those by way of entering into contractual control arrangements with target entities, may be closely scrutinized or prohibited. Our ability to expand our business or maintain or expand our market share through future acquisitions would as such be materially and adversely affected.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident beneficial owners or our wholly foreign-owned subsidiaries in China to liability or penalties, limit our ability to inject capital into these subsidiaries, limit these subsidiaries' ability to increase their registered capital or distribute profits to us, or may otherwise adversely affect us.

On July 4, 2014, SAFE promulgated the Notice on Relevant Issues Concerning Foreign Exchange Control of Domestic Residents' Overseas Investment and Financing and Roundtrip Investment through Offshore Special Purpose Vehicles, or SAFE Circular No. 37, which replaced the former Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles (generally known as SAFE Circular No. 75) promulgated by SAFE on October 21, 2005.

SAFE Circular No. 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, which is referred to in SAFE Circular No. 37 as a "special purpose vehicle." The term "control" under SAFE Circular No. 37 is broadly defined as the operation rights, beneficiary rights or decision-making rights acquired by the PRC residents in the offshore special purpose vehicles or PRC companies by such means as acquisition, trust, proxy, voting rights, repurchase, convertible bonds or other arrangements. SAFE Circular No. 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as an increase or decrease of capital contributed by PRC residents, share transfer or exchange, merger, division or other material events.

SAFE promulgated the Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment, or SAFE Circular No. 13, in February 2015, which took effect on June 1, 2015. SAFE Circular No. 13 amended SAFE Circular No. 37 requiring PRC residents or entities to register with qualified banks rather than SAFE or its local branch, in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. In the event that a PRC resident holding interests in a special purpose vehicle fails to complete the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiaries. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

Currently, all of our founders who are PRC residents have registered with the competent local branch of SAFE with respect to their investments in our company as required by SAFE Circular No. 75 and SAFE Circular No. 37 and will further update their registration filings with SAFE under SAFE Circular No. 37 when there are any changes that should be registered under SAFE Circular No. 37. However, we may not at all times be fully aware or informed of the identities of all our shareholders or beneficial owners that are required to make such registrations, and we may not always be able to compel them to comply with SAFE Circular No. 37 requirements. As a result, we cannot assure you that all of our shareholders or beneficial owners who are PRC residents will at all times comply with, or in the future make or obtain any applicable registrations or approvals required by, SAFE Circular No. 37 or other related regulations. The failure or inability of such individuals to comply with the registration procedures set forth in these regulations may subject us to fines or legal sanctions, restrictions on our cross-border investment activities or our PRC subsidiaries' ability to distribute dividends to, or obtain foreign-exchange-dominated loans from, our company, or prevent us from making distributions or paying dividends. As a result, our business operations and our ability to make distributions to you could be materially and adversely affected.

Furthermore, as it is unclear how these foreign exchange regulations, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant government authorities, we cannot predict how these regulations will affect our business operations or future strategy. In addition, if we decide to acquire a PRC domestic company, we cannot assure you that we or the owners of such company, as the case may be, will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the foreign exchange regulations. This may restrict our ability to implement our acquisition strategy and could adversely affect our business and prospects.

Any failure to comply with PRC regulations regarding the registration requirements for employee stock incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

Pursuant to the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company, issued by SAFE in February 2012, employees, directors, supervisors and other senior management participating in any stock incentive plan of an overseas publicly listed company who are PRC citizens or who are non-PRC citizens residing in China for a continuous period of not less than one year, subject to a few exceptions, are required to register with SAFE through a domestic qualified agent, which could be a PRC subsidiary of such overseas listed company, and complete certain other procedures. We and our directors, executive officers and other employees who are PRC citizens or who reside in the PRC for a continuous period of not less than one year and who have been granted restricted shares, restricted share units or options are subject to these regulations as our company has become an overseas listed company. Failure to complete the SAFE registrations may subject them to fines and legal sanctions and may also limit our ability to contribute additional capital into our wholly foreign-owned subsidiaries in China and limit these subsidiaries' ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional incentive plans for our directors and employees under PRC laws.

In addition, the State Administration of Taxation, or the SAT, has issued certain circulars concerning employee share options or restricted shares. Under these circulars, the employees working in the PRC who exercise share options or are granted restricted shares will be subject to PRC individual income tax. The PRC subsidiaries of such overseas listed company have obligations to file documents related to employee share options or restricted shares with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options. If the employees fail to pay or the PRC subsidiaries fail to withhold their income taxes according to relevant laws and regulations, the PRC subsidiaries may face sanctions imposed by the tax authorities or other PRC government authorities.

It may be difficult for overseas regulators to conduct investigation or collect evidence within China.

Shareholder claims or regulatory investigation that are common in the United States generally are difficult to pursue as a matter of law or practicality in China. For example, in China, there are significant legal and other obstacles to providing information needed for regulatory investigations or litigation initiated outside China. Although the authorities in China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, such cooperation with the securities regulatory authorities in the Unities States may not be efficient in the absence of mutual and practical cooperation mechanism. Furthermore, according to Article 177 of the PRC Securities Law, or Article 177, which became effective in March 2020, no overseas securities regulator is allowed to directly conduct investigation or evidence collection activities within the territory of the PRC. While detailed interpretation of or implementation rules under Article 177 have yet to be promulgated, the inability for an overseas securities regulator to directly conduct investigation or evidence collection activities within China may further increase difficulties faced by you in protecting your interests.

If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders. In addition, any noncompliance with PRC tax laws may adversely affect us.

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside of the PRC with "de facto management body" within the PRC is considered a resident enterprise and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term "de facto management body" as the body that exercises full and substantial control and overall management over the business, production, personnel, accounts and properties of an enterprise. In April 2009, the SAT issued a circular, known as Circular 82, which provides certain specific criteria for determining whether the "de facto management body" of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners like us, the criteria set forth in the circular may reflect the SAT's general position on how the "de facto management body" text should be applied in determining the tax resident status of all offshore enterprises. According to Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its "de facto management body" in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise's financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

We believe Secoo Holding Limited is not a PRC resident enterprise for PRC tax purposes. See "Item 5. Operating and Financial Review and Prospects—Taxation—PRC." However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term "de facto management body." If the PRC tax authorities determine that Secoo Holding Limited is a PRC resident enterprise for enterprise income tax purposes, we may be required to withhold a 10% withholding tax unless a reduced rate is available under an applicable tax treaty, from dividends we pay to our shareholders that are non-resident enterprises, including the holders of our ADSs. In addition, non-resident enterprise shareholders (including our ADS holders) may be subject to PRC tax on gains realized on the sale or other disposition of ADSs or Class A ordinary shares, if such income is treated as sourced from within the PRC. It is unclear whether our non-PRC individual shareholders (including our ADS holders) would be subject to any PRC tax on dividends or gains obtained by such non-PRC individual shareholders in the event we are determined to be a PRC resident enterprise. If any PRC tax were to apply to such dividends or gains, it would generally apply at a rate of 20% unless a reduced rate is available under an applicable tax treaty. However, it is also unclear whether non-PRC shareholders of Secoo Holding Limited would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that Secoo Holding Limited is treated as a PRC resident enterprise.

In addition, over the years, we have accrued taxes payable. If we are subject to penalties in relation to the due and unpaid taxes payable, our liquidity, financial condition and results of operations may be adversely affected.

Enhanced scrutiny over acquisitions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.

The PRC tax authorities have enhanced their scrutiny over the direct or indirect transfer of equity interests in a PRC resident enterprise by a non-resident enterprise by promulgating and implementing the Notice on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business, or SAT Circular 59, promulgated by PRC Ministry of Finance and SAT in April, 2009, the Announcement of the SAT on Several Issues Concerning the Enterprise Income Tax on Indirect Property Transfer by Non-Resident Enterprises, or Public Notice 7, promulgated by the SAT in February 2015 and the Bulletin of SAT on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source, or the Bulletin 37, promulgated by the SAT in October, 2017.

According to Public Notice 7, if a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by transfer of the equity interests of an offshore holding company (other than a purchase and sale of shares issued by a PRC resident enterprise in public securities market) without a reasonable commercial purpose, the PRC tax authorities have the power to reassess the nature of the transaction and the indirect equity transfer will be treated as a direct transfer. As a result, the gain derived from such transfer, which means the equity transfer price less the cost of equity, will be subject to PRC withholding tax at a rate of up to 10%. Under the terms of Public Notice 7, the transfer which meets all of the following circumstances shall be directly deemed as having no reasonable commercial purposes: (i) over 75% of the value of the equity interests of the offshore holding company are directly or indirectly derived from PRC taxable properties; (ii) at any time during the year before the indirect transfer, over 90% of the total properties of the offshore holding company are investments within PRC territory, or in the year before the indirect transfer, over 90% of the offshore holding company's revenue is directly or indirectly derived from PRC territory; (iii) the function performed and risks assumed by the offshore holding company are insufficient to substantiate its corporate existence; or (iv) the foreign income tax imposed on the indirect transfer is lower than the PRC tax imposed on the direct transfer of the PRC taxable properties.

The Bulletin 37, which, among others, repeals the Notice on Strengthening the Administration of the Enterprise Income Tax concerning Proceeds from Equity Transfers by Non-resident Enterprises, or Circular 698, which became retroactively effective on January 1, 2008 and certain rules stipulated in Public Notice 7 on December 1, 2017. The Bulletin 37 further details and clarifies the tax withholding methods in respect of income of non-resident enterprises.

There is little guidance and practical experience as to the application of Public Notice 7. Where non-resident investors were involved in our private equity financing, if such transactions are determined by the tax authorities to be lacking of reasonable commercial purposes, we and our non-resident investors may be taxed under Public Notice 7 and may be required to expend valuable resources to comply with Public Notice 7 or to establish that we should not be taxed under Public Notice 7, which may have a material adverse effect on our financial condition and results of operations or our non-resident investors' investments in us.

The PRC tax authorities have discretion under SAT Circular 59, Public Notice 7 and Bulletin 37 to make adjustments to the taxable capital gains based on the difference between the fair value of the equity interests transferred and the cost of investment. We may pursue acquisitions in the future that involve complex corporate structures. If we are considered a non-resident enterprise under the PRC Enterprise Income Tax Law and if the PRC tax authorities make adjustments to the taxable income of these transactions under SAT Circular 59, Public Notice 7 and Bulletin 37, our income tax expenses associated with such potential acquisitions will be increased, which may have an adverse effect on our financial condition and results of operations.

The enforcement of the PRC Labor Contract Law and other labor-related regulations in the PRC may adversely affect our business and our results of operations.

The PRC Labor Contract Law became effective and was implemented on January 1, 2008 and was further amended in 2012. It has reinforced the protection of employees who, under the PRC Labor Contract Law, have the right, among others, to have written labor contracts, to enter into labor contracts with no fixed terms under certain circumstances, to receive overtime wages and to terminate or alter terms in labor contracts. According to the PRC Social Insurance Law, which became effective on July 1, 2011 and was further amended on December 29, 2018, and the Administrative Regulations on the Housing Funds, which became effective on April 3, 1999 and was subsequently amended on March 24, 2002 and March 24, 2019, employees are required to participate in pension insurance, work-related injury insurance, medical insurance, unemployment insurance, maternity insurance and housing funds, and the employers must pay all or a portion of the social insurance premiums and housing funds for such employees.

As a result of these laws and regulations designed to enhance labor protection, we expect our labor costs will continue to increase. In addition, as the interpretation and implementation of these new laws and regulations are still evolving, our employment practice may not at all times be deemed in compliance with the new laws and regulations. If we are subject to severe penalties or incur significant liabilities in connection with labor disputes or investigations, our business and results of operations may be adversely affected.

Risks Related to our American Depositary Shares

The trading price of our ADSs may be volatile.

The trading prices of our ADSs is likely to be volatile and could fluctuate widely due to factors beyond our control. This may happen because of broad market and industry factors, like the performance and fluctuation in the market prices or the underperformance or deteriorating financial results of other listed companies based in China. The securities of some of these companies have experienced significant volatility since their initial public offerings, including, in some cases, substantial price declines in the trading prices of their securities. The trading performances of other Chinese companies' securities after their offerings, including internet and e-commerce companies, may affect the attitudes of investors toward Chinese companies listed in the United States, which consequently may impact the trading performance of our ADSs, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or matters of other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have conducted any inappropriate activities. In addition, securities markets may from time to time experience significant price and volume fluctuations that are not related to our operating performance, such as the large decline in share prices in the United States, China and other jurisdictions in late 2008, early 2009 and the second half of 2011, which may have a material and adverse effect on the trading price of our ADSs.

In addition to the above factors, the price and trading volume of our ADSs may be highly volatile due to multiple factors, including the following:

- regulatory developments affecting us or our industry, customers, suppliers or third-party sellers;
- announcements of studies and reports relating to the quality of our product and service offerings or those of our competitors;
- changes in the economic performance or market valuations of other online retail or e-commerce companies;
- actual or anticipated fluctuations in our quarterly results of operations and changes or revisions of our expected results;
- changes in financial estimates by securities research analysts;
- conditions in the online and offline upscale retail market;
- announcements by us or our competitors of new product and service offerings, acquisitions, strategic relationships, joint ventures, capital raisings or capital commitments;
- additions to or departures of our senior management;
- fluctuations of exchange rates between the RMB and the U.S. dollar;
- release or expiry of lock-up or other transfer restrictions on our outstanding shares or ADSs; and
- sales or perceived potential sales of additional Class A ordinary shares or ADSs.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, the market price for our ADSs and trading volume could decline.

The trading market for our ADSs will depend in part on the research and reports that securities or industry analysts publish about us or our business. If research analysts do not establish and maintain adequate research coverage or if one or more of the analysts who covers us downgrades our ADSs or publishes inaccurate or unfavorable research about our business, the market price for our ADSs would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume for our ADSs to decline.

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

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

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

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

Sales of our ADSs in the public market could cause the market price of our ADSs to decline. Such sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. If any existing shareholder or shareholders sell a substantial amount of ADSs, the prevailing market price for our ADSs could be adversely affected. In addition, if we pay for our future acquisitions in whole or in part with additionally issued ordinary shares, your ownership interests in our company would be diluted and this, in turn, could have a material and adverse effect on the price of our ADSs.

You, as holders of ADSs, may have fewer rights than holders of our Class A ordinary shares and must act through the depositary to exercise those rights.

Holders of ADSs do not have the same rights as our registered shareholders. As a holder of our ADSs, you will not have any direct right to attend general meetings of our shareholders or to cast any votes at such meetings. You will only be able to exercise the voting rights which attach to the Class A ordinary shares underlying your ADSs indirectly by giving voting instructions to the depositary in accordance with the provisions of the deposit agreement. Upon receipt of your voting instructions, the depositary will try, as far as it is practicable, to vote the Class A ordinary shares underlying your ADSs in accordance with your instructions. You will not be able to exercise directly any right to vote with respect to the underlying Class A ordinary shares unless you withdraw the shares and become the registered holder of such shares prior to the record date for the general meeting. Under our current memorandum and articles of association, the minimum notice period required to be given by our company to our registered shareholders to convene a general meeting will be ten calendar days. When a general meeting is convened, you may not receive sufficient notice of the meeting to enable you to withdraw the Class A ordinary shares underlying your ADSs and become the registered holder of such shares to allow you to attend the general meeting or to cast your vote directly with respect to any specific matter or resolution to be considered and voted upon at the general meeting. In addition, under our current memorandum and articles of association, for the purposes of determining those shareholders who are entitled to attend and vote at any general meeting, our directors may close our register of members and/or fix in advance a record date for such meeting, and such closure of our register of members or the setting of such a record date may prevent you from withdrawing the Class A ordinary shares underlying your ADSs and becoming the registered holder of such shares prior to the record date, so that you would not be able to attend the general meeting or to vote directly. Where any matter is to be put to a vote at a general meeting, we will make all reasonable efforts to cause the depositary to notify you of the upcoming vote and to deliver our voting materials to you in a timely manner, but there can be no assurance that you will receive the voting materials in time to ensure that you can instruct the depositary to vote the Class A ordinary shares underlying your ADSs. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, you may not be able to exercise your right to direct how the Class A ordinary shares underlying your ADSs are voted, and you may lack recourse if the underlying Class A ordinary shares are not voted as you requested. In addition, in your capacity as an ADS holder, you will not be able to call a shareholders' meeting.

Except in limited circumstances, the depositary for our ADSs will give us a discretionary proxy to vote the Class A ordinary shares underlying your ADSs if you do not give voting instructions to the depositary to direct how the Class A ordinary shares underlying your ADSs are voted, which could adversely affect your interests.

Under the deposit agreement for the ADSs, if you do not give voting instructions to the depositary to direct how the Class A ordinary shares underlying your ADSs are voted, the depositary will give us a discretionary proxy to vote the Class A ordinary shares underlying your ADSs at shareholders' meetings unless:

- we have instructed the depositary that we do not wish a discretionary proxy to be given;
- we have informed the depositary that there is substantial opposition as to a matter to be voted on at the meeting;
- a matter to be voted on at the meeting would have a material adverse impact on shareholders; or
- the voting at the meeting is to be made on a show of hands.

The effect of this discretionary proxy is that you cannot prevent our Class A ordinary shares underlying your ADSs from being voted, except under the circumstances described above. This may make it more difficult for shareholders to influence the management of our company. Holders of our Class A ordinary shares are not subject to this discretionary proxy.

Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings.

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

You may not receive cash dividends if the depositary decides it is impractical to make them available to you.

The depositary will pay cash dividends on the ADSs only to the extent that we decide to distribute dividends on our Class A ordinary shares or other deposited securities, and we do not have any present plan to pay any cash dividends on our Class A ordinary shares in the foreseeable future. To the extent that our company pays any cash dividends or other distributions to our shareholders, we will pay such distributions which are payable in respect of our Class A ordinary shares (or other deposited securities) represented by ADSs to the depositary of our ADSs or the custodian (as the registered holder of such Class A ordinary shares or other deposited securities), and the depositary has agreed to pay the cash dividends or other distributions it or the custodian receives on our Class A ordinary shares or other deposited securities, after deducting its fees and expenses, to the holders of the ADSs. You will receive these distributions in proportion to the number of Class A ordinary shares your ADSs represent. However, the depositary may, at its discretion, decide that it is inequitable or impractical to make a distribution available to any holders of ADSs. For example, the depositary may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the cost of mailing them. In these cases, the depositary may decide not to distribute such property to you.

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

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

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

We are a company incorporated under the laws of the Cayman Islands. Substantially all of our operations and assets are located in China and Hong Kong. In addition, our directors and executive officers, and some of the experts named in this annual report, reside within China, and most of the assets of these persons are located within China. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the United States in the event that you believe that your rights have been infringed under the U.S. federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of the PRC may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

Since we are a Cayman Islands company, the rights of our shareholders may be more limited than those of shareholders of a company organized in the United States.

Under the laws of some jurisdictions in the United States, majority and controlling shareholders generally have certain fiduciary responsibilities to the minority shareholders. Shareholder action must be taken in good faith, and actions by controlling shareholders which are obviously unreasonable may be declared null and void. Cayman Islands law protecting the interests of minority shareholders may not be as protective in all circumstances as the law protecting minority shareholders in some U.S. jurisdictions. In addition, the circumstances in which a shareholder of a Cayman Islands company may sue the company derivatively, and the procedures and defenses that may be available to the company, may result in the rights of shareholders of a Cayman Islands company being more limited than those of shareholders of a company organized in the United States.

Furthermore, our directors have the power to take certain actions without shareholder approval which would require shareholder approval under the laws of most U.S. jurisdictions. For example, the directors of a Cayman Islands company, without shareholder approval, may implement a sale of any assets, property, part of the business, or securities of the company. Our ability to create and issue new classes or series of shares without shareholder approval could have the effect of delaying, deterring or preventing a change in control without any further action by our shareholders, including a tender offer to purchase our ordinary shares at a premium over then current market prices.

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

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

- the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q or current reports on Form 8-K;

- the sections of the Exchange Act regulating the solicitation of proxies, consents, or authorizations in respect of a security registered under the Exchange Act;

- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and

- the selective disclosure rules by issuers of material nonpublic information under Regulation FD.

We are required to file an annual report on Form 20-F within four months of the end of each fiscal year. In addition, we intend to publish our results on a quarterly basis as press releases, distributed pursuant to the rules and regulations of the Nasdaq Global Market. Press releases relating to financial results and material events will also be furnished to the SEC on Form 6-K. However, the information we are required to file with or furnish to the SEC will be less extensive and less timely compared to that required to be filed with the SEC by U.S. domestic issuers. As a result, you may not be afforded the same protections or information that would be made available to you were you investing in a U.S. domestic issuer.

As a company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the Nasdaq Global Market corporate governance listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with the Nasdaq Global Market corporate governance listing standards.

As a Cayman Islands company listed on the Nasdaq Global Market, we are subject to the Nasdaq Global Market corporate governance listing standards. However, the Nasdaq Global Market rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the Nasdaq Global Market corporate governance listing standards. We rely on home country practice exemption with respect to the requirement for annual shareholders meetings and did not hold an annual shareholders meeting in 2019. We may also opt to rely on additional home country practice exemptions in the future. As a result, our shareholders may be afforded less protection than they would otherwise enjoy under the Nasdaq Stock Market corporate governance listing standards applicable to U.S. domestic issuers.

We may be classified as a passive foreign investment company for U.S. federal income tax purposes, which could result in materially adverse tax consequences to U.S. Holders of our ADSs or ordinary shares.

A non-U.S. corporation, such as our company, will be classified as a passive foreign investment company (a “PFIC”) for U.S. federal income tax purposes for any taxable year, if either (i) 75% or more of its gross income for such year consists of certain types of “passive” income or (ii) 50% or more of the value of its assets (determined on the basis of a quarterly average) during such year produce or are held for the production of passive income. Passive income generally includes dividends, interest, royalties, rents, annuities, net gains from the sale or exchange of property producing such income and net foreign currency gains. For this purpose, cash and assets readily convertible into cash are categorized as passive asset assets and the company’s unbooked intangibles associated with active business activity are taken into account as non-passive assets.

In addition, we will be treated as owning a proportionate share of the assets and earning a proportionate share of the income of any other corporation in which we own, directly or indirectly, more than 25% (by value) of the stock. Although the law in this regard is unclear, we treat our variable interest entities as being beneficially owned by us for U.S. federal income tax purposes because we control their management decisions, we are entitled to substantially all of the economic benefits associated with these entities, and, as a result, we consolidate their results of operations in our U.S. GAAP financial statements.

Based on our current income and assets and the value of our ADSs, we do not believe that we were a PFIC for our taxable year ending December 31, 2019 and we do not expect to be classified as a PFIC or in the foreseeable future. While we do not anticipate becoming a PFIC, changes in the nature of our income or assets, or fluctuations in the market price of our ADSs, may cause us to become a PFIC for future taxable years. In estimating the value of our goodwill and other unbooked intangibles, we have taken into account our market capitalization, which may fluctuate over time. Among other factors, if our market capitalization declines, we may become classified as a PFIC for future taxable years. In addition, if it were determined that that we are not the beneficial owner of our variable interest entities for U.S. federal income tax purposes, we may be treated as a PFIC for our current taxable year and in future taxable years.

If we are classified as a PFIC for any year during which a U.S. Holder (as defined in "Item 10.E. Additional Information—Taxation—U.S. Federal income Tax Considerations") holds our ADSs or ordinary shares, such U.S. Holder may incur significantly increased U.S. federal income tax on gain recognized on the sale or other disposition of our ADSs or ordinary shares and on the receipt of distributions on our ADSs or ordinary shares to the extent such gain or distribution is treated as an "excess distribution" under the U.S. federal income tax rules. If we are so classified during a U.S. Holder's holding period, our ADSs or ordinary shares will generally continue to be treated as shares in a PFIC for all succeeding years during which such U.S. Holder holds our ADSs or ordinary shares, even if we cease to be a PFIC, unless certain elections are made. See the discussion under "Item 10.E. Additional Information—Taxation—U.S. Federal Income Tax Considerations—*Passive Foreign Investment Company Rules*" concerning the U.S. federal income tax considerations of an investment in our ADSs or ordinary shares if we are or become classified as a PFIC, including the possibility of making certain elections.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

In February 2008, Mr. Richard Rixue Li and Ms. Zhaohui Huang, our Founders, formed Hong Kong Secoo Investment Group Limited, or Hong Kong Secoo, in Hong Kong as a holding company. Our Founders also formed Beijing Secoo Trading Limited, or Beijing Secoo, in Beijing, China in April 2009. We commenced our current upscale product retail business under our Secoo brand through Beijing Secoo in 2011. We opened our first offline experience center in Beijing in January 2011 and launched our website in April in the same year. Our mobile application was launched in December 2013. In 2015 and 2016, we opened four offline experience centers located in Shanghai, Chengdu, Hong Kong and Malaysia. In 2017, we opened three offline experience centers located in Qingdao, Xiamen and Tianjin. We launched Secoo Check in April 2016, which allows customers to make payments for our merchandise products in installments. Since 2016, we have successfully expanded our supply arrangements with top global brands. For example, in 2016, we began collaboration with Tod's, under which Tod's makes customized products exclusively for us. We became an authorized online retailer for Versace and Salvatore Ferragamo in China in November 2016 and February 2017, respectively. During 2017 and 2018, we expanded our collaboration with top brands, such as Armani, Mulberry and Stella McCartney. In July 2017, we expanded our strategic cooperation relationship with Country Garden, one of China's largest real estate developers, planning to build themed villages and physical Secoo stores as well as in the areas of hotel operation and collaborate in real estate marketing

In June 2019, we started cooperation with the Prada Group to offer Prada and Miu products following Prada's strategy based on distribution control and brand image protection. In March 2019, Secoo formed a strategic collaboration with Italian's well-known luxury fashion online retailer, LuisaViaRoma.com (LVR) to offer a selection of European luxury fashion brands on our platform.

In January 2018, we formed a strategic alliance with Parkson Group, one of China's largest department stores, aiming to integrate both respective resources and build an integrated new retail business model. In August 2018, we issued convertible notes and warrants to Great World Lux Pte. Ltd and its affiliates, or Great World, in an aggregate principal amount of up to US$175.0 million. The principal amount outstanding under the convertible notes bears interest at an aggregate compounded rate of 8% per annum until August 8, 2021, or such earlier time as the notes are repurchased or converted subject to the terms specified therein. The initial conversion price is US$13.00 per ADS. The holders of the warrants are entitled to purchase 500,000 ADSs from us at an exercise price of US$18.00 per ADS. We also formed strategic partnerships with *L* Catterton Asia, the Asian unit of the largest and most global consumer-focused private equity firm in the world, and JD.com, China's largest retailer, aiming to boost Secoo's presence and network in the luxury industry. In March 2018, we formed a strategic partnership with Caissa Travel to jointly develop luxurious tourism products. In September 2018, we entered into a strategic partnership agreement with SASSEUR Group, an operator of outlet malls, to leverage respective resources and expertise to develop omni-channel retail networks, increase our market presence. In October 2018, we signed cooperation agreement with British department store brand Liberty London to launch an online shop in China for Liberty London's luxury goods.

In June 2020, we and Qudian, Inc. (NYSE: QD) (together with its affiliates, "Qudian"), a leading technology platform empowering the enhancement of online consumer finance experience in China, entered into a share purchase agreement, pursuant to which Qudian has agreed to purchase a total of up to 10,204,082 newly issued Class A ordinary shares of Secoo for an aggregate purchase price of up to US$100.0 million, reflecting a per share purchase price of US$9.80. As of the date of this annual report, we have issued, sold and delivered to Qudian 5,102,041 Class A ordinary shares for which we have received US$50.0 million. In addition, Secoo and Qudian also entered into a business cooperation agreement, which sets forth the key areas for the two companies' strategic cooperation in the online luxury e-commerce business space.

In January 2011, we incorporated Secoo Holding Limited in the Cayman Islands as our offshore holding company in order to facilitate international financing and acquired 100% of the equity interests in Hong Kong Secoo in February 2011. In May 2011, we established, through Hong Kong Secoo, a wholly owned PRC subsidiary, Kutianxia (Beijing) Information Technology Limited, or Kutianxia, which in turn established Beijing Zhiyi Heng Sheng Technology Service Co., Ltd in Beijing, China to conduct our after-sales repair and maintenance services in September 2012.

In September 2013, we incorporated Shanghai Secoo E-commerce Limited in Shanghai, China. Shanghai Secoo E-commerce Limited is wholly owned by Beijing Secoo and primarily operates our e-commerce business in China.

In September 2014, our Founders formed Beijing Wo Mai Wo Pai Auction Co., Ltd, or Beijing Auction, in Beijing, China, to operate the auction business and provide an online marketplace for auction sales of upscale products of Beijing Secoo and third-party vendors.

In January 2014, we incorporated Secoo Inc. in the United States. In March 2015, we incorporated Secoo Italia SRL in Italy. These two subsidiaries conduct business development in those regions.

Through Kutianxia, we obtained control over Beijing Secoo and Beijing Auction in May 2011 and September 2014, respectively, by entering into a series of contractual arrangements with Beijing Secoo and Beijing Auction and their respective shareholders. Beijing Secoo holds our ICP license and EDI license as an internet information provider and an e-commerce transaction platform and operates our *secoo.com* website and Beijing Auction holds our license for auction businesses.

In December 2015, we incorporated Kuxin Tianxia (Tianjin) E-commerce Limited in Tianjin, China. Kuxin Tianxia (Tianjin) E-commerce Limited is wholly owned by Hong Kong Secoo and currently has no operation.

In February 2017, we incorporated Yichun Secoo E-commerce Limited in Jiangxi, China. Yichun Secoo E-commerce Limited is wholly owned by Shanghai Secoo E-commerce Limited and primarily operates e-commerce business in China.

These contractual arrangements allow us to:

(a) exercise effective control over Beijing Secoo and Beijing Auction;

(b) receive substantially all of the economic benefits of Beijing Secoo and Beijing Auction; and

(c) have an exclusive option to purchase all or part of the equity interests in Beijing Secoo and Beijing Auction when and to the extent permitted by PRC law.

As a result of these contractual arrangements, we are the primary beneficiary of Beijing Secoo and Beijing Auction, and we treat them as our variable interest entities under U.S. GAAP. We have consolidated the financial results of Beijing Secoo and Beijing Auction and their subsidiaries in our consolidated financial statements in accordance with U.S. GAAP. If Beijing Secoo, Beijing Auction or the shareholders of Beijing Secoo and Beijing Auction fail to perform their obligations under these contractual arrangements, which allow us to maintain effective control over Beijing Secoo and Beijing Auction, we may not be able to continue to consolidate the financial results and assets and liabilities of Beijing Secoo and Beijing Auction and their subsidiaries in our consolidated financial statements in accordance with U.S. GAAP. Furthermore, our inability to exert effective control over Beijing Secoo and Beijing Auction may negatively affect our ability to conduct our business, which could materially and adversely affect our results of operations and financial condition.

See “Item 3.D. Risk Factors — Risks Related to Our Corporate Structure — Any failure by our variable interest entities or their shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on our business.”

B. Business Overview

We are Asia’s leading online integrated upscale products and services platform. We value our customers and members as our greatest assets. We offer them a wide selection of authentic upscale products and lifestyle services to satisfy different needs of the modern lifestyle. We offer an integrated online and offline shopping platform, which consists of our *Secoo.com* website, mobile applications and offline experience centers. Our online platform facilitates easy product selection, order processing and convenient payment methods, such as our Secoo Check, which allows customers to make payments for our merchandise products in installments on our online platform directly. We complement our online platform with offline experience centers to provide superior customer and membership services and experience. We have strategically opened seven offline experience centers as of the date of this annual report in popular shopping destinations and central business districts in China and Malaysia which have strengthened our Secoo brand creditability and enhanced our brand presence. In addition, we are cooperating with brand boutiques such as Versace boutiques for our customers to pick up products ordered on our online platform in their stores. We also launched live streaming shopping channel, featuring trendy and upscale livestream shopping programs in direct collaboration with brands such as Prada and Versace, in-store livestream shopping across the globe, airing of live fashion shows and fashion wearing style live stream.

Our Business Model

Our business model focuses on an integrated online and offline platform offering a full range of high-end lifestyle products and services to better serve our customers and members. Our integrated platform consists of our *Secoo.com* website, mobile applications and offline experience centers. Our online platform facilitates easy product selection, order processing and convenient payments for our customers. We have opened seven offline experience centers in popular shopping destinations and central business districts in China and Malaysia to provide in-store shopping experience and comprehensive customer services, which we believe bolstered our customer satisfaction, strengthened our Secoo brand creditability and enhanced our brand presence.

We offer an extensive selection of upscale products for everyone’s needs on our platform, including watches, bags, clothing, footwear, jewelry and accessories, cosmetics and skincare, 3C products, and home accessories. In addition, we have expanded our offerings of high-end lifestyle services to satisfy the needs of modern lifestyle since 2014, such as tourism and sports events. We believe that expanding our product offerings helps optimize customers’ shopping experience, diversify our revenue sources and further improve our economies of scale. The continuous expansion of our strategic alliances with leading partners in the consumer luxury goods and lifestyle spaces is our core strategy that helps to increase our brand awareness and to further diversify our portfolios of merchandise and lifestyle services. With our extensive network of suppliers, we are able to obtain a wide selection of product categories and services at favorable terms. Our “Coo Sir” channel also serves as a forum for users for information related to fashion trends and lifestyle news. Our user-generated contents cover a variety of topics, such as sartorial tips for various occasions and product reviews. Leveraging these user-generated data and big-data technology, we analyze consumer habits, preferences and demand of our upscale customers in order to provide a great luxury shopping experience to our customers. We thrive to enhance our reputation as the destination for luxury products and lifestyle in China. Our business model creates significant value to our business partners, including third-party sellers and suppliers, cooperation brands, and ultimately benefit our business and customers.

Our Platform

Our platform consists of both online and offline platforms. Our online platforms include *Secoo.com* website and mobile applications. Our offline experience centers complement our online platforms to provide superior customer services and experience.

Online Platform

We offer a comprehensive range of upscale products and services through our online platform. We generated 94.1%, 96.0% and 94.9% of our total GMV through our online platform in 2017, 2018 and 2019, respectively. Integrating convenience, aesthetics and functionality, our online platform aims to actively drive consumer spending by featuring a strategically selected catalog of popular items. We focus on creating an enjoyable online shopping experience for our customers whereby their purchase decisions are guided by detailed product descriptions, multi-angle picture illustrations and educational fashion literature. Our online platform interface is fully integrated with our warehouse management system, or WMS, enabling us to track order and delivery status of each individual product on a real-time basis.

Our websites and mobile applications feature the following user-friendly functionalities that enhance customer experience and convenience:

- *Comprehensive product information*: Each product page contains product pictures, price, discount from the suggested retail price, detailed product parameters, customer reviews and payment and delivery options. Depending on the product, we provide additional information such as brand story and product condition to help customers make informed purchase decisions (to steer customers towards additional products in which they may be interested).

- *Product recommendations*: Our business intelligence system generates recommendations of additional products in which our customers may be interested. These recommendations come in two forms: each product page typically includes recommendations for complimentary products that are often purchased together; and our website offers tailored product recommendations to customers based on their browsing and purchase histories. On our mobile application, we carefully select products that we believe are better suited for mobile commerce to cater to the faster purchase decision-making speed of mobile users. We periodically notify our mobile application users of sales events and promotions through text messages and mobile push notifications.

- *Sales Functionalities*: Our customers can conveniently leave their reviews of the products at the end of the product page based on their feedback of the products. Our customers can also share their shopping experiences with us on various social media platforms and networking websites through links on the product page. We have launched some of our sales events a few hours earlier on our mobile applications and offered selected products and sales events exclusively on our mobile applications to further boost mobile traffic and purchases. To enhance customer loyalty, increase cross-selling opportunities and help customers make informed purchase decisions, our online platform also features literature on fashion trends, wardrobe tips and product recommendations, such as Tiaoli.

- *Personalized Services*: We offer personalized services via our account management system, which allows our customers to customize their payment and delivery preferences. To facilitate the ease of the checkout process for our repeat customers, our database keeps track of their preferred delivery address, shipping method and payment option based on information they previously provided. Additionally, the direct dial feature on our mobile applications allows our mobile application users to call our customer service representatives with a single click.

To satisfy our existing customers' shopping preferences and attract new customers with more unique shopping experience, we offer a variety of online sales formats, including customization, flash sales and auction.

- Through customization, we offer our customers with custom-made products that are specially made according to our customers' needs and tastes. Our personalized customization services are a testament to our dedication to serve our customers.

- Our flash sales embody value, quality and convenience that are well-suited to brand-conscious consumers in China seeking upscale products at competitive price. Through our flash sales, we offer limited quantities of deeply discounted upscale products for limited periods of time. In addition to being an effective sales channel, our flash sales are also a key entry point for attracting online user traffic and allow us to efficiently gauge the marketability of different products by analyzing sales data.

- Through auction, we offer a mix of new and used upscale products, watches, using auction sales to provide our customers with a more varied and exciting shopping experience. Our auction sales have been proven an effective channel for our SKUs management.

- Our livestream selling programs feature a wide range of unique, engaging shopping experiences such as live broadcast programs in direct collaboration with brands, live streaming in-store shopping, airing of live fashion shows and fashion wearing style live stream, which improve user stickiness with its timeliness, convenience and authentic shopping experience.

Offline Experience Centers

Our offline experience centers complement our online platform to provide superior customer and membership services and experience. We generated 5.9%, 4.0% and 5.1% of our total GMV through our offline experience centers in 2017, 2018 and 2019, respectively.

With our experienced customer service team and latest technologies, our offline experience centers provide one-stop service that addresses customers' varying needs for luxury products. Our offline experience centers feature a comprehensive suite of customer services, including product curation, pick-up, return, authentication and maintenance. Assisted by our sales representatives, customers may purchase products on display directly or make purchases on our website seamlessly using our tablets. Our sales representatives establish close relationships with our customers and provide them with continuing after-sales service. Furthermore, our offline experience centers serve warehousing functions, allowing customers to pick-up or return products they ordered online. Owners may also bring their new or used products to our offline experience centers for auction on our platform.

We currently have seven offline experience centers located in Beijing, Shanghai, Chengdu, Tianjin, Xiamen, Qingdao and Malaysia. As of December 31, 2019, our seven offline experience centers occupied a total of approximately 4,967 square meters in area and were staffed with over 56 sales representatives. To enhance our customer experience and to further broaden our brand awareness, we intend to selectively launch new offline experience centers in popular shopping destinations, domestic cities with significant consumption demand for luxury products and third- and fourth-tier cities with potential market for luxury products. We intend to expand our customers services in overseas offline experience centers, such as free concierge services to our members when they travel to these cities. In addition, we also collaborated with major players in other industries to expand offline experience centers and our brand reach. For example, in June 2016, we entered into strategic cooperation partnership with one of China's largest real estate developers, Country Garden, and jointly incorporated Secoo Garden Tradings Sdn. Bhd., or Secoo Garden, and opened our offline experience center in Malaysia to tap into southeast Asian market. Pursuant to the joint venture agreement between Country Garden and us, Country Garden holds 15% of the equity share capital of Secoo Garden, whereas we hold 85%. We provide technical knowledge, operate the duty free business, bring in high-end brand products, and agree to operate the business for at least three years. Country Garden is responsible for obtaining necessary approvals for the operation of the duty free business in Malaysia.

Omni-Channel Commerce Solutions

Our omni-channel commerce solutions connect our customers and offline retailers in China, through which physical stores offer their products on our online platform and our customers have the options to either receive their orders being delivered directly from our partnering stores or pick up their orders at the physical stores conveniently located in the shopping destinations of the cities they stay, such as Versace boutiques. We are currently expanding our cooperation with physical stores and shopping malls to build up online and offline omni-channel sales service network by capitalizing on our strong online presence and our established fulfillment infrastructure.

Our Customers

Since our inception in 2011, we have built a large and loyal customer base with high purchasing power. We have accumulated more than 36.5 million registered members as of December 31, 2019 and approximately 9.5 million registered members in 2019. We believe that the majority of our customers are well-educated professionals belonging to middle and high income population in China.

Customer Services and Membership Program

Customer Services

Customer service representatives. We believe our strong emphasis on customer service enhances our brand image and customer trust and loyalty. Our customer service center provides real-time and butler-style assistance to our customers. Leveraging insight into customer behavior, our customer service representatives provide targeted product recommendations, product purchasing and sourcing assistance, as well as reminders to customers for routine product maintenance. Our sales representatives at our offline experience centers establish close relationships with our customers and provide customers with continuing after-sales service, such as paid cleaning and maintenance services. We recruit customer service representatives with substantial experience in the luxury retail product industry. Each representative is required to complete mandatory training on product knowledge, complaint handling and communication skills. We regularly monitor and evaluate the performance of each representative to ensure superior quality.

Product after-sales maintenance service. We believe our after-sales maintenance service is among the best in the e-commerce industry in China. Different from brand after-sales services, our after-sales services have the advantage of shorter service time, and integrate domestic and multi-brand maintenance services. We currently provide such service for three categories of products, namely watches, leather products and jewelries, at our offline experience centers.

Return policy. We generally allow customers to return or exchange unopened products within seven days upon receipt of the product by submitting a return request online. Our customer service representatives will review and process the request and contact the customer by e-mail or by phone if there are any follow-up questions. Customers have the option to mail the products to our logistics center or bring them to one of our offline experience centers. Upon receipt of the returned or to-be-exchanged product, we credit the customer's member or payment account with the purchase price or deliver the replacement product to customers after inspection.

Membership Program

We have established a membership system to cultivate customer loyalty and encourage additional purchases by offering a variety of exclusive membership benefits and awards. Our membership program featured five membership levels before November 2018, i.e., regular, silver, gold, diamond and black, and customers were automatically upgraded to higher levels based on their total spending with us annually. Our members received a variety of exclusive benefits according to their membership levels, such as product coupons and discounts, Secoo Check installment payments services, free gift packing and domestic delivery, cleaning and maintenance services, fast return and refund services and customized ordering of brand products. Our premier members, i.e., diamond and black members, enjoyed a variety of premium services, such as exclusive birthday presents, priority ordering of our new, rare and popular products, tryout-first-and-buy-later privilege, exclusive use of our offline experience centers for personal events and expanded access to offline experience center lounges and dedicated one-to-one customer representative services, who are familiar with their shopping tastes and preferences. We also select and offer premier members exclusive access to brand collaboration and art events hosted by us. In November 2018, we implemented a new paid membership program, which is divided into monthly membership, quarterly membership and annual membership, in an effort to enhance the stickiness of members. Our paid membership rights include membership discount, bonus points, freight subsidy, tax subsidy, luxury maintenance and other perks. In 2019, we continued to optimize our paid membership ecosystem, upgrading tiers of our customer demographics in terms of customer lifecycle and buying power to offer customized perks. Our previous membership levels and benefits still apply to our old members. In addition, we refined our award membership program in October 2017, after which our members can now earn loyalty points when making purchase on our Secoo platforms. Members can redeem their membership loyalty points into credits towards their future purchases.

Payment

We provide our customers with a variety of payment options on our online platform, including Secoo Check, online payments with credit cards and debit cards issued by major banks in China, payment through major third-party online payment platforms, such as Alipay, UnionPay and WeChat Pay, payment through the licensed consumer licensed platform such as Mashang Consumer Finance and JD Baitiao, bank transfers, cash on delivery (for products with low purchase prices) and payment using our store credits.

In 2016, we launched Secoo Check at our online platform, through which our customers can make payments for our merchandise products in one, three, six or twelve monthly installments. Secoo Check gives our customers more convenience and faster approval speed.

Product Offerings

Product Categories

We offer a full range of upscale products and services on our platform. Since we commenced our current business operations in 2011, we have sold over 400,000 SKUs of upscale products, and we currently offer over 400,000 SKUs of such products on our platform. In 2019, sales of watches, bags, clothing/footwear/accessories and jewelries accounted for 12.2%, 19.3%, 32.5% and 9.3% of our total GMV, respectively. The following table illustrates the categories of upscale lifestyle products we offer:

Product category	Product description
Bags	Top-handle bags, shoulder bags, cross-body bags, evening bags, purses, clutches, wristlets, wallets, cosmetics bags, satchels, rucksacks, luggage and waist bags
Watches	Automatic self-wind, mechanical hand-wind and quartz wrist watches for men and women with leather or metal bands for social, outdoors and various other occasions, as well as watch accessories
Womenswear	A variety of apparel and styles, including gowns, dresses, coats, casual wear, jeans, outerwear, swimsuits and lingerie
Menswear	A variety of apparel and styles, including formal suits, coats, casual and smart-casual T-shirts, polo shirts, jackets, pants and underwear
Footwear	Designer shoes for women and men for both casual and formal occasions
Children’s wear	Apparel and footwear for boys, girls, infants and toddlers
Sportswear	Sports apparel, gear and footwear
Cosmetics and skin care	Lip gloss, nail polish, perfume, makeup remover, cosmetic applicators, facial cleansers, moisturizers, facial masks, lotions, toners, shampoos, conditioners and body washes

Product category	Product description
Jewelry	Fashion jewelry in a variety of styles and materials, including ear-rings, brooches, necklaces and pendants, bracelets, charms, rings, gold bullions and gold derivative products for investment purpose
Accessories	Belts, scarfs, eyewear, gloves, ties, hats and umbrella
Home goods	Home furnishings, including bedding and bath products, home decor, dining and tabletop items, kitchenware, electronics and small household appliances, lighting, maternity products, toys and games, musical instruments and wine
Fine food and beverage	High-end chocolate, tea, coffee, soft drinks, soda water and wine
3C electronic devices	High-end laptop, tablet, smartphone and smart consumer electronics
Lifestyle services	Fine dining, vacation packages, hotel stays, chartered flights, private jet rentals and drones
Art	Paintings, drawings and sculptures, and related services, such as customization, authentication and certification
High-end Chinese original products	Handcraft, Chinese designer apparel, furniture, tea, and famous Chinese brand products

General Pricing Policy

We set our prices based on the retail prices set by brands and distributors to be competitive with those on other major online retail websites and in physical stores in China. Benefiting from our economies of scale, we are able to negotiate with our suppliers for prices that are competitive with those they offer to other sales channels.

Authentication and Quality Control Procedures

We believe we have one of the most stringent authentication and quality control procedures in the Chinese e-commerce industry. Almost all products sold on our platform are subject to our ISO-9001 certified authentication process. We are the first online upscale products and services platform that was authorized to jointly establish a work station with the Chinese National Leather Products Quality Supervision and Examination Center to authenticate leather products in Beijing, China.

Product sourcing. We diligently examine the product sourcing channels and qualification of our suppliers. Our form supply agreement requires suppliers to represent that the products they supply are authentic, are from legitimate sources and do not infringe upon rights of third parties, and to indemnify us for any damages resulting from any breach of such representations.

Inspection. After the products arrive at our logistics centers, we carefully inspect the exterior of the products and immediately reject or return products that do not meet the purchase order specifications or our quality standards, such as products with broken or otherwise compromised packaging.

Authentication. After the products have been inspected, they generally undergo our standard authentication procedures.

For our first-level authentication, our experienced authentication professionals carefully examine the physical traits of products according to our standard authentication protocols to ensure their authenticity. Our authentication professionals, a number of whom hold senior engineer titles and governmental certifications, have an average of 15 years of work experience in the luxury retail product industry. Our authentication professional team is one of the largest full-time authentication teams in Asia among online upscale products retail platforms. Our second-level authentication leverages our sophisticated laboratory equipment to examine the chemical characteristics of the products. Additionally, products that have been determined to be authentic by the first two levels of authentication remain subject to our random selection for further testing in order to ensure the genuineness of the products we offer.

Proprietary database. Leveraging our rich experience in the luxury product retail industry, we have built a comprehensive database featuring detailed product information covering a wide range of brands, which, as of December 31, 2019, contained detailed product information covering over 3,800 domestic and international brands. Our proprietary database guides every step of our authentication procedures. We continuously update our database by gathering information on the latest products debuted by luxury brands.

Online authentication. Building on our big data technology and proprietary database, we are able to provide online authentication services of luxury products to our customers and customs offices throughout China. Online authentication services are used as a preliminary authentication check against our authentication standards and additional physical authentication will be conducted before we accepted the products or send the products to our customers.

Fulfillment

We have established a logistics and delivery network with nationwide coverage. We engage reputable global and domestic third-party delivery companies to ensure reliable and timely delivery. We offer free shipping on all products fulfilled domestically. Customers also have the option to pick up products at one of our offline experience centers or partnered brand stores. For overseas direct sales, we incentivize customers to pick up the products at our overseas offline experience center by offering special discounts or perks.

Logistics Network and Warehouse Management System

Our logistics network consists of logistics centers strategically located in Beijing, Yichun, Hong Kong and Milan. Our Beijing logistics center handles essentially all products sold through our online shopping mall, flash sales and auction formats. Our Hong Kong logistics center processes all orders placed through our overseas direct sales format. Our offline experience centers also perform certain warehousing functions.

Our WMS enables us to closely monitor each step of the fulfillment process from the time a purchase order is confirmed and the product arrives in one of our logistics centers to the time the product is packaged and picked up by delivery service providers for delivery to a customer. Shipments from suppliers generally first arrive at or are first directed to one of our logistics centers. At each logistics center, each product is bar-coded and tracked through our WMS, allowing real-time monitoring of inventory levels across our logistics network and item tracking at each logistics center. We repackage all products to our standardized boxes before the products are shipped to our customers.

Delivery Services

We believe that timely and convenient delivery is essential towards customer satisfaction. We deliver orders placed on our online platform across China through reputable third-party delivery companies with global and nationwide coverage, including S.F. Express, DHL, YTO Express, Yunda Express and China Post EMS. For higher-priced products, we offer customers with delivery addresses within the urban areas of Beijing, Shanghai and Chengdu the option to have their products delivered by our own employees in order to ensure product safety and to provide product introductions upon delivery. Alternatively, our customers, who prefer to pick up their order themselves, can also pick up products they ordered online at our conveniently located offline experience centers. Also, they may pick up certain products from collaborated branded store.

We typically negotiate and enter into service agreements with delivery service providers on an annual basis. We regularly monitor and evaluate the performance of our delivery partners and their compliance with our contractual terms.

Suppliers

We have built a trusted global supply chain for upscale products and services, for which we provide a variety of technological and service support. Since we commenced our current business operation, we have attracted a broad group and large base of suppliers of upscale products and services, including brands, brand authorized distributors and individual and corporate suppliers. We believe our ability to generate significant sales and to provide high-quality after-sales customer service helps us attract new suppliers and build stronger relationship with our existing ones. Our comprehensive global supply system is designed to meet the diverse purchase preferences and needs of our customers, varying from in-season luxury products to highly sought-after classic styles and vintage and rare products.

We have established direct product sourcing relationships with a broad range of brands around the world, including Europe, the United States, Australia, Japan, South Korea, as well as Hong Kong. Leveraging our scale in China, we have also become the first e-commerce partner with a number of global brands in order to help such brands establish a presence in the China market. Our overseas direct sourcing offers Chinese consumers convenient access to luxury products sourced at attractive prices and fulfilled directly from overseas, without the need to travel abroad, and allow our consumers to make payments in Renminbi. We synchronize our order and logistics information with the local customs bureau in China, which together with our expertise in overseas direct products sourcing and logistics, enable us to provide fast and convenient delivery and customs clearance services for our customers.

Maintaining strong relationships with our suppliers is important to the growth of our business. Any negative developments in our relationships with our existing suppliers could materially and adversely affect our business and growth prospects. If we fail to attract new suppliers and third-party merchants, our business and growth prospects may be materially and adversely affected. See “Item 3.D. Risk Factors — Risks Related to Our Business — If we fail to manage and expand our relationships with suppliers, or otherwise fail to procure products at favorable terms, our business and growth prospects may suffer.”

Supplier Selection

Our merchandizing team is responsible for identifying potential suppliers based on our supplier selection guidelines. For brand suppliers, we consider their industry positions since we aim to prioritize selling top brands, whereas for brand authorized distributor suppliers, we favor level one distributors because level one distributors usually guarantee the authenticity of their products. Additionally, we follow an internal suppliers selection system that considers pricing, profits, credibility, services and potential long-term collaboration. Once a potential supplier is identified, we conduct regular due diligence reviews on its qualifications based on our selection criteria.

For other individual and corporate suppliers who apply to have their products on our online platform, our merchandizing team first determines whether to accept the application based on the marketability of such products and their compatibility with our auction sales format. For approved applications, we require the owners to deliver the products to us for authentication. Once the products have been authenticated, we determine the initial bidding prices in consultation with the owners based on a number of factors such as marketability, the initial purchase price, brand and wear and tear.

Supply Arrangements

For products fulfilled domestically, we generally enter into standard supply agreements with suppliers. We stock the products at our warehouses before orders are placed on such products by our customers. Our suppliers can monitor the inventory level of the products they supplied using our system and timely respond to our sales demands. In anticipation of major sales events, we provide advance notice to the relevant suppliers so that they can reserve sufficient stock to meet potential surge in demand.

For products fulfilled overseas and sold through our overseas direct sales format, we only purchase a product from our supplier when an order has been placed and paid for by a customer.

Product Selection

Our merchandizing team possesses insights and deep understanding of our existing and potential customers' evolving needs and preferences. Before selecting a product to be offered on our platform, we consider and analyze historical sales data, latest fashion trends, seasonality and customer reviews and feedbacks to estimate the quantity sales format for a particular product. We carefully plan our product mix to achieve a balanced and complementary product offering across different upscale product categories.

Inventory Management

While we pay for products fulfilled from overseas at the time we purchase them, we generally do not pay in advance for other upscale products that we purchase or source from our domestic suppliers. For some of our suppliers, we only have to settle payment after the products we sourced from such suppliers are sold.

Our WMS allows us to efficiently manage our inventories, track products, and deliver products to our customers on a timely basis. We use an ERP system to monitor and actively track sales data. This system helps us make timely adjustments to our procurement plan and minimize excess inventory.

Marketing

We believe that the most effective form of marketing is to continuously enhance our customer experience, as customer satisfaction leads to word-of-mouth referrals and recurring purchases. We have been able to build a large and loyal customer base primarily through comprehensive customer services and a variety of advertising and brand promotion activities.

For our most loyal customers and members, we host periodic online and offline events, including seminars, aimed at providing them with useful information about fashion trends and wardrobe tips, which serve as cross-selling opportunities for us. We provide various incentives to our customers and members to increase their spending and loyalty, and we send targeted e-mails and text messages to our customers periodically with product recommendations and promotions based on their online shopping habits and behavior. For example, we offer a selection of deeply discounted products on special occasions, such as our annual Luxury Festival beginning on December 17 of each year and Secoo anniversary sales on July 7 each year and Double 11 singles day shopping festival, and on major holidays, such as Thanksgiving, Christmas and Chinese New Year. We also hold daily sales events for selected brands and products for a limited period of time through our flash sales. We have continued to realize cross-selling opportunities from our existing customer base by creating more diversified sales formats and increasing our product offerings. In addition to sales events, we also joined hands with a number of popular entertainers and artists to improve Secoo's brand awareness and deepen customer insights in the high-end consumption market, especially among the younger generation. For example, we engaged NEXT7, a young Chinese idol group, to endorse our 2018 anniversary sales event as celebrity spokesmen. In 2019, we continued to expand Secoo's paid membership ecosystem, upgrading tiers of our customer demographics in terms of customer lifecycle and buying power to offer customized perks in addition to a mix of community marketing events, live-stream product recommendations, on-site live-stream shopping, as well as interactive activities to enhance customers and members' overall satisfaction.

Leveraging our sophisticated business intelligence system and big data technology, we are able to generate a deep understanding of the characteristics of our target customer group. With this knowledge, we precisely direct our marketing efforts through both online and offline channels in order to efficiently reach our new customers. We also collaborate with other major online platforms in China to innovate current online marketing model. For example, in December 2016, we began to cooperate with a leading internet company in China to through which we exchanged non-sensitive customer information to further enhance understanding of our consumers' online behavior and patterns. Through our collaboration, we are able to backtrack our customers' online habits and behavior in addition to their online shopping preferences. We work with prestigious brands, to use our innovative marketing model. If this innovative marketing model proves to be successful, we will not only be able to more precisely improve and upgrade our marketing model, but also transfer ourselves into a marketing data and model provider and generate revenues through feeding valuable marketing data to brands and other companies. We intend to further apply our big data technology to explore upscale products and services consumers' online behavior and patterns so that we can expand our advertising, marketing and promotion cooperation with other major online platforms and brands.

Building on our foundation as a reputable and trusted brand, we continue to use cost-effective and expanded branding initiatives nationwide to reinforce our reputation in the online luxury consumption industry. We believe that our China Luxury E-commerce Whitebooks published since 2016 have been recognized as an authority in luxury product retail industry in China. We conduct online marketing activities through major social networks, social media portals, online video, search engines and other major websites in China. To enhance our brand awareness, we have also engaged in brand promotion activities such as advertising on national television networks and on billboards in residential and commercial complexes in major cities in China. Additionally, our cooperation with luxury brands, omni-channel commerce solutions, entertainment stars and other major industry players also greatly enhanced our brand credibility and reputation in the market.

Technology

We have built our technology platform relying primarily on software and systems that we have developed in-house and to a lesser extent on third-party software that we have modified and incorporated. Our strong technology platform is vital in supporting our pursuit of a continually improving customer experience, including the customer experience of our mobile users. From our website, the primary customer interface, to the back end management systems, our technology platform supports smooth and accurate operational execution as well as seamless information flow, data consistency and analytics. We have adopted a service-oriented architecture supported by cloud-based big data technology, which consist of front-end and back-end modules. Our network infrastructure is built on self-owned servers located in data centers operated by a major PRC internet data center provider. We are implementing enhanced cloud architecture and infrastructure for our core data processing system to augment our existing virtual private network as we continue to expand our operations, enabling us to achieve significant operational efficiency through a virtual and centralized network platform. The principal components of our technology platform include:

Website and mobile applications. Our website, together with our mobile applications, is our primary customer interface, which mainly include product display, account management, category browsing, shopping cart, order processing and payment functions. Our website and mobile applications are supported by our proprietary content distribution network, dynamic and distributed cluster and two core databases on merchandise and customers, providing our customers with quicker access to the product display in which they are interested, and facilitating faster check outs. We have designed our systems to cope with our maximum peak concurrent visitors at all times. As a result, we are able to provide our customers constantly smooth online shopping experience.

Business intelligence system. Our business intelligence systems enable us to effectively collect, analyze and make use of internally generated customer behavioral and transaction data. We use this information for merchandizing, product sourcing, customer profiling, recommendation and marketing. Our business intelligence system is built with the proprietary cloud computing infrastructure, providing decision-making intelligence such as dashboard operation, operational analysis, market analysis, sales forecasts and products such as anti-fraud filters, precision marketing, and other application-oriented intelligent products that facilitate data-driven decision-making and increase our product sales. We will continue to develop and upgrade our sophisticated business intelligence system to effectively utilize the large amount of user behavioral data generated through our website and mobile applications.

Big data technology. We have developed our consumer behavior data analysis capabilities, which enable us to conduct customer profiling to enhance segmentation and personalization. Leveraging our big data technology, we are able to create customized product recommendations to support push and targeted marketing, allowing us to efficiently attract new customers as well as new purchases from existing customers. We have collaborated with other online platform to further apply our big data technology to precise and targeted marketing in the luxury product retail industry. Leveraging this consumer behavior data, we are able to more precisely target our potential customers through online marketing.

CRM, ERP and WMS. Our customer service system mainly consists of our CRM and our customer data analysis and membership management system. Our customer relationship management system tracks customer information, including customers' outstanding orders, order and payment history, and settings and preferences, as well as all interaction between our customer service representatives and our customers, to ensure consistent and high quality customer service. Through our membership management system, we are able to increase our customers' loyalty and fully utilize our platform to fulfil their all high-end lifestyle needs. Our ERP system integrates our management of suppliers, accounting and product distribution information. We use our ERP system to monitor and actively track sales and inventory data. This system helps us make timely adjustments to our procurement plan and minimize excess inventory. Our WMS allows us to efficiently manage our inventories, track products, and deliver products to our customers on a timely basis. Our WMS allows us to efficiently manage our inventories, track products, and deliver products to our customers on a timely basis.

We have developed most of the key business platform through our in-house IT department. We also license certain software from reputable third-party providers and work closely with them to customize the software for our operations. We have implemented a number of measures to protect against system failure and data loss. We have developed a disaster tolerant system for our key business modules which includes real-time data mirroring, daily off-line data back-up and redundancy and load balancing.

We believe that our module-based systems are highly scalable, which enable us to quickly expand system capacity and add new features and functionality to our systems in response to evolving business needs and customer demands without affecting the operation of existing modules. We have also adopted rigorous security policies and measures, including encryption technology, to safeguard our proprietary data and customer information.

For our offline experience centers, we have developed a suite of smart and innovative technology that enhances shopping experience and our customer service. Our Bluetooth smart devices track customer locations and behavior throughout the offline experience centers. When a customer scans the QR code of a product with our mobile application or simply moves a smart phone close to the product, it will show up in the online shopping cart of the customer. This facilitates one-click check-outs later on.

Intellectual Property

We consider our patents, trademarks, software copyrights, service marks, domain names, trade secrets, proprietary technologies and similar intellectual property rights as critical to our success, and we rely on patents, trademark, copyright and trade secret protection laws in the PRC and overseas, as well as confidentiality procedures and contractual provisions with our employees, service providers, suppliers and others to protect our intellectual proprietary rights. As of December 31, 2019, we owned 17 patents, 506 registered trademarks, copyrights to 37 software programs developed by us relating to various aspects of our operations and 68 registered domain names, including *secoo.com*. Of the 506 registered trademarks, 479 are registered in the PRC, 17 are registered in Hong Kong, 4 are registered in the US, and 6 are registered in Europe. We are in the process of applying for 2 patents in the PRC.

Competition

We face competition from traditional offline upscale product retailers and their online platforms, domestic and global brand online platforms, major domestic e-commerce platforms and global online upscale product retailers, such as *Net-A-Porter.com*.

We anticipate that the retail market of upscale products will continually evolve and will continue to experience rapid technological change, evolving industry standards, shifting customer requirements, and frequent innovation. We must continually innovate to remain competitive. We believe that we compete primarily on the basis of large and loyal customer base with high purchasing power, proprietary business intelligence system and big data technology, global supply chain, authentication, quality control and after-sales services capabilities and our brand reputation.

Employees

As of December 31, 2017, 2018 and 2019, we had 829, 1,329 and 1,010 full-time employees, respectively. The following table sets forth the number of our full-time employees categorized by areas of operations as of December 31, 2019:

Function	Number of employees
Business development, sales and marketing	519
Technology support	140
Fulfillment	187
Administration and management	164
Total	1,010

Our success depends to a large extent on our ability to attract, train, motivate and retain qualified personnel. We believe we offer our employees competitive compensation packages and an environment that encourages self-development and, as a result, have generally been able to attract and retain qualified personnel and maintain a stable core management team.

As required by laws and regulations in China, we participate in various employee social security plans that are organized by municipal and provincial governments, including pension, unemployment insurance, childbirth insurance, work-related injury insurance, medical insurance and housing insurance. We are required under PRC law to make contributions to employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time. To date, we have not been involved in any significant labor disputes.

Insurance

We maintain certain insurance policies to safeguard against risks and unexpected events. We have purchased property insurance covering our high-valued inventory in our logistics centers. We also purchased property insurance to cover our products sold under our cash-on-delivery payment method while in transit. We also provide social security insurance including pension insurance, unemployment insurance, work-related injury insurance and medical insurance for our employees. We consider our insurance coverage to be sufficient for our business operations in China.

Regulations

Regulations Relating to Foreign Investment

Foreign Investment Law. On January 1, 2020, the Foreign Investment Law and the Implementation Regulations, came into effect and replaced the trio of prior laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The Foreign Investment Law and the Implementation Regulations embody an expected regulatory trend in PRC to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. The Foreign Investment Law and the Implementation Regulations, by means of legislation, establish the basic framework for the access, promotion, protection and administration of foreign investment in view of investment protection and fair competition.

According to the Foreign Investment Law, foreign investment shall enjoy pre-entry national treatment, except for those foreign invested entities that operate in industries deemed to be either “restricted” or “prohibited” in the “negative list.” The negative list will be issued by, amended or released upon approval by the State Council, from time to time. The negative list will consist of a list of industries in which foreign investments are prohibited and a list of industries in which foreign investments are restricted. Foreign investors will be prohibited from making investments in prohibited industries, while foreign investments must satisfy certain conditions stipulated in the negative list for investment in restricted industries. Foreign investment and domestic investment in industries outside the scope of the prohibited industries and restricted industries stipulated in the negative list would be treated equally. The current negative list is the 2019 Negative List, which was promulgated by the Ministry of Commerce and the National Development and Reform Commission on June 30, 2019 and took effect on July 30, 2019.

In addition, the Foreign Investment Law does not comment on the concept of “de facto control” or contractual arrangements with variable interest entities, however, it has a catch-all provision under definition of “foreign investment” to include investments made by foreign investors in China through means stipulated by laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions to provide for contractual arrangements as a form of foreign investment.

Furthermore, the Foreign Investment Law provides that foreign invested enterprises established according to the prior laws regulating foreign investment may maintain their structure and corporate governance within five years after the implementing of the Foreign Investment Law. The Implementation Regulations restates certain principles of the Foreign Investment Law and further provides that, among others, (1) if a foreign-invested enterprise established prior to the effective date of the Foreign Investment Law fails to adjust its legal form or governance structure to comply with the provisions of the Companies Law of the PRC or the Partnership Enterprises Law of the PRC, as applicable, and complete amendment registration before January 1, 2025, the enterprise registration authority will not process other registration matters of the foreign-invested enterprise and may publicize such non-compliance thereafter; (2) the provisions regarding equity interest transfer and distribution of profits and remaining assets as stipulated in the contracts among the joint venture parties of a foreign-invested enterprise established before the effective date of the Foreign Investment Law may, after adjustment of the legal form and governance structure of such foreign-invested enterprise, remain binding upon the parties.

Foreign Investment in Value-Added Telecommunications Businesses. The Regulations for Administration of Foreign-invested Telecommunications Enterprises, which was promulgated by the PRC State Council in December 2001 and subsequently amended in September 2008 and February 2016, respectively, set forth detailed requirements with respect to capitalization, investor qualifications and application procedures in connection with the establishment of a foreign-invested telecommunications enterprise. Subject to several exceptions, these regulations prohibit a foreign entity from owning more than 50% of the total equity interest in any value-added telecommunications service business in China and require the major foreign investor in any value-added telecommunications service business in China to have a good and profitable record and operating experience in this industry.

In July 2006, the Ministry of Information Industry, the predecessor of the MIIT, issued the Circular on Strengthening the Administration of Foreign Investment in the Operation of Value-added Telecommunications Business, pursuant to which a domestic PRC company that holds an ICP License or an EDI license is prohibited from leasing, transferring or selling the ICP License or EDI license to foreign investors in any form and from providing any assistance, including resources, sites or facilities, to foreign investors that conduct a value-added telecommunications business illegally in China. Further, the domain names and registered trademarks used by an operating company providing value-added telecommunications services must be legally owned by that company or its shareholders. In addition, the company's operational premises and equipment must comply with the approved coverage region on its ICP License or EDI license, and the company must establish and improve its internal internet and information security policies and standards and emergency management procedures. If an ICP License or an EDI license holder fails to comply with the above requirements and also fails to remediate such non-compliance within a specified period of time, the MIIT or its local counterparts have the discretion to impose administrative measures on such license holder, including revoking its ICP license or EDI license.

To comply with the PRC regulations discussed above, we operate our website and commercial value-added telecommunications services through Beijing Secoo and Beijing Auction, our PRC consolidated variable interest entities, each of which holds an ICP License and Beijing Secoo also holds an EDI license. Beijing Secoo and Beijing Auction, the operator of our website, *secoo.com*, *secoo.cn*, *siku.cn*, *secooing.com* and etc., also owns the relevant domain names and trademarks used in our value-added telecommunications businesses.

On June 19, 2015, the MIIT issued the Circular on Lifting the Restriction to Foreign Shareholding Percentage in Online Data Processing and Transaction Processing Business (Operational E-commerce), or the New E-commerce Circular, pursuant to which, foreign investors are allowed to hold up to 100% equity interest of an entity operating online data processing and transaction processing business (operational e-commerce) in China. Although the New E-commerce Circular relieved shareholding percentage restriction for foreign investors in the online data processing and transaction processing business (operational e-commerce), such "operational e-commerce" is not defined in either the New E-commerce Circular or other relevant laws and regulations, and meanwhile relevant requirements provided by the Regulations for Administration of Foreign-invested Telecommunications Enterprises shall still apply. For example, the requirement that the major foreign investor needs to have a good track record and operating experience in the value-added telecommunications service industry will still apply when applying for the license for online data processing and transaction processing business (operational e-commerce). So far, there remain significant uncertainties with respect to the interpretation and implementation of the New E-commerce Circular by the competent authorities and the application for the license regarding online data processing and transaction processing business (operational e-commerce) by a wholly owned foreign invested enterprise in practice.

Considering the uncertainty of the implementation of the New E-Commerce Circular, we have kept on operating our website and commercial value-added telecommunications services through Beijing Secoo.

Licenses and Permits

We are required to hold a variety of licenses and permits in connection with various aspects of our business, including the following:

Value-added Telecommunication Licenses. The Telecommunications Regulations promulgated by the State Council and its related implementation rules, including the Catalog of Classification of Telecommunications Business issued by the MIIT, categorize various types of telecommunications and telecommunications-related activities into basic or value-added telecommunications services, and internet information services, or ICP services, and online data processing and transaction processing services, or EDI services, are classified as value-added telecommunications businesses. Under the Telecommunications Regulations, commercial operators of Internet information services must first obtain an ICP License from the MIIT or its provincial level counterparts. In September 2000, the State Council also issued the Administrative Measures on Internet Information Services, which was amended in January 2011. According to these measures, a commercial ICP service operator must obtain an ICP License from the relevant government authorities before engaging in any commercial ICP service in China. When the ICP service involves areas of news, publication, education, pharmaceuticals and medical equipment, and if required by law or relevant regulations, specific approval from the respective regulatory authorities must be obtained prior to applying for the ICP License from the MIIT or its provincial level counterpart. In March 2009, the MIIT promulgated the Administrative Measures on Telecommunications Business Operating Licenses, or the Administrative Measures on Telecommunications Business Operating Licenses (2009 version), which set forth the specific types of licenses required to operate value-added telecommunications services, the qualifications and procedures for obtaining such licenses and the administration and supervision of such licenses. In June 2017, the MIIT promulgated a new version of the Administrative Measures on Telecommunications Business Operating Licenses, which took effect and superseded the Administrative Measures on Telecommunications Business Operating Licenses (2009 version). The new Administrative Measures on Telecommunications Business Operating Licenses simplifies the procedures to apply for telecommunications business operating license and strengthen the supervision of daily operation of telecommunications business. Each of Beijing Secoo and Beijing Auction, as our ICP operator, holds an ICP License issued by the Beijing Telecommunications Administration for the operation of our Internet information business. Beijing Secoo also holds an EDI License issued by the Beijing Telecommunications Administration for the operation as an e-commerce transaction platform. See “Item 3.D. Risk Factors — Any lack of requisite approvals, licenses or permits applicable to our business may have a material and adverse impact on our business, financial condition and results of operations.”

Auction License. Pursuant to the Auction Law of the PRC, an enterprise engaging in the bidding and auction of various products as permitted by auction-related laws of the PRC other than cultural relics shall satisfy various criteria, such as having registered capital of at least RMB 1 million and having sufficient number of professionals among whom at least one should be the auction master. The auction activities shall be carried out by the auctioneer with qualification certificate. To engage in the bidding and auction business, domestic auctioneers shall first be verified and authorized by the auction administration department of the provincial government, and subsequently registered with the local counterparts of SAMR, while the foreign-invested auctioneers, whose business does not involve auction of cultural relics, shall directly register with the local counterparts of SAMR and make after-registration filing with competent local counterparts of the Ministry of Commerce, and also obtain auction business permit from the competent local counterparts of the Ministry of Commerce before the operation of their auction business. Entities engaging in auction business without approval and registration may be ordered to cease business and face monetary penalties. Beijing Auction has obtained an auction license from Beijing Municipal Commission of Commerce for our auction business.

Food Distribution Permit. China has adopted a licensing system for food supply operations under the Food Safety Law and its implementation rules. Entities or individuals that intend to engage in food production, food distribution or food service businesses must obtain licenses or permits for such businesses. Under the Food Safety Law of the PRC, as amended and effective on December 29, 2018, the sale of food or beverages must be licensed in advance. Pursuant to the Administrative Measures on Food Operation Licensing as amended and effective on November 17, 2017, an enterprise needs to obtain a Food Operation Permit from the local food and drug administration. Beijing Secoo holds a food distribution permit issued by the Xicheng Branch of Beijing Municipal Administration for Market Regulation for our food distribution business, including distribution of prepackaged food (including chilled and frozen food), health care food and baby and infant formula milk powder. Some other entities in our Group have also obtained a food distribution permit.

Publication Operation Permit. Pursuant to the Administrative Measures for the Publication Market which were promulgated by the State Administration of Press and Publication, Radio, Film and Television and the Ministry of Commerce and became effective in June 2016, any entity or individual engaging in the distribution of publications, including books, newspapers, magazines and audio-video products, must obtain an approval from the competent press and publication administrative authority and receive the Publication Operation Permit. Beijing Secoo has obtained a Publication Operation Permit for the retail sale and online sale of books, magazines, periodicals, electronic publications and audiovisual products.

Medical Device Operation Record-filing. The Regulations on Supervision and Administration of Medical Devices, issued by the State Council in 2000 and further amended in March 2014 and May 2017, divide medical devices into three types. Enterprises engaging in the sale of (i) Type I medical devices do not need any license or recording-filing, (ii) Type II medical devices must file with the relevant drug supervision and administration authority, and (iii) Type III medical devices must obtain a Medical Device Operation Enterprise Permit from the relevant drug supervision and administrative authority. Beijing Secoo has completed the Medical Device Operation Record-filing with Xicheng Branch of Beijing Municipal Administration for Market Regulation for the retail sale of several types of Type II medical devices.

Travel Agency License. Pursuant to the Regulation on Travel Agencies, issued by the PRC State Council in February 2009, and amended in February 2016 and March 2017, a travel agency must obtain a license from the Ministry of Culture and Tourism to conduct outbound travel business and a license from the provincial-level cultural and tourism administration to conduct domestic travel and inbound travel business. Beijing Guanda International Travel Agency Co., Ltd., a subsidiary of Beijing Secoo has obtained a Travel Agency License from the Ministry of Culture and Tourism. Beijing Secoo International Travel Service Co., Ltd., a subsidiary of Beijing Secoo has obtained a Travel Agency License from the Beijing Municipal Bureau of Culture and Tourism.

Internet Culture Business Permit. The Internet Culture Administration Measures, promulgated by the Ministry of Culture, the predecessor of the Ministry of Culture and Tourism, and with the latest amendment becoming effective in December 2017, require ICP service operators engaging in "internet culture activities" to obtain a permit from the Ministry of Culture. The "internet culture activities" include, among other things, online dissemination of internet cultural products and the production, reproduction, importation, distribution and broadcasting of internet cultural products. Beijing Secoo holds an Internet Culture Business Permit issued by the Beijing Municipal Bureau of Culture and Tourism for online operations for performance.

Radio and Television Program Production and Operation Permit. On July 19, 2004, the State Administration of Radio, Film and Television, the predecessor of the National Radio and Television Administration, promulgated the Administrative Measures on the Production and Operation of Radio and Television Programs, or the Radio and Television Program Production Measures, which came into effect on August 20, 2004 and was amended on August 28, 2015 and October 31, 2018. The Radio and Television Program Production Measures provides that any business that produces or operates radio or television programs must first obtain a radio and television program production and operation permit. Entities holding such permits shall conduct their business within the permitted scope as provided in their permits. In addition, foreign-invested enterprises are not allowed to engage in the above-mentioned services. Beijing Secoo holds a Radio and Television Program Production and Operation Permit issued by the Beijing Municipal Radio and Television Bureau for production and distribution of animated cartoons, programs with a special topic and television variety shows, excluding radio or television programs concerning current political news and other programs with special topics, column programs with the same nature.

Internet Drug Information Service Qualification Certificate. In July 2004, the State Food and Drug Administration, or the SFDA, the predecessor of the National Medical Products Administration, or the NMPA, promulgated the Administrative Measures on Internet Drug Information Service and amended in November 2017. In addition, the Standing Committee of the National People's Congress further amended the Drug Administration Law on August 26, 2019, which became effective on December 1, 2019. These laws and measures, together with certain implementing rules and notices promulgated by the SFDA or the NMPA, set out regulations governing the classification, application, approval, content, qualifications and requirements for internet drug information services. An ICP service operator that provides information regarding drugs or medical devices must obtain an Internet Drug Information Service Qualification Certificate from the applicable provincial level administrative authority. Beijing Secoo holds an Internet Drug Information Service Qualification Certificate issued by the Beijing Medical Products Administration for the provision of non-for-profit internet drug information services.

Regulations Relating to E-Commerce, Internet Content and Information Security and Privacy

China's e-commerce industry is at an early stage of development and there are few PRC laws or regulations specifically regulating this industry. In May 2010, the SAMR adopted the Interim Measures for the Administration of Online Commodities Trading and Relevant Services, which took effective in July 2010. Under these measures, enterprises or other operators which engage in online commodities trading and other services and have been registered with SAMR or its local branches must make the information stated in their business licenses available to the public or provide links to their business licenses on their websites. Online distributors must adopt measures to ensure the safety of online transactions, protect online shoppers' rights and prevent the sale of counterfeit goods. Information on products and transactions released by online distributors must be authentic, accurate, complete and sufficient. The above measures were replaced by the Measures for the Administration of Online Commodities Trading issued by the SAMR on January 26, 2014 which became effective on March 15, 2014. These newly issued measures further impose more stringent requirements and obligations on the online trading or service operators. Where the online distributors also act as marketplace platforms that provide service to third-party merchants, the online distributors are obligated to examine the legal status of the third-party merchants and make the information stated in the business licenses of such third-party merchants available to the public or provide a link to their business licenses on the website, as well as make clear distinction between their online direct sales and sales of third-party merchant products on the marketplace platform. We are subject to such rules as a result of our online merchandised sales and online marketplace business. In January 2017, the SAMR adopted the Interim Measures for Seven-day Unconditional Return of Online Purchased Goods, which took effective in March 2017, pursuant to which, customers are entitled to return goods without a cause, except for customized goods, fresh and perishable goods, audio-visual products, computer software and other digital products, which are downloaded online or of which the packages have been opened by customers, and delivered newspapers or periodicals.

On August 31, 2018, the Standing Committee of the National People's Congress promulgated the E-Commerce Law, which became effective on January 1, 2019. The E-commerce Law strengthens the regulation on E-commerce operators relating to consumer protection, personal data protection and intellectual property rights protection. As an e-commerce operator, we are required under the E-commerce Law, (1) to refrain from conducting false or misleading commercial promotion by fabricating transactions, making up user comments or otherwise, to defraud or mislead consumers, (2) to allow consumer to opt out of search results targeting his or her personally characteristics such as hobbies and shopping patterns and simultaneously show the consumers with options not targeting his or her personally characteristics, (3) to alert consumers of tie-in sale of commodities or services, and shall not set the tied-in commodities or services as a default option, (4) to obtain and maintain business license and other applicable licenses as required, and disclose information of such license at our front-page, (5) to clearly detail the refund procedure for the deposit we received from customers, and not set any unreasonable conditions to refund, (6) to take the risks and responsibilities in the transportation of the products, unless the consumer chooses a courier logistics service provider other than the default service provider, etc. We are subject to the provisions of the E-Commerce Law as a result of our online direct sales and online marketplace businesses.

The Administrative Measures on Internet Information Services specify that internet information services regarding news, publication, education, pharmacy and medical appliances, among others, are to be examined, approved and regulated by the relevant authorities. Internet information providers are prohibited from providing services beyond those included in the scope of their ICP Licenses or filings. We issued prepaid cards which can be used to buy products on our websites. Pursuant to the Administrative Measures for Single-purpose Commercial Prepaid Cards, which was promulgated by the PRC Ministry of Commerce in September 2012, and subsequently amended in August 2016, card issuers shall go through record-filing procedures in relation to their single-purpose prepaid cards service. Beijing Secoo has completed the record-filing procedures in relation to the single-purpose prepaid cards service.

Furthermore, the Administrative Measures on Internet Information Services clearly specify a list of prohibited content. Internet information providers are prohibited from producing, copying, publishing or distributing information that is humiliating or defamatory to others or that infringes the lawful rights and interests of others. Internet information providers that violate the prohibition may face criminal charges or administrative sanctions by the PRC authorities. Internet information providers must monitor and control the information posted on their websites. If any prohibited content is found, they must remove such content immediately, keep a record of it and report it to the relevant authorities.

Internet information in China is also regulated and restricted from a national security standpoint. The Standing Committee of the National People's Congress, China's national legislative body, has enacted the Decisions on Maintaining Internet Security, which may subject violators to criminal punishment in China for any effort to: (i) gain improper entry into a computer or system of strategic importance; (ii) disseminate politically disruptive information; (iii) leak state secrets; (iv) spread false commercial information; or (v) infringe intellectual property rights of third parties. The Ministry of Public Security has promulgated measures that prohibit use of the internet in ways which, among other things, result in a leakage of state secrets or a spread of socially destabilizing content. On October 21, 2019, the Supreme People's Court and the Supreme People's Procuratorate of the PRC jointly issued the Interpretations on Certain Issues Regarding the Applicable of Law in the Handling of Criminal Case Involving Illegal Use of Information Networks and Assisting Committing Internet Crimes, which came into effect on November 1, 2019, and further clarifies the meaning of Internet service provider and the severe situations of the relevant crimes. In December, 2019, the CAC issued the Provisions on the Management of Network Information Content Ecology, or the CAC Order No.5, which became effective on March 1, 2020, to further strengthen the regulation and management of network information content. Pursuant to the CAC Order No.5, each network information content service platform is required, among others, (i) not to disseminate any information prohibited by laws and regulations, such as information jeopardizing national security; (ii) to strengthen the examination of advertisements published on such network information content service platform; (iii) to promulgate management rules and platform convention and improve user agreement, such that such network information content service platform could clarify users' rights and obligations and perform management responsibilities required by laws, regulations, rules and convention; (iv) to establish convenient means for complaints and reports; and (v) to prepare annual work report regarding its management of network information content ecology. In addition, a network information content service platform must not, among others, (i) utilize new technologies such as deep learning and virtual reality to engage in activities prohibited by laws and regulations; (ii) engage in online traffic fraud, malicious traffic rerouting and other activities related to fraudulent account, illegal transaction account or maneuver of users' account; or (iii) infringe a third party's legitimate rights or seek illegal interests by way of interfering with information display.

In recent years, PRC government authorities have enacted laws and regulations on internet use to protect personal information from any unauthorized disclosure. The Administrative Measures on Internet Information Services prohibit ICP service operators from insulting or slandering a third party or infringing upon the lawful rights and interests of a third party. Under the Several Provisions on Regulating the Market Order of Internet Information Services, issued by the MIIT in 2011, an ICP service operator may not collect any personal information of its users or provide any such information to third parties without the consent of such users. An ICP service operator must expressly inform the users of the method, content and purpose of the collection and processing of their personal information and may only collect such information necessary for the provision of its services. An ICP service operator is also required to properly keep user's personal information confidential, and in case of any leakage or potential leakage of the information of its users, the ICP service operator must take immediate remedial measures and, in severe circumstances, make an immediate report to the telecommunications regulatory authority. In addition, pursuant to the Decision on Strengthening the Protection of Online Information issued by the Standing Committee of the National People's Congress in December 2012 and the Order for the Protection of Telecommunication and Internet User Personal Information issued by the MIIT in July 2013, any collection and use of personal information must be subject to the consent of the relevant user, abide by the principles of legality, rationality and necessity and be within the specified purposes, methods and scopes. An ICP service operator must also keep such information strictly confidential, and is further prohibited from divulging, tampering or destroying of any such information, or selling or providing such information to other parties. Any violation of the above regulation may subject the ICP service operator to warnings, fines, confiscation of illegal gains, revocation of licenses, cancellation of filings, closedown of websites or even criminal liabilities. We have required our users to consent to our collection and use of their personal information, and have established information security systems to protect user's privacy. Pursuant to the PRC Cyber Security Law, which was promulgated by the Standing Committee of the National People's Congress on November 7, 2016 and took effect on June 1, 2017, network operators shall take technical and other necessary measures pursuant to the laws, regulations and compulsory national requirements to safeguard the safe and stable operation of the networks, respond to network security incident effectively, prevent illegal and criminal activities and maintain the integrity, confidentiality and usability of network data. The Cyber Security Law sets forth various security protection obligations for network operators, which are defined as "owners and administrators of networks and network service providers", including, among others, complying with a series of requirements of tiered cyber protection systems, verifying users' real identity, localizing the personal information and important data gathered and produced by key information infrastructure operators during operations within the PRC, and providing assistance and support to government authorities where necessary for protecting national security and investigating crimes. Furthermore, in June 2016, the CAC issued the Administrative Provisions on Mobile Internet Applications Information Services, which became effect on August 1, 2016, to further strengthen the regulation of the mobile app information services. On November 28, 2019, the CAC, the MIIT, the Ministry of Public Security and the SMAR jointly issued the Methods of Identifying Illegal Acts of Apps to Collect and Use Personal Information. This regulation further illustrates certain commonly-seen illegal practices of apps operators in terms of personal information protection, including "failure to publicize rules for collecting and using personal information", "failure to expressly state the purpose, manner and scope of collecting and using personal information", "collection and use of personal information without consent of users of such App", "collecting personal information irrelevant to the services provided by such app in violation of the principle of necessity", "provision of personal information to others without users' consent", "failure to provide the function of deleting or correcting personal information as required by laws" and "failure to publish information such as methods for complaints and reporting".

Regulations Relating to Product Quality and Consumer Protection

The PRC Product Quality Law applies to all production and sale activities in China. Pursuant to this law, products offered for sale must satisfy the relevant quality and safety standards. Enterprises may not produce or sell counterfeit products in any fashion, including forging brand labels or giving false information regarding a product's manufacturer. Violations of state or industrial standards for health and safety and any other related violations may result in civil liabilities and administrative penalties, such as compensation for damages, fines, suspension or shutdown of business, as well as confiscation of products illegally produced and sold and the proceeds from such sales. Severe violations may subject the responsible individual or enterprise to criminal liabilities. Where a defective product causes physical injury to a person or damage to another person's property, the victim may claim compensation from the manufacturer or from the seller of the product. If the seller pays compensation and it is the manufacturer that should bear the liability, the seller has a right of recourse against the manufacturer. Similarly, if the manufacturer pays compensation and it is the seller that should bear the liability, the manufacturer has a right of recourse against the seller.

The PRC Consumer Protection Law, as amended on October 25, 2013 and effective on March 15, 2014, sets out the obligations of business operators and the rights and interests of the consumers. Pursuant to this law, business operators must guarantee that the commodities they sell satisfy the requirements for personal or property safety, provide consumers with authentic information about the commodities, and guarantee the quality, function, usage and term of validity of the commodities. Failure to comply with the PRC Consumer Protection Law may subject business operators to civil liabilities such as refunding purchase prices, exchange of commodities, repairing, ceasing damages, compensation, and restoring reputation, and even subject the business operators or the responsible individuals to criminal penalties if business operators commit crimes by infringing the legitimate rights and interests of consumers.

The PRC Consumer Protection Law further strengthens the protection of consumers and imposes more stringent requirements and obligations on business operators, especially on the business operators through the internet. For example, the consumers are entitled to return the goods (except for certain specific goods) within seven days upon receipt without any reasons when they purchase the goods from business operators via the internet. The consumers whose interests are harmed due to their purchase of goods or acceptance of services on online marketplace platforms may claim damages from the sellers or service providers. As to legal liabilities of the online marketplace platform operator, the PRC Consumer Protection Law and the Regulations of Several Issues on the Application of Laws in the Trial of Food and Drugs Cases issued by the Supreme People's Court of the PRC on December 23, 2013 set forth that, where a consumer purchases products or accepts services via an online trading platform and his or her interests are prejudiced, if the online trading platform operator fails to provide the name, address and valid contact information of the seller, the manufacturer or the service provider, the consumer is entitled to demand compensation from the online trading platform operator. If the online trading platform operator gives an undertaking that is more favorable to consumers, it shall perform such undertaking. Once the online trading platform operator has paid compensation, it shall have a right of recourse against the seller, the manufacturer or the service provider. If an online trading platform operator is aware or ought to have been aware that a seller, manufacturer or service provider is using the online platform to infringe upon the lawful rights and interests of consumers and it fails to take necessary measures, it shall bear joint and several liabilities with the seller, the manufacturer or service provider for such infringement.

The Tort Liability Law of the PRC, which was enacted by the Standing Committee of the National People's Congress on December 26, 2009, also provides that if an online service provider is aware that an online user is committing infringing activities, such as selling counterfeit products, through its internet services and fails to take necessary measures, it shall be jointly liable with the said online user for such infringement. If the online service provider receives any notice from the infringed party on any infringing activities, the online service provider shall take necessary measures, including deleting, blocking and unlinking the infringing content, in a timely manner. Otherwise, it will be jointly liable with the relevant online user for the extended damages.

We are subject to the above laws and regulations as an online retailer of commodities and a marketplace service provider and believe that we are currently in compliance with these regulations in all material aspects.

Regulations Relating to Pricing

In China, the prices of a very small number of products and services are guided or fixed by the government. According to the Pricing Law, business operators must, as required by the government departments in charge of pricing, mark the prices explicitly and indicate the name, origin of production, specifications and other related particulars clearly. Business operators may not sell products at a premium or charge any fees that are not explicitly indicated. Business operators must not commit the specified unlawful pricing activities, such as colluding with others to manipulate the market price, using false or misleading prices to deceive consumers to transact, or conducting price discrimination against other business operators. Failure to comply with the Pricing Law may subject business operators to administrative sanctions such as warning, ceasing unlawful activities, compensation, confiscating illegal gains and fines. The business operators may be ordered to suspend business for rectification or have their business licenses revoked under severe circumstances. We are subject to the Pricing Law as an online retailer and believe that our pricing activities are currently in compliance with the law in all material aspects. Regulation on Leasing

Pursuant to the Law on Administration of Urban Real Estate, when leasing premises, the lessor and lessee are required to enter into a written lease contract, containing such provisions as the leasing term, use of the premises, rental and repair liabilities, and other rights and obligations of both parties. Both lessor and lessee are also required to register the lease with the real estate administration department. If the lessor and lessee fail to go through the registration procedures, both lessor and lessee may be subject to fines.

According to the PRC Contract Law, the lessee may sublease the leased premises to a third party, subject to the consent of the lessor. Where the lessee subleases the premises, the lease contract between the lessee and the lessor remains valid. The lessor is entitled to terminate the lease contract if the lessee subleases the premises without the consent of the lessor. In addition, if the lessor transfers the premises, the lease contract between the lessee and the lessor will still remain valid.

Regulation on Intellectual Property Rights

The PRC has adopted comprehensive legislation governing intellectual property rights, including trademarks, domain names and copyrights.

Trademark. The PRC Trademark Law and its implementation rules protect registered trademarks. The PRC Trademark Office of National Intellectual Property Administration is responsible for the registration and administration of trademarks throughout the PRC. The PRC Trademark Law has adopted a "first-to-file" principle with respect to trademark registration. As of December 31, 2019, we owned 506 registered trademarks in different applicable trademark categories and were in the process of applying to register 22 trademarks in China.

In addition, pursuant to the PRC Trademark Law, counterfeit or unauthorized production of the label of another person's registered trademark, or sale of any label that is counterfeited or produced without authorization will be deemed as an infringement to the exclusive right to use a registered trademark. The infringing party will be ordered to stop the infringement immediately, a fine may be imposed and the counterfeit goods will be confiscated. The infringing party may also be held liable for the right holder's damages, which will be equal to the gains obtained by the infringing party or the losses suffered by the right holder as a result of the infringement, including reasonable expenses incurred by the right holder for stopping the infringement. If the gains or losses are difficult to determine, the court may render a judgment awarding damages of no more than RMB5 million.

Domain Name. Domain names are protected under the Administrative Measures on the Internet Domain Names promulgated by the MIIT on August 24, 2017. The MIIT is the major regulatory body responsible for the administration of the PRC internet domain names and the China Internet Network Information Center, or CNNIC, is responsible for the daily administration of .cn domain names and Chinese domain names. CNNIC adopts the "first to file" principle with respect to the registration of domain names. We have registered a number of domain names including *secoo.com*.

Copyright. Pursuant to the PRC Copyright Law and its implementation rules, creators of protected works enjoy personal and property rights, including, among others, the right of disseminating the works through information network. Pursuant to the relevant PRC regulations, rules and interpretations, internet service providers will be jointly liable with the infringer if they (i) participate in, assist in or abet infringing activities committed by any other person through the internet, (ii) are or should be aware of the infringing activities committed by their website users through the internet, or (iii) fail to remove infringing content or take other action to eliminate infringing consequences after receiving a warning with evidence of such infringing activities from the copyright holder. In addition, where an ICP service operator is clearly aware of the infringement on certain content against another's copyright through the internet, or fails to take measures to remove relevant contents upon receipt of the copyright owner's notice, and as a result, it damages the public interest, the ICP service operator could be ordered to stop the tortious act and be subject to other administrative penalties such as confiscation of illegal income and fines. To comply with these laws and regulations, we have implemented internal procedures to monitor and review the content we have licensed from content providers before they are released on our platform and remove any infringing content promptly after we receive notice of infringement from the legitimate rights holder.

Software Copyrights. In order to further implement the Computer Software Protection Regulations promulgated by the State Council in December 2001 and amended subsequently, the State Copyright Bureau issued the Computer Software Copyright Registration Procedures in February 2002 and amended subsequently, which apply to software copyright registration, license contract registration and transfer contract registration. We have registered 37 computer software copyrights in China as of December 31, 2019.

Regulation on Employment

The PRC Labor Contract Law and its implementation rules provide requirements concerning employment contracts between an employer and its employees. If an employer fails to enter into a written employment contract with an employee within one year from the date on which the employment relationship is established, the employer must rectify the situation by entering into a written employment contract with the employee and pay the employee twice the employee's salary for the period from the day following the lapse of one month from the date of establishment of the employment relationship to the day prior to the execution of the written employment contract. The PRC Labor Contract Law and its implementation rules also require compensation to be paid upon certain terminations. In addition, if an employer intends to enforce a non-compete provision in an employment contract or non-competition agreement with an employee, it has to compensate the employee on a monthly basis during the term of the restriction period after the termination or expiry of the labor contract. Employers in most cases are also required to provide severance payment to their employees after their employment relationships are terminated.

Enterprises in China are required by PRC laws and regulations to participate in certain employee benefit plans, including social insurance funds, namely a pension plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan and a maternity insurance plan, and a housing provident fund, and contribute to the plans or funds in amounts equal to certain percentages of salaries, including bonuses and allowances, of the employees as specified by the local government from time to time at locations where they operate their businesses or where they are located.

On December 28, 2012, the PRC Labor Contract Law was amended to impose more stringent requirements on labor dispatch which became effective on July 1, 2013. Pursuant to amended PRC Labor Contract Law, the dispatched contract workers shall be entitled to equal pay for equal work as a fulltime employee of an employer, and they shall only be engaged to perform temporary, ancillary or substitute works, and an employer shall strictly control the number of dispatched contract workers so that they do not exceed certain percentage of total number of employees. "Temporary work" means a position with a term of less than six months; "auxiliary work" means a non-core business position that provides services for the core business of the employer; and "substitute worker" means a position that can be temporarily replaced with a dispatched contract worker for the period that a regular employee is away from work for vacation, study or for other reasons. According to the Interim Provisions on Labor Dispatch, or the Labor Dispatch Provisions, promulgated by the Ministry of Human Resources and Social Security on January 24, 2014, which became effective on March 1, 2014, (i) the number of dispatched contract workers hired by an employer should not exceed 10% of the total number of its employees (including both directly hired employees and dispatched contract workers); (ii) in the case that the number of dispatched contract workers exceeds 10% of the total number of its employees at the time when the Labor Dispatch Provisions became effective (i.e., March 1, 2014), the employer shall formulate a plan to reduce the number of its dispatched contract workers to below the statutory cap prior to March 1, 2016, and (iii) such plan shall be filed with the local bureau of human resources and social security. Nevertheless, the Labor Dispatch Provisions do not invalidate the labor contracts and dispatch agreements entered into prior to December 28, 2012. In addition, the employer shall not hire any new dispatched contract worker before the number of its dispatched contract workers is reduced to below 10% of the total number of its employees.

Regulations on Tax

The PRC Enterprise Income Tax Law imposes a uniform enterprise income tax rate of 25% on all PRC resident enterprises, including foreign-invested enterprises, unless they qualify for certain exceptions. The enterprise income tax is calculated based on the PRC resident enterprise's global income as determined under PRC tax laws and accounting standards. If a non-resident enterprise sets up an organization or establishment in the PRC, it will be subject to enterprise income tax for the income derived from such organization or establishment in the PRC and for the income derived from outside the PRC but with an actual connection with such organization or establishment in the PRC.

The PRC Enterprise Income Tax Law and its implementation rules permit certain "high and new technology enterprises strongly supported by the state" that independently own core intellectual property and meet statutory criteria, to enjoy a reduced 15% enterprise income tax rate. In January 2016, the SAT, the Ministry of Science and Technology and the Ministry of Finance jointly issued the Administrative Rules for the Certification of High and New Technology Enterprises specifying the criteria and procedures for the certification of High and New Technology Enterprises.

Pursuant to the PRC Provisional Regulations on Value-Added Tax and their implementation regulations, unless otherwise specified by relevant laws and regulations, any entity or individual engaged in the sale of goods, provision of processing, repairs and replacement services and importation of goods into China is generally required to pay a value-added tax, or VAT, at the rate of 17% on revenues generated from sales of goods, less any deductible VAT already paid or borne by such entity. On April 4, 2018, the Ministry of Finance and the SAT jointly issued the Circular on Adjusting Value-added Tax Rates, or Circular 32. Under Circular 32, which became effective on May 1, 2018, the VAT rate of 17% were reduced to 16%. On March 20, 2019, the Ministry of Finance, the SAT and the General Administration of Customs issued the Circular on Relevant Policies for Deepening Value-added Tax Reform, which further reduced the VAT rate to 13%, effective as April 1, 2019.

Prior to January 1, 2012, pursuant to the PRC Provisional Regulations on Business Tax and its implementing rules, taxpayers providing taxable services that fall under the category of service industry in China are required to pay a business tax at a normal tax rate of 5% of their revenues with certain exceptions. Our PRC subsidiaries and consolidated variable interest entities were subject to business tax at the rate of 5% for their marketplace services. Since January 1, 2012, the PRC Ministry of Finance and the SAT have been implementing the VAT pilot program, which imposes VAT in lieu of business tax for certain industries in Shanghai, and since September 1, 2012, such pilot program has been expanded to eight other provinces or municipalities in the PRC. Since August 2013, this tax pilot program has been expanded to other areas on the nationwide basis in the PRC. Under the current tax rules, sales of used goods by our PRC subsidiaries and consolidated variable interest entities shall be subject to VAT at effective rate of 2%, while VAT is applicable at a rate of 3% for the sale of consigned goods by our PRC subsidiaries and consolidated variable interest entities. Sales of brand new merchandise purchased from entities is generally subject to VAT at the rate of 17% prior to May 1, 2018 and 16% since May 1, 2018 to March 30, 2019 and 13% since April 1, 2019. Service revenue for value-added telecommunications business is subject to VAT at the rate of 6%.

Pursuant to the PRC Enterprise Income Tax Law and its implementation rules, if a non-resident enterprise has not set up an organization or establishment in the PRC, or has set up an organization or establishment but the income derived has no actual connection with such organization or establishment, it will be subject to a withholding tax on its PRC-sourced income at a rate of 10%.

Pursuant to the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income, the withholding tax rate in respect to the payment of dividends by a PRC enterprise to a Hong Kong enterprise is reduced to 5% from a standard rate of 10% if the Hong Kong enterprise directly holds at least 25% of the PRC enterprise. Pursuant to the Notice of the SAT on the Issues concerning the Application of the Dividend Clauses of Tax Agreements, or Circular 81, a Hong Kong resident enterprise must meet the following conditions, among others, in order to enjoy the reduced withholding tax: (i) it must directly own the required percentage of equity interests and voting rights in the PRC resident enterprise; and (ii) it must have directly owned such percentage in the PRC resident enterprise throughout the 12 months prior to receiving the dividends. Furthermore, the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers, which became effective in November 2015 and replaced Administrative Measures for Non-Resident Enterprises to Enjoy Treatments under Tax Treaties (For Trial Implementation), provide that any non-resident enterprise meeting conditions for enjoying the convention treatment may be entitled to the convention treatment itself when filing a tax return or making a withholding declaration through a withholding agent, subject to the subsequent administration by the tax authorities. Moreover, pursuant to the Circular on Several Issues regarding the “Beneficial Owner” in Tax Treaties, or SAT Circular 9 issued by the SAT, which became effective from April 1, 2018, a resident of a contracting state will not qualify for the benefits under the tax treaties or arrangements, if it is not the “beneficial owner” of the dividend, interest and royalty income. According to SAT Circular 9, a “beneficial owner” is required to have ownership and the right to dispose of the income or the rights and properties giving rise to the income, and generally engage in substantive business activities. An agent or conduit company will not be regarded as a “beneficial owner” and, therefore, will not qualify for treaty benefits. A conduit company normally refers to a company that is set up primarily for the purpose of evading or reducing taxes or transferring or accumulating profits. On October 14, 2019, the SAT issued the Announcement of State Taxation Administration on Promulgation of the Administrative Measures on Non-resident Taxpayers Enjoying Treaty Benefits, which provides the non-resident taxpayers claiming treaty benefits shall be handled in accordance with the principles of “self-assessment, claiming benefits, retention of the relevant materials for future inspection” and further simplifies the information report which shall be submitted by the non-resident taxpayers at the time of declaration.

Pursuant to the Law on the Administration of Tax Collection of the PRC which was enacted by the Standing Committee of the National People's Congress on September 4, 1992 and amended in April 2015, if a taxpayer fails to pay tax within the time limit pursuant to applicable tax laws or regulations, the tax authorities may, subject to the specific circumstances in each case, impose penalties on such taxpayer, including without limitation, imposing surcharge or imposing a fine of not more than five times the amount of the underpaid tax.

Regulations Relating to Foreign Exchange

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

In November 2012, SAFE promulgated the Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment which substantially amends and simplifies the current foreign exchange procedure. Pursuant to this circular, the SAFE improves foreign exchange administration in direct investment by repealing or adjusting certain approval items for foreign exchange administration in direct investment.

On March 30, 2015, SAFE promulgated Circular on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises, or SAFE Circular No. 19, which came into effect on June 1, 2015. According to SAFE Circular No. 19, the foreign currency capital contribution to a foreign invested enterprise, or an FIE, in its capital account may be converted into RMB on a discretional basis. Furthermore, on June 15, 2016, SAFE promulgated Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts, or SAFE Circular No. 16. SAFE Circular No 16 provides, in addition to foreign currency capital, enterprises registered in the PRC may also convert their foreign debts, as well as repatriated funds raised through overseas listing, from foreign currency to RMB on a discretional basis. SAFE Circular No. 16 also reiterates that the use of capital so converted shall follow "the principle of authenticity and self-use" within the business scope of the enterprise. According to SAFE Circular No. 16, the RMB funds so converted shall not be used for the purposes of, whether directly or indirectly, (i) paying expenditures beyond the business scope of the enterprises or prohibited by laws and regulations; (ii) making securities investment or other investments (except for banks' principal-secured products); (iii) granting loans to non-affiliated enterprises, except as expressly permitted in the business license; and (iv) purchasing non-self-used real estate (except for the foreign-invested real estate enterprises).

On October 23, 2019, SAFE issued the Circular on Further Promoting Cross-border Trade and Investment Facilitation, or SAFE Circular 28. Among others, SAFE Circular 28 relaxes the prior restrictions and allows the foreign-invested enterprises without equity investment as in their approved business scope to use their capital obtained from foreign exchange settlement to make domestic equity investment as long as the investments are real and in compliance with the foreign investment-related laws and regulations. In addition, SAFE Circular 28 stipulates that qualified enterprises in certain pilot areas may use their capital income from registered capital, foreign debt and overseas listing, for the purpose of domestic payments without providing authenticity certifications to the relevant banks in advance for those domestic payments.

Regulations Relating to Dividend Distribution

Wholly foreign-owned companies in the PRC may pay dividends only out of their accumulated profits after tax as determined in accordance with PRC accounting standards. Remittance of dividends by a wholly foreign-owned company out of China is subject to examination by the banks designated by SAFE. Wholly foreign-owned companies may not pay dividends unless they set aside at least 10% of their respective accumulated profits after tax each year, if any, to fund certain reserve funds, until such time as the accumulative amount of such fund reaches 50% of the wholly foreign-owned company's registered capital. In addition, these companies also may allocate a portion of their after-tax profits based on PRC accounting standards to employee welfare and bonus funds at their discretion. These reserve funds and employee welfare and bonus funds are not distributable as cash dividends. Our PRC subsidiaries are wholly foreign-owned enterprises subject to the described regulations.

SAFE and NDRC Regulations on Offshore Special Purpose Companies Held by PRC Residents

SAFE Circular on Relevant Issues Relating to Domestic Resident's Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular No. 37, issued by SAFE and effective in July 2014, regulates foreign exchange matters in relation to the use of special purpose vehicles, or SPVs, by PRC residents or entities to seek offshore investment and financing and conduct round trip investment in China. Under SAFE Circular No. 37, a SPV refers to an offshore entity established or controlled, directly or indirectly, by PRC residents or entities for the purpose of seeking offshore financing or making offshore investment, using legitimate domestic or offshore assets or interests, while "round trip investment" refers to the direct investment in China by PRC residents or entities through SPVs, namely, establishing foreign-invested enterprises to obtain the ownership, control rights and management rights. SAFE Circular No. 37 requires that, before making contribution into an SPV, PRC residents or entities are required to complete foreign exchange registration with the SAFE or its local branch. SAFE Circular No. 37 further provides that option or share-based incentive tool holders of a non-listed SPV can exercise the options or share incentive tools to become a shareholder of such non-listed SPV, subject to registration with SAFE or its local branch. SAFE Circular No. 37 was issued to replace the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Roundtrip Investments via Overseas Special Purpose Vehicles, or SAFE Circular No. 75. SAFE promulgated the Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment, or SAFE Circular No. 13, in February 2015, which took effect on June 1, 2015. SAFE Circular No. 13 has amended SAFE Circular No. 37 by requiring PRC residents or entities to register with qualified banks instead of SAFE or its local branch in connection with their establishment of an SPV.

PRC residents who have contributed legitimate domestic or offshore interests or assets to SPVs but have yet to obtain SAFE registration before the implementation of SAFE Circular No. 37 shall register their ownership interests or control in such SPVs with SAFE or its local branch. An amendment to the registration is required if there is a material change involving the SPV registered, such as any change of basic information (including change of such PRC residents, change of name and operation term of the SPV), increases or decreases in investment amount, transfers or exchanges of shares, or mergers or divisions. Failure to comply with the registration procedures set forth in SAFE Circular No. 37 and SAFE Circular No. 13, misrepresent on or failure to disclose controllers of foreign-invested enterprise that is established through round-trip investment, may result in restrictions on the foreign exchange activities of the relevant foreign-invested enterprises, including payment of dividends and other distributions, such as proceeds from any reduction in capital, share transfer or liquidation, to its offshore parent company or affiliates and the capital inflow from the offshore parent company, and may also subject the relevant PRC residents or entities to penalties under PRC foreign exchange administration regulations.

Mr. Richard Rixue Li and Ms. Zhaohui Huang, our founders, have completed required registrations with the local counterpart of SAFE in relation to our financing and restructuring and the subsequent changes to our shareholding structure.

Administrative Measures for Outbound Investment by Enterprises, or NDRC Measures No. 11, promulgated by NDRC on December 26, 2017 and effective as of March 1, 2018, regulates that the NDRC Measures No. 11 shall be implemented by reference to PRC citizens residing in mainland China who seek offshore investments via overseas enterprises under their control. Under the NDRC Measures No. 11, such PRC citizens' overseas investments shall be subject to administration by record-filing with NDRC or its local counterparts or shall be subject to approval of NDRC if such overseas investments are sensitive projects, such as projects in sensitive countries and regions or involving sensitive industries. Currently there remains significant uncertainties on the interpretation and implementation of the NDRC Measures No. 11 by the competent authorities in practice with respect to whether our founders' current investments in us via their offshore holding company or their future transaction with our shares will be subject to the administration or approval of NDRC.

SAFE Regulations on Employee Stock Incentive Plan

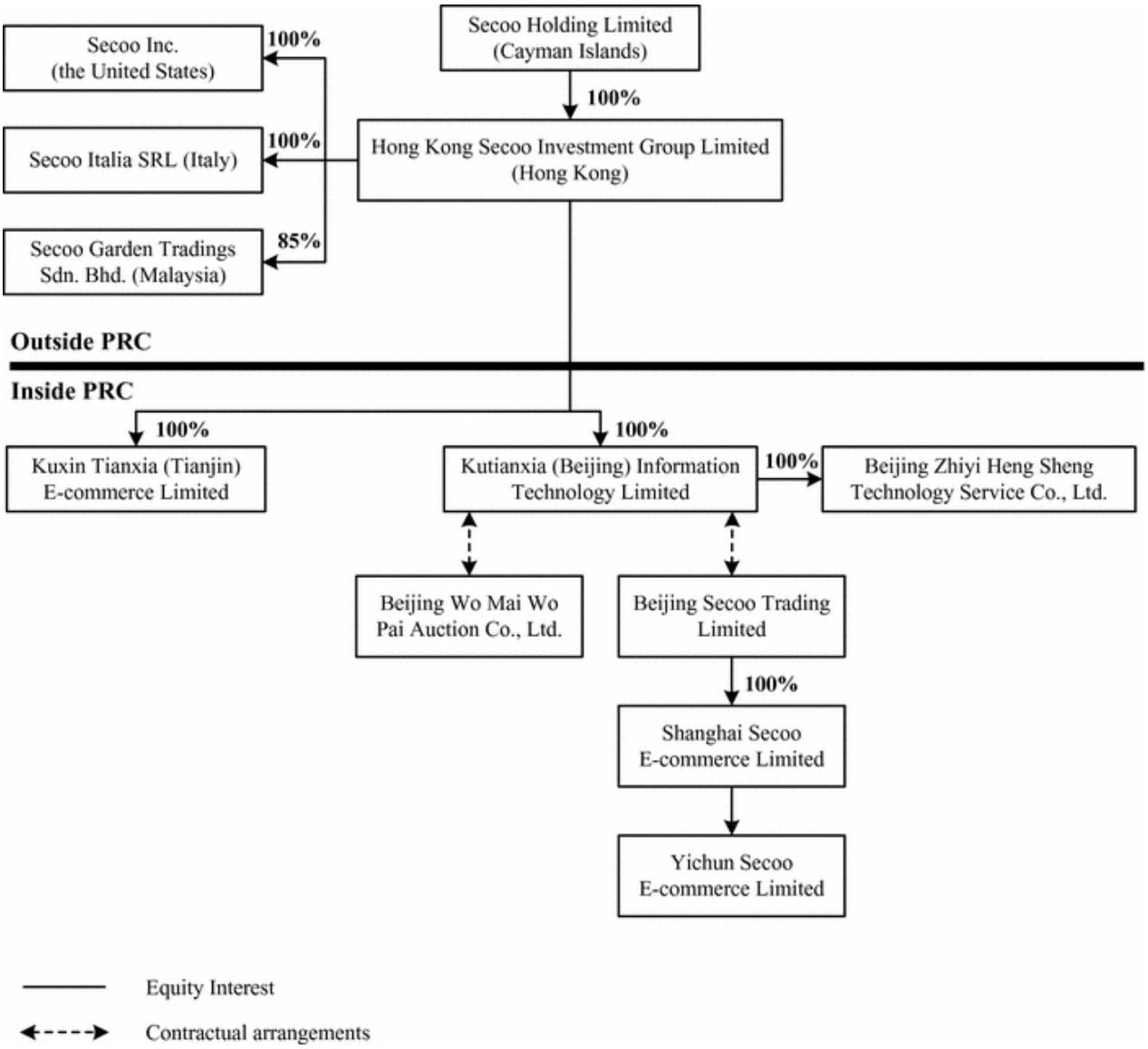
In February 2012, SAFE promulgated the Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly-Listed Company, replacing earlier rules promulgated in March 2007, to regulate the foreign exchange administration of PRC citizens and non-PRC citizens who reside in the PRC for a continuous period of not less than one year, with a few exceptions, who participate in stock incentive plans of overseas publicly-listed companies. Pursuant to these rules, these individuals who participate in any stock incentive plan of an overseas publicly-listed company, are required to register with SAFE through a domestic qualified agent, which could be the PRC subsidiaries of such overseas listed company, and complete certain other procedures. We and our executive officers and other employees who are PRC citizens or non-PRC citizens who reside in the PRC for a continuous period of not less than one year and have been granted options are subject to these regulations upon the completion of our initial public offering. We have completed the filing procedures with respect to our employee stock incentive plan in 2018.

The SAT has issued certain circulars concerning employee share options or restricted shares. Under these circulars, our employees working in the PRC who exercise share options or are granted restricted shares will be subject to PRC individual income tax. Our PRC subsidiaries have obligations to file documents related to employee share options or restricted shares with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options. If our employees fail to pay or we fail to withhold their income taxes according to relevant laws and regulations, we may face sanctions imposed by the tax authorities or other PRC government authorities.

C. Organizational Structure

Corporate Structure

The following diagram illustrates our corporate structure, including our major subsidiaries and variable interest entities, as of the date of this annual report:



Contractual Arrangements with our Variable Interest Entities and Their Shareholders The following is a summary of the currently effective contractual arrangements by and among our wholly owned subsidiary, Kutianxia, our variable interest entities, Beijing Secoo and Beijing Auction, and the shareholders of Beijing Secoo and Beijing Auction.

Agreements that provide us with effective control over Beijing Secoo and Beijing Auction

Equity Pledge Agreements. On May 24, 2011, Kutianxia, Beijing Secoo and the shareholders of Beijing Secoo entered into equity pledge agreements which was renewed on May 8, 2017. Pursuant to these equity pledge agreements, each of the shareholders of Beijing Secoo pledges all of their equity interests in Beijing Secoo to guarantee Beijing Secoo's performance of its obligations under the exclusive business cooperation agreement. If Beijing Secoo breaches its contractual obligations under the exclusive business cooperation agreement, Kutianxia, as pledgee, will have the right to dispose of the pledged equity interests. The shareholders of Beijing Secoo agree that, during the term of the equity pledge agreements, they will not dispose the pledged equity interests or create or allow any encumbrance on the pledged equity interests, and they also agree that Kutianxia's rights relating to the equity pledge shall not be prejudiced by the legal actions of the shareholders, their successors or their designees. During the term of the equity pledge agreements, Kutianxia is entitled to all of the dividends and profits distributed on the pledged equity interests. The equity pledge agreements have a term of ten years which will be automatically extended corresponding to the extension of the exclusive business cooperation agreement, where applicable. The pledge on Beijing Secoo's equity interests contemplated in the equity pledge agreements became effective on January 11, 2012 when it was registered with Beijing Administration for Industry and Commerce (currently known as Beijing Administration for Market Regulations), and the equity pledge registration was subsequently renewed on June 12, 2017. The equity pledge agreements shall be terminated as and when the exclusive business cooperation agreement terminates.

On September 15, 2014, Kutianxia, Beijing Auction and the shareholders of Beijing Auction entered into equity interest pledge agreements. Pursuant to these equity interest pledge agreements, each of the shareholders of Beijing Auction pledges all of their equity interests in Beijing Auction to guarantee their and Beijing Auction's performance of obligations under the exclusive business cooperation agreement and the loan agreements. If Beijing Auction or their shareholders breach their contractual obligations under these agreements, Kutianxia, as pledgee, will have the right to dispose of the pledged equity interests. The shareholders of Beijing Auction agree that, during the term of the equity interest pledge agreements, they will not dispose of the pledged equity interests or create or allow any encumbrance on the pledged equity interests without prior written consent of Kutianxia, and they will notify Kutianxia if its rights relating to the equity interest pledge might be prejudiced by any events. During the term of the equity interest pledge agreements, Kutianxia has the right to receive all of the dividends and profits distributed on the pledged equity interests. The pledge on Beijing Auction's equity interests contemplated in the equity pledge agreements became effective on February 15, 2015 when it was registered with Beijing Administration for Industry and Commerce (currently known as Beijing Administration for Market Regulations) in accordance with the PRC Property Rights Law, and will remain effective until Beijing Auction and its shareholders discharge all their obligations under the exclusive business cooperation agreement and the loan agreements.

Exclusive Option to Purchase Agreements. On May 24, 2011, Kutianxia, Beijing Secoo and the shareholders of Beijing Secoo entered into exclusive option to purchase agreements. Pursuant to these exclusive options to purchase agreements, each of the shareholders of Beijing Secoo irrevocably grants Kutianxia an exclusive option to purchase, or have its designated person to purchase, at its discretion, to the extent permitted under PRC law, all or part of the shareholders' equity interests in Beijing Secoo at the lowest price permitted by applicable PRC law. Beijing Secoo and its shareholders agree not to undertake any acts which may adversely affect the interests and rights of Kutianxia in Beijing Secoo without the prior consent of Kutianxia. The shareholders of Beijing Secoo commit that without the prior written consent of Kutianxia, they will not sell, pledge or dispose of their equity interests in Beijing Secoo to any other parties. Beijing Secoo commits that without the prior written consent of Kutianxia, it will not increase or decrease its registered capital, amend its articles of association, sell, pledge, dispose of or permit a lien to be created on its assets, commit to any debts or liabilities not arising in the ordinary course of business, grant any loans or credit to any person, enter into any material contracts not in the ordinary course of business, enter into any investments, business acquisitions or combinations, dissolving Beijing Secoo, or distribute dividends to the shareholders. Beijing Secoo and the shareholders of Beijing Secoo shall procure that individuals recommended by Kutianxia will be appointed as directors of the company. Beijing Secoo shall provide financial information to Kutianxia at the request of Kutianxia and ensure the continuance of the business. The Agreement has an initial term of ten years and is renewable at the election of Kutianxia.

On September 15, 2014, Kutianxia, Beijing Auction and the shareholders of Beijing Auction entered into exclusive option agreements. Pursuant to these exclusive option agreements, each of the shareholders of Beijing Auction irrevocably grants Kutianxia an exclusive option to purchase, or have its designated person to purchase, at its discretion, to the extent permitted under PRC law, all or part of the shareholders' equity interests in Beijing Auction. In addition, the purchase price shall be RMB 1 million in aggregate, which equals the amount that the shareholders contributed to Beijing Auction as registered capital for the equity interests to be purchased, or if the PRC law requires a minimum price higher than the aforesaid price, be the lowest price permitted by applicable PRC law. Beijing Auction and its shareholders agree not to undertake any acts which may adversely affect the interests and rights of Kutianxia in Beijing Secoo without the prior written consent of Kutianxia and must guarantee Beijing Auction's continuance. Without the prior written consent of Kutianxia, Beijing Auction may not increase or decrease the registered capital, dispose of its material assets, enter into any material contract, engage in merger and acquisitions, invest in third parties, distribute dividends to the shareholder, amend its articles of association and provide any loans or credits to any third parties. The shareholders of Beijing Auction agree that, without the prior written consent of Kutianxia, they will not transfer or otherwise dispose of their equity interests in Beijing Auction or create or allow any encumbrance on the equity interests. The exclusive purchase option agreement will remain effective until all equity interests in Beijing Auction held by its shareholders are transferred or assigned to Kutianxia or its designees.

Powers of Attorney. Pursuant to the powers of attorney, each of the shareholders of Beijing Secoo irrevocably appoints Kutianxia as its attorney-in-fact to exercise on its behalf any and all rights that such shareholders have in respect of their equity interests in Beijing Secoo conferred by relevant laws and regulations and the articles of associate of Beijing Secoo. The power of attorney became effective on May 24, 2011 and will remain effective as long as long as these shareholders remain as shareholders of Beijing Secoo.

Pursuant to the powers of attorney, the shareholders of Beijing Auction each irrevocably appointed Kutianxia as their attorney-in-fact in respect of their shareholdings, including voting on their behalf on all matters of Beijing Auction that requires shareholder approval under PRC laws and regulations as well as Beijing Auction's articles of association. The power of attorney became effective on September 15, 2014 and will remain effective until the date the shareholders of Beijing Auction cease to hold any equity interest in Beijing Auction.

Loan Agreements. Under the loan agreements between Kutianxia and each of the shareholders of Beijing Auction dated as of September 15, 2014, Kutianxia made interest-free loans in an aggregate amount of RMB1 million to the shareholders of Beijing Auction exclusively for the purpose of the initial capitalization of Beijing Auction. The loans can only be repaid with the proceeds derived from the sale of all of the equity interests in Beijing Auction to Kutianxia or its designated representatives pursuant to the exclusive option agreements. The term of the loan agreement is ten years from the date of the loan agreement and may be extended upon mutual consent of the parties.

Agreements that allows us to receive economic benefits from Beijing Secoo and Beijing Auction

Exclusive Business Cooperation Agreement. Under the exclusive business cooperation agreement between Kutianxia and Beijing Secoo dated May 24, 2011, and as amended on March 26, 2015 with a retrospective effect, Kutianxia is appointed as the exclusive service provider for the provision of business support and technology and consulting services to Beijing Secoo. The service fees payable by Beijing Secoo to Kutianxia depend on the amount of services provided and the market value for those services. Beijing Secoo is required to provide its financial statements and all the related records of operations, business contracts and financial information to Kutianxia within a stipulated period of time subsequent to the financial year end. Kutianxia shall exclusively own the intellectual property rights created by Kutianxia or Beijing Secoo, as a result of the performance of this agreement. The agreement has an initial term of ten years and can be extended at the sole election of Kutianxia. Beijing Secoo is not permitted to terminate the agreement unless Kutianxia commits gross negligence or fraud.

Under the exclusive business cooperation agreement between Kutianxia and Beijing Auction dated September 15, 2014, and as amended on March 26, 2015 with a retrospective effect, Kutianxia is appointed as the exclusive service provider for the provision of business support and technology and consulting services to Beijing Auction. The service fees payable by Beijing Auction to Kutianxia depend on the amount of services provided and the market value for those services. Beijing Auction is required to provide its financial statements and all the related records of operations, business contracts and financial information to Kutianxia within a stipulated period of time subsequent to the financial year end. Kutianxia shall exclusively own the intellectual property. The agreement shall remain effective unless terminated by Kutianxia pursuant to the provisions of the agreement.

Exclusive Option Agreement to Purchase Intellectual Properties. On May 24, 2011, Kutianxia and Beijing Secoo entered into an exclusive option agreement to purchase intellectual properties, pursuant to which Beijing Secoo granted to Kutianxia or its designees an exclusive and irrevocable right to purchase, to the extent permitted by the PRC law, a list of specified intellectual properties at any time Kutianxia would desire. The intellectual properties comprise domain names, copyright of the design or content of the websites, trademarks owned by Beijing Secoo and all intellectual properties purchased or developed by Beijing Secoo during the term of the Agreement, including but not limited to trademarks, trademark applications, patents, patent applications, software copyright, domain names, websites and technology knowhow. The agreement has a term of ten years and is renewable at the option of Kutianxia for another ten years.

In the opinion of Han Kun Law Offices, our PRC legal counsel:

- the ownership structures of Kutianxia Information, our PRC Subsidiary, and Beijing Secoo and Beijing Auction, our variable interest entities, will not result in any violation of PRC laws or regulations currently in effect; and

- the contractual arrangements among our PRC Subsidiary, our variable interest entities and their respective shareholders governed by PRC law are valid, binding and enforceable, and will not result in any violation of PRC laws or regulations currently in effect.

However, there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules. Accordingly, the PRC regulatory authorities may in the future take a view that is contrary to the above opinion of our PRC legal counsel. If the PRC government finds that the agreements that establish the structure for operating our online retail or auction businesses do not comply with PRC government restrictions on foreign investment in e-commerce and related businesses, including but not limited to online retail or auction businesses, we could be subject to severe penalties including being prohibited from continuing operations. See "Item 3.D. Risk Factors—Risks Related to Our Corporate Structure—If the PRC government deems that the contractual arrangements in relation to Beijing Auction and Beijing Secoo do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations." and "Item 3.D. Risk Factors—Risks Related to Doing Business in China—Uncertainties with respect to the PRC legal system could adversely affect us."

D. Property, Plant and Equipment

As of the date of this report, we are headquartered in Beijing, where we have leased an aggregate of approximately 25,059 square meters of office, offline experience centers, customer service center and logistics center space. As of the date of this annual report, we have also leased an aggregate of approximately 24,022 square meters of offline experience centers, office and logistics center space in Chengdu, Shanghai, Shenzhen, Tianjin, Yichun, Xiamen, Qingdao, Hong Kong, Milan, Malaysia and New York. A summary of our leased properties as of the date of this annual report is shown below:

Location	Space (in square meters)	Use	Lease Term (years)
Beijing	25,059	Office, offline experience center, customer service center and logistics center space	1 — 5
Chengdu	45	Offline experience center and office	2
Shanghai	1,427	Offline experience center and office	1 — 5
Shenzhen	961	Office	3
Tianjin	482	Offline experience center and office	5
Yichun	15,867	Office and logistics center space	4 — 5
Hong Kong	2,300	Office and logistics center space	2 — 3
Milan	950	Office and logistics center space	6
Malaysia	800	Offline experience center	4
New York	50	Office	1
Xiamen	800	Offline experience center	4
Qingdao	340	Offline experience center	5

We typically enter into leasing agreements renewable every one or five years with independent third parties. We believe our existing facilities are sufficient for our near-term needs.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

A. Operating Results

Overview

We have experienced significant growth since we commenced our business operations in 2011.

Key Factors Affecting Our Results of Operations

Our business and operating results are affected by general factors affecting the online retail market in China, including China's overall economic growth, the increase in per capita disposable income, the expansion of the urbanization, the growth of middle and high income classes, the growth in consumer spending and retail industry, governmental policies towards the cross-border e-commerce industry and the expansion of internet and mobile penetration. Unfavorable changes in any of these general factors could affect the demand for the products offered by us and could materially and adversely affect our results of operations.

While our business is influenced by general factors affecting our industry, our operating results are more directly affected by certain company-specific factors, including:

- our ability to attract and retain customers at reasonable cost;
- our ability to establish and maintain strong and long-term relationships with suppliers, including top-tier brands, and procure products at favorable terms;
- our ability to manage our mix of product categories and high-end lifestyle services;
- our ability to sustain growth and increase revenues while improving operating efficiency;
- our ability to control marketing and sales expenses through precise and targeted marketing leveraging business intelligence system and big data technology capabilities, while promoting our brand and platform cost effectively; and
- our ability to compete effectively and to execute our strategies successfully.

Revenues

We derive revenues from the sale of upscale products and services offered on our online platforms and in our offline experience centers. We commenced our current merchandising sales business model in 2011. We currently generate substantially all of our revenues from merchandise sales, whereby we act as principal for the direct sale of upscale products to customers. Merchandise sales revenues are recorded on a gross basis, net of discount, sales return, VAT.

We also generate marketplace service revenues, whereby we act as a service provider to third-party merchants and charge fees for the sales of upscale products and services on our online platform and offline. We began to expand our marketplace services business in 2014. Our marketplace service revenues are recorded on a net basis. Further, we also generate other service revenues from providing repair and maintenance services and advertising services. We recognize other service revenues when the services are rendered.

The following table sets forth the key factors that directly affect our revenues for the periods indicated:

	For the Year Ended December 31,						
	2017		2018		2019		
	RMB	%	RMB	%	RMB	US$	%
	GMV (in RMB millions)						
Online revenue							
Mobile applications	2,973,116	79.5	4,406,244	81.8	5,268,203	756,730	77.0
Web	483,995	12.9	699,485	13.0	1,173,607	168,578	17.1
Total online revenue	3,457,111	92.4	5,105,729	94.8	6,441,810	925,308	94.1
Offline revenue	283,344	7.6	281,848	5.2	403,770	57,998	5.9
Total revenue	3,740,455	100.0	5,387,577	100.0	6,845,580	983,306	100.0
Online GMV							
Mobile applications	4,396.8	83.5	6,621.3	82.3	11,108.4	1,595.6	80.6
Web	556.3	10.6	1,108.2	13.7	1,970.3	283.0	14.3
Total online GMV	4,953.1	94.1	7,729.5	96.0	13,078.7	1,878.6	94.9
Offline GMV	309.3	5.9	318.7	4.0	706.6	101.5	5.1
Total GMV (in RMB millions)	5,262.4	100.0	8,048.2	100.0	13,785.3	1,980.1	100.0
Total orders (in thousands)	1,437.0		2,301.5		4,040.7		

We monitor and strive to improve the following key business metrics to generate higher revenues:

Total number of orders. Our total number of orders were 1,437.0 thousand in 2017, 2,301.5 thousand in 2018 and 4,040.7 thousand in 2019. The increases are contributed by our marketing strategy, more direct brand collaborations, the expansion of our product categories and promotions that increases the number of our new customers and active customers' purchase frequency.

Total GMV. We define GMV as the total value of all orders of products and services, excluding the value of whole car sales, placed on our online platform and in our offline experience centers, regardless of whether the products or services are delivered, returned or cancelled, as applicable. We consider GMV an important indicator of our growth and business performance as it measures the volume of transactions through our merchandise sales as well as marketplace services. Our GMV grew by 52.9% from RMB5,262.4 million in 2017 to RMB8,048.2 million in 2018 and further grew by 71.3% from RMB8,048.2 million in 2018 to RMB13,785.3 million (US$1,980.1 million) in 2019, which is in line with our growth of total number of orders. Our total online GMV increased by 56.1% from RMB4,953.1 million in 2017 to RMB7,729.5 million in 2018 and further increased by 69.2% from RMB7,729.5 million in 2018 to RMB13,078.7 million (US$1,878.6 million) in 2019 due to the change of customer's preference to shop online. Our offline GMV increased by 3.0% from RMB309.3 million in 2017 to RMB318.7 million in 2018 and increased by 121.7% from RMB318.7 million in 2018 to RMB706.6 million (US$101.5 million) in 2019.

Our revenue generated from mobile application, which contributed the majority of our revenue, increased from RMB2,973.1 million in 2017 to RMB4,406.2 million in 2018, and to RMB5,268.2 million (US$756.7 million) in 2019. We generated 92.4%, 94.8% and 94.1% of our total revenue through our online platform in 2017, 2018 and 2019, respectively.

The table below sets forth a breakdown of our revenues from our merchandise sales, and marketplace and other services for the periods indicated:

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$
	(in thousands)			
Merchandise sales	3,680,795	5,244,446	6,609,874	949,449
Marketplace and other services	59,660	143,131	235,706	33,857
Total	3,740,455	5,387,577	6,845,580	983,306

In 2019, we generated approximately 96.6% and 3.4% of our revenue from our merchandise sales, and marketplace and other services, respectively. Other services mainly include advertising and maintenance services amounted to RMB17.5 million, RMB56.4 million and RMB52.8 million (US$7.6 million) in 2017, 2018 and 2019, respectively. We expect revenue contribution from our marketplace and other services to increase in the near future.

The table below sets forth the respective revenue contributions of (i) our company and our subsidiaries and (ii) our consolidated variable interest entities and their subsidiaries for the periods indicated as a percentage of total net revenues:

	For the Year Ended December 31,		
	2017	2018	2019
Our company and our subsidiaries	6%	7%	8%
Our variable interest entities and their subsidiaries	94%	93%	92%
Total revenues	100%	100%	100%

We expect to continue to generate a substantial majority of our revenues from our consolidated variable interest entities in the near future.

Cost of revenues

Our cost of revenues consists of primarily cost of merchandise sold and inventory write-downs, repair and maintenance staff payroll and related equipment depreciation and amortization. Our cost of goods sold does not include payment processing, packaging material and product delivery costs. Therefore, our cost of revenues may not be comparable to other companies which include such expenses in their cost of revenues.

Operating expenses

Our operating expenses consist of (i) fulfillment expenses, (ii) marketing expenses, (iii) technology and content development expenses, and (iv) general and administrative expenses. The following table sets forth the components of our operating expenses both in absolute amount and as a percentage of total revenues for the periods indicated:

	For the Year Ended December 31,						
	2017		2018		2019		
	RMB	%	RMB	%	RMB	US$	%
	(in thousands, except percentages)						
Fulfillment	99,064	2.6	138,710	2.6	190,503	27,364	2.8
Marketing	245,989	6.6	410,548	7.6	480,442	69,011	7.0
Technology and content development	62,081	1.7	80,398	1.5	101,477	14,576	1.5
General and administrative	110,059	2.9	110,802	2.1	208,052	29,885	3.0
Total operating expenses	**517,193**	**13.8**	**740,458**	**13.8**	**980,474**	**140,836**	**14.3**

Fulfillment expenses. Fulfillment expenses consist primarily of packaging material costs and those costs incurred in shipping and operating and staffing our fulfillment and customer service centers, including costs attributable to receiving, inspecting, and warehousing inventories; picking, packaging, and preparing customer orders for shipment; and collecting payments from customers and responding to inquiries from customer. We will continue to invest in our fulfillment and delivery network to support our long-term growth and in the meantime seek to achieve lower delivery cost by establishing further cooperation with third party couriers as our bargaining power increases. We expect that our fulfillment expenses will continue to increase in absolute amount with per order fulfillment expenses decreasing as a result of our continued business growth.

Marketing expenses. Marketing expenses consist primarily of advertising expenses, promotion expenses, payroll and related expenses for personnel engaged in marketing activities. We continue to enhance our ability to conduct precise and targeted marketing leveraging our business intelligence system and big data technology in order to improve our advertising efficiency.

Technology and content development expenses. Technology and content development expenses consist primarily of technology infrastructure expenses, payroll and related costs for employees involved in application development, category expansion, editorial content production and system support expenses, as well as costs associated with computation, storage and telecommunication infrastructures. As we continue to expand our technological capabilities to support our anticipated growth and enhance customer experience, we expect our technology and content expenses to continue to increase in absolute amount in the foreseeable future.

General and administrative expenses. General and administrative expenses consist primarily of payroll and related costs for employees involved in general corporate functions, including accounting, finance, tax, legal and human resources, professional fees for third parties and other general corporate costs, as well as costs associated with the use of facilities and equipment for these general corporate functions, such as depreciation and operating lease expenses. As our business further grows, we expect our general and administrative expenses to continue to increase in absolute amount in the foreseeable future.

Other (income) expenses

Other expenses consist of (i) interest income (ii) interest expense (iii) foreign currency exchange (gains) losses (iv) change in fair value of financial instruments, and (v) others. The following table sets forth the components of other expenses both in absolute amount and as a percentage of total revenues for the periods indicated:

	Year Ended December 31,						
	2017		2018		2019		
	RMB	%	RMB	%	RMB	US$	%
	(in thousands, except percentages)						
Interest income	(2,339)	—	(12,870)	(0.2)	(9,420)	(1,353)	(0.1)
Interest expense	8,901	0.2	55,403	1.0	118,867	17,074	1.7
Foreign currency exchange (gains) losses	(9,477)	(0.3)	11,737	0.2	3,426	492	0.1
Change in fair value of financial instruments	—	—	(1,891)	—	(20,660)	(2,968)	(0.3)
Others	(4,148)	(0.1)	(29,378)	(0.6)	(68,837)	(9,887)	(1.0)
Total other (income) expenses	**(7,063)**	**(0.2)**	**23,001**	**0.4**	**23,376**	**3,358**	**0.4**

Interest expense, net. Our interest expense is comprised of interest costs and incidental charges associated with our bank borrowings and convertible note net off by interest income.

Foreign currency exchange (gains) losses. Foreign currency exchange (gains) losses are primarily due to the foreign currency exchange (gains) losses in association with cash, time deposits and restricted cash held by our Hong Kong subsidiary.

Change in fair value of financial instruments. Change in fair value of financial instruments comprised of the change in fair value of investment in an equity investee, contingent considerations, put option and investment securities.

Others. Others primarily comprised of subsidy income and share of loss of equity method investments.

Taxation

Cayman Islands

We are incorporated in the Cayman Islands. Under the current law of the Cayman Islands, we are not subject to income or capital gains tax in the Cayman Islands. In addition, our payment of dividends to our shareholders, if any, is not subject to withholding tax in the Cayman Islands.

Hong Kong

Before 2018, our subsidiary incorporated in Hong Kong was subject to the uniform tax rate of 16.5% on taxable income generated from the operations in Hong Kong. Hong Kong's two-tier income tax system was officially implemented on April 1, 2018. For the first HK$2.0 million, the company's income tax rate is 8.25%, and the subsequent profits are taxed at 16.5%. There is an anti-fragmentation measure where each group will have to nominate only one company in the group to benefit from the progressive rates. Under the Hong Kong tax laws, it is exempted from the Hong Kong income tax on its foreign-derived income and there are no withholding taxes in Hong Kong on the remittance of dividends.

PRC

Our PRC subsidiaries and consolidated variable interest entities are companies incorporated under PRC law and, as such, are subject to PRC enterprise income tax on their taxable income in accordance with the relevant PRC income tax laws. Under the PRC Enterprise Income Tax Law which became effective on January 1, 2008 and was further amended on February 24, 2017 and December 29, 2018, respectively, and its implementation rules, which became effective on January 1, 2008 and was further amended on April 23, 2019, a uniform 25% enterprise income tax rate is generally applicable to both foreign-invested enterprises and domestic enterprises, unless they qualify for certain exceptions. Our PRC subsidiaries and consolidated variable interest entities are all subject to the tax rate of 25% for the periods presented in the consolidated financial statements included elsewhere in this annual report.

Under the PRC Enterprise Income Tax Law and its implementation rules, dividends from our PRC subsidiaries paid out of profits generated after January 1, 2008, are subject to a withholding tax of 10%, unless there is a tax treaty with China that provides for a different withholding tax rate. Distributions of profits generated before January 1, 2008 are exempt from PRC withholding tax. Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income, the withholding tax rate with respect to the payment of dividends by a PRC enterprise to a Hong Kong enterprise is reduced to 5% from a standard rate of 10%, if such Hong Kong enterprise directly holds at least 25% equity interest in the PRC enterprise. Pursuant to the Notice of the State Administration of Taxation on the Issues concerning the Application of the Dividend Clauses of Tax Agreements, or Circular 81, a Hong Kong resident enterprise must meet the following conditions, among others, in order to enjoy the reduced withholding tax rate: (i) it must be a company; (ii) it must directly own the required percentage of equity interest and voting rights in the PRC resident enterprise; and (iii) it must have directly owned such required percentage in the PRC resident enterprise throughout the 12 months prior to receiving the dividends. Furthermore, the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers, which became effective in November 2015 and replaced the Administrative Measures for Non-Resident Enterprises to Enjoy Treatments under Tax Treaties (For Trial Implementation), provide that any non-resident enterprise meeting conditions for enjoying the convention treatment may be entitled to the convention treatment itself when filing a tax return or making a withholding declaration through a withholding agent, subject to the subsequent administration by the tax authorities. There are also other conditions for enjoying the reduced withholding tax rate according to other relevant tax rules and regulations. Accordingly, Hong Kong Secoo may be able to benefit from the 5% withholding tax rate for the dividends it receives from Kutianxia, if it satisfies the conditions prescribed under Circular 81 and other relevant tax rules and regulations, and obtains the approvals as required. However, according to Circular 81, if the relevant tax authorities consider the transactions or arrangements we have are for the primary purpose of enjoying a favorable tax treatment, the relevant tax authorities may adjust the favorable withholding tax. Under the PRC Enterprise Income Tax Law, an enterprise established outside of the PRC with "de facto management bodies" within the PRC is considered a resident enterprise and will be subject to the enterprise income tax at the rate of 25% on its global income. The implementation rules define the term "de facto management bodies" as the body that exercises full and substantial control and overall management over the business, production, personnel, accounts and properties of an enterprise. Circular 82 provides certain specific criteria for determining whether the "de facto management body" of a Chinese-controlled offshore-incorporated enterprise is located in China. Although Circular 82 only applies to offshore enterprises controlled by PRC enterprises, not those controlled by PRC individuals, the determining criteria set forth in Circular 82 may reflect the SAT's general position on how the "de facto management body" test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises, non-PRC enterprises, or individuals. Although we do not believe that our legal entities organized outside of the PRC constitute PRC resident enterprises, it is possible that the PRC tax authorities could reach a different conclusion. However, if one or more of our legal entities organized outside of the PRC were characterized as PRC resident enterprises, it would be subject to enterprise income tax on its worldwide income at a rate of 25%. See also "Item 3.D. Risk Factors—Risks Related to Doing Business in China—If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders. In addition, any noncompliance with PRC tax laws may adversely affect us."

Critical Accounting Policies and Estimates

An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made, and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements.

We prepare our consolidated financial statements in conformity with U.S. GAAP, which requires us to make estimates and assumptions that affect our reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the end of each reporting period, and the reported amounts of revenues and expenses during each reporting period. We continually evaluate estimates and assumptions based on the most recently available information, our historical experiences and various other assumptions that we believe to be reasonable under the circumstances. Use of estimates is an integral component of the financial reporting process, actual results could differ from our expectations as a result of changes in facts and circumstances leading to a change in our estimates.

The following are descriptions of our critical accounting policies and estimates. They should be read in conjunction with our consolidated financial statements and other disclosures included in this annual report.

Consolidation of Variable Interest Entities

We operate a website through which we distribute products and communicate with our customers. In order to ensure our internet operation complies with PRC laws and regulations, the necessary PRC operating license which we require for operating our website is held by Beijing Secoo, our affiliated PRC entity. The equity interests of Beijing Secoo are held by our founders, who are PRC individuals. A series of contractual arrangements have been entered into between our PRC subsidiary, Kutianxia, Beijing Secoo and the shareholders of Beijing Secoo. As a result of the contractual agreements, which include powers of attorney, an exclusive business cooperation agreement, an equity pledge agreement and exclusive option agreements, we have the ability to exercise control over Beijing Secoo and the subsidiaries of Beijing Secoo, direct their activities, receive substantially all of their economic benefits and have an option to purchase all of the equity interests and assets in Beijing Secoo when and to the extent permitted by PRC law at a minimum price. We consider that we are the primary beneficiary of Beijing Secoo and its subsidiaries, and accordingly these entities are our variable interest entities under U.S. GAAP. As such, we consolidate the results and financial position of Beijing Secoo and its subsidiaries in our consolidated financial statements.

We launched our online auction sales format in July 2014. The current PRC laws and regulations also restrict foreign ownership in auction sales business. In order to comply with the PRC laws and regulations, the necessary PRC license for our auction business is held by Beijing Auction, our PRC affiliated entity. The equity interests of Beijing Auction are held by our founders. A series of contractual arrangements have been entered into between our PRC subsidiary, Kutianxia, Beijing Auction and its shareholders. Through the contractual arrangements which include powers of attorney, an exclusive business cooperation agreement, an equity pledge agreement, exclusive option agreement and loan agreements, we consider we are able to exercise effective control over, bear the risks of, enjoy substantially all of the economic benefits of Beijing Auction, and have an exclusive option to purchase all or part of the equity interests in Beijing Auction when and to the extent permitted by PRC law at the minimum price possible. We conclude that we are the primary beneficiary of Beijing Auction, and accordingly Beijing Auction is our variable interest entity under U.S. GAAP. As such, we consolidate the results and financial position of Beijing Auction in our consolidated financial statements with effect from September 15, 2014, the date on which the series of contractual agreements between Kutianxia, Beijing Auction and the shareholders of Beijing Auction become effective.

Any changes in PRC laws and regulations that affect our ability to control Beijing Secoo and/or Beijing Auction might preclude us from consolidating the two entities and their subsidiaries in the future. We will continuously evaluate whether we are the primary beneficiary of our variable interest entities as facts and circumstances change.

Revenue Recognition

Our revenues are generated primarily from merchandise sales, marketplace services and other services.

Periods prior to January 1, 2018

Prior to January 1, 2018, revenues are recognized when the following four criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the selling price is fixed or determinable; and (4) collectability is reasonably assured.

Sales allowances for returns, which reduce revenues, are estimated based on historical experience. Revenues are recorded net of value-added taxes, business taxes and surcharges.

In accordance with ASC 605-45, *Revenue Recognition: Principal Agent Considerations*, we consider several factors in determining whether we act as the principal or as an agent in the arrangement of merchandise sales and provision of various related services and thus whether it is appropriate to record the revenue and the related cost of sales on a gross basis or record the net amount earned as service fees.

Merchandise Sales

We generate revenues mainly from merchandise sales when we act as principal for the sales of brand products to end customers online through our own internet platforms and offline at the offline experience centers. Online sales include sales through our online shopping mall, flash sales, auction and overseas sales.

We consider ourselves as a principal for the following reasons: (1) we are the primary obligor and are responsible for the acceptability of the products and the fulfillment of the delivery services; (2) we are responsible to compensate end customers if the products are counterfeit or defective goods; (3) we are also responsible for the loyalty program benefits offered in conjunction with the merchandise sales to the buyers; (4) we have latitude in establishing selling prices and selecting suppliers; (5) we assume credit risks on receivables; and (6) we have legal ownership of the inventory and have significant inventory risks even for those inventory with payment deferred until the following month after the inventory is sold as it has physical loss risk after acceptance of all the goods purchased from suppliers. Accordingly, we consider ourselves as the principal in the arrangement with the end customers and record revenue earned from merchandise sales on a gross basis.

With respect to proceeds from merchandise sales, before determining the timing of revenue recognition, we allocate proceeds from merchandise sales among sales of the products and customer loyalty program benefits based on relative fair value of each deliverable. Proceeds allocated to sales of goods are recognized as merchandise sales upon acceptance of delivery of products by buyers. Proceeds allocated to customer loyalty program benefits are recorded as deferred revenues.

We collect cash from end customers before or upon deliveries of products mainly through banks, third party online payment platforms or delivery companies. Cash collected from end customers before product delivery is recognized as advances from customers.

Marketplace and other services

Service revenues include marketplace service revenue and other services revenue through the internet platform. Marketplace service revenue refers to the commission fee earned by us when we act as an agent for sales of vendors' goods and lifestyle services. Vendor's goods can be sold through auction or online ordering and lifestyle services can be sold through online ordering.

In addition, the other services revenue primarily consists of 1) advertising service revenue and 2) service fees from the provision of repair and maintenance services to products such as handbags and watches.

With respect to the marketplace service revenue, we do not have general inventory risk or latitude in establishing prices. Accordingly, we record the net amount as marketplace service fees earned.

We recognize other services revenue when the services are rendered. We recognize marketplace service revenue at the time that we have provided the services and are entitled to payment.

Period commencing January 1, 2018

As of January 1, 2018, we have changed our method of accounting for revenue recognition due to the adoption of Accounting Standards Codification Topic 606, Revenue from Contracts with Customers ("ASC 606"). Since the adoption of ASC 606, we recognize revenues upon the satisfaction of our performance obligation (upon transfer of control of promised goods or services to customers) in an amount that reflects the consideration to which we expect to be entitled to in exchange for those goods or services, excluding amounts collected on behalf of third parties. The adoption of new revenue standard did not impact retained earnings as of January 1, 2018. We have updated significant accounting policies and relevant disclosures hereinafter.

To achieve that core principle, we apply the five steps defined under Topic 606: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. We assess our revenue arrangements against specific criteria in order to determine if we are acting as principal or agent. Revenue arrangements with multiple performance obligations are divided into separate distinct goods or services. We allocate the transaction price to each performance obligation based on the relative standalone selling price of the goods or services provided. Revenue is recognized upon the transfer of control of promised goods or services to a customer.

Revenue recognition policies for each type of revenue steam are as follows:

Merchandise Sales

We present the revenue generated from our sales of merchandise on a gross basis as we have control of the goods and have the ability to direct the use of goods to obtain substantially all the benefits. In making this determination, we also assess whether we are primarily obligated in these transactions, are subject to inventory risk, have latitude in establishing prices, or have met several but not all of these indicators.

Revenues are measured as the amount of consideration we expect to receive in exchange for transferring products to consumers. Consideration from merchandise sales is recorded net of value-added tax, discounts and return allowances.

With respect to considerations from merchandise sales, we allocate proceeds from merchandise sales among sales of the products, customer loyalty program benefits and coupons with material rights based on relative standalone selling price. Proceeds allocated to sales of goods are recognized as revenue from merchandise sales when the receipt of merchandise is confirmed by the customer, which is the point that the control of the merchandise is transferred to the customer. Proceeds allocated to customer loyalty program benefits and coupons are recorded as Deferred revenues.

We utilize delivery service providers to deliver products to our consumers ("shipping activities") but the delivery service is not considered as a separate obligation as the shipping activities are performed before the consumers obtain control of the products. Therefore, shipping activities are not considered a separate promised service to the consumers but rather are activities to fulfill our promise to transfer the products and are recorded as fulfillment expenses.

Marketplace and other services

With respect to the marketplace service revenue, we do not consider we control the products before they are transferred to the customer or have the ability to direct the use of the goods and obtain substantially all of their benefits. We bear no physical and general inventory risk and have no discretion in establishing price, so we have determined that revenue from our sales of products under these arrangements are marketplace service fees in nature. Revenue is recognized when we have fulfilled our selling performance obligations on behalf of the principal in the transaction, which is when the products are accepted by the customer.

We recognize other service revenue when control of promised service is transferred to the customers in an amount of consideration to which we expect to be entitled to in exchange for those services.

Income taxes

Current income taxes are provided on the basis of net income/loss for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions. We follow the liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized on temporary differences between financial statements carrying amounts and tax bases of assets and liabilities by applying enacted statutory rates that will be in effect in the period in which the temporary differences are expected to reverse. The effect on deferred taxes as a result of a change in tax rate is recognized in the consolidated statement of comprehensive income (loss) in the period of change. A valuation allowance is recorded to reduce the amount of deferred tax assets if based on the weight of available evidence, it is considered more likely than not that some portion of, or all of the deferred tax assets will not be realized.

In assessing the recoverability of its deferred tax assets, we consider whether some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. We consider the cumulative earnings and projected future taxable income in making this assessment. Recovery of substantially all of our deferred tax assets is dependent upon the generation of future income, exclusive of reversing taxable temporary differences.

We made profit for the years ended December 31, 2018 and 2019. As of December 31, 2018, the valuation allowance of RMB19.9 million was provided for us and some subsidiaries. For those entities, we believe that it is more likely than not that the accumulated net operating losses of those entities will not be utilized in the foreseeable future. As of December 31, 2019, nil valuation allowance was provided for us and some subsidiaries.

As of December 31, 2019, we had net operating loss carry forwards of approximately RMB2.7 million attributable to the Hong Kong subsidiary, RMB350.8 million attributable to the PRC subsidiaries, VIEs and VIEs' subsidiaries and RMB1.7 million attributable to other subsidiaries. The loss carried forward by Hong Kong and other subsidiaries can be carried forward to net against future taxable income without a time limit; while the loss carried forward by the PRC companies will expire during the period from year 2020 to year 2024.

Results of Operations

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

	For the Year Ended December 31,						
	2017		2018		2019		
	RMB	%	RMB	%	RMB	US$	%
	(in thousands, except percentages)						
Revenues							
Merchandise sales	3,680,795	98.4	5,244,446	97.3	6,609,874	949,449	96.6
Marketplace and other services	59,660	1.6	143,131	2.7	235,706	33,857	3.4
Total revenues	**3,740,455**	**100.0**	**5,387,577**	**100.0**	**6,845,580**	**983,306**	**100.0**
Cost of revenues	**(3,128,441)**	**(83.6)**	**(4,427,844)**	**(82.2)**	**(5,648,633)**	**(811,375)**	**(82.5)**
Gross profit	**612,014**	**16.4**	**959,733**	**17.8**	**1,196,947**	**171,931**	**17.5**
Operating expenses							
Fulfillment expenses	(99,064)	(2.6)	(138,710)	(2.6)	(190,503)	(27,364)	(2.8)
Marketing expenses	(245,989)	(6.6)	(410,548)	(7.6)	(480,442)	(69,011)	(7.0)
Technology and content development expenses	(62,081)	(1.7)	(80,398)	(1.5)	(101,477)	(14,576)	(1.5)
General and administrative expenses	(110,059)	(2.9)	(110,802)	(2.1)	(208,052)	(29,885)	(3.0)
Total operating expenses	**(517,193)**	**(13.8)**	**(740,458)**	**(13.8)**	**(980,474)**	**(140,836)**	**(14.3)**
Income from operations	**94,821**	**2.6**	**219,275**	**4.0**	**216,473**	**31,095**	**3.2**
Other income (expenses)							
Interest income	2,339	—	12,870	0.2	9,420	1,353	0.1
Interest expense	(8,901)	(0.2)	(55,403)	(1.0)	(118,867)	(17,074)	(1.7)
Foreign currency exchange gains (losses)	9,477	0.3	(11,737)	(0.2)	(3,426)	(492)	(0.1)
Change in fair value of financial instruments	—	—	1,891	—	20,660	2,968	0.3
Others	4,148	0.1	29,378	0.6	68,837	9,887	1.0
Income before income tax	**101,884**	**2.8**	**196,274**	**3.6**	**193,097**	**27,737**	**2.8**
Income tax benefits (expenses)	31,525	0.8	(40,728)	(0.8)	(31,426)	(4,514)	(0.4)
Net income	**133,409**	**3.6**	**155,546**	**2.8**	**161,671**	**23,223**	**2.4**

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Revenues

Our total revenues increased by 27.1% from RMB5,387.6 million in 2018 to RMB6,845.6 million (US$983.3 million) in 2019. The increase in revenues primarily driven by the growth in our total active customers and total number of orders served during the period. The total number of orders increased by approximately 75.6% from approximately 2,301.5 thousand in 2018 to approximately 4,040.7 thousand in 2019. Our GMV grew from RMB8,048.2 million in 2018 to RMB13,785.3 million (US$1,980.1 million) in 2019.

Cost of revenues

Our cost of revenues increased by 27.6% from RMB4,427.8 million in 2018 to RMB5,648.6 million (US$811.4 million) in 2019, which was in line with the increase of total revenues.

Gross profit

As a result of the foregoing, our gross profit increased by 24.7% from RMB959.7 million in 2018 to RMB1,196.9 million (US$171.9 million) in 2019. Our gross margin remained stable in 2018 (17.8%) and 2019 (17.5%).

Operating expenses

Our operating expenses increased by 32.4% from RMB740.5 million in 2018 to RMB980.5 million (US$140.8 million) in 2019.

Fulfillment expenses. Our fulfillment expenses increased by 37.3% from RMB138.7 million in 2018 to RMB190.5 million (US$27.4 million) in 2019. The increase was primarily attributable to (i) the increase of delivery expenses, (ii) third-party payment commissions, and (iii) the increase in staff compensation and benefits expenses. Delivery expenses paid to third-party delivery companies increased from RMB47.0 million in 2018 to RMB63.2 million (US$9.1 million) in 2019. Third-party payment platform charges increased from RMB42.5 million in 2018 to RMB61.1 million (US$8.8 million) in 2019. These increases were resulted from the significant increase in our total number of orders. Staff compensation and benefits expenses for our fulfillment personnel increased from RMB30.9 million in 2018 to RMB43.7 million (US$6.3 million) in 2019.

Marketing expenses. Our marketing expenses increased by 17.0% from RMB410.5 million in 2018 to RMB480.4 million (US$69.0 million) in 2019. The increase was primarily due to the increase in staff compensation and benefits expenses and sales commission. Staff compensation and benefits expenses increased from RMB132.9 million in 2018 to RMB190.1 million (US$27.3 million) in 2019. Sales commission increased from RMB33.3 million in 2018 to RMB50.7 million (US$7.3 million) in 2019.

Technology and content development expenses. Our technology and content development expenses increased by 26.2% from RMB80.4 million in 2018 to RMB101.5 million (US$14.6 million) in 2019. The increase was primarily due to the continuous investment in the technology department in order to strengthen the driving force of technology for operation.

General and administrative expenses. Our general and administrative expenses increased by 87.8% from RMB110.8 million in 2018 to RMB208.1 million (US$29.9 million) in 2019. The increase was primarily attributable to the increase in staff compensation and benefits of RMB20.4 million (US$2.9 million), rising professional fee of RMB11.5 million (US$1.6 million) and lease expenses associated with relocation of office of RMB6.2 million (US$0.9 million), and provision for doubtful debts of RMB8.7 million (US$1.3 million).

Other income (expenses)

We had other expenses of RMB23.0 million in 2018, compared to our other expenses of RMB23.4 million (US$3.4 million) in 2019.

Interest expenses, net. Our interest expenses increased significantly from RMB42.5 million in 2018 to RMB109.4 million (US$15.7 million) in 2019. The increase in interest expenses was mainly due to the increasing interest expenses related to the convertible note issued in August 2018, which increased from RMB43.1 million in 2018 to RMB111.0 million (US$15.9 million) in 2019.

Foreign currency exchange (losses) gains. We recorded a loss in foreign currency exchange of RMB3.4 million (US$0.5 million) in 2019, as compared to a loss of RMB11.7 million in 2018. The change in foreign currency exchange (losses) gains was mainly due to the depreciation of RMB against US$ in 2019.

Change in fair value of financial instruments. Our change in fair value of financial instruments increased significantly from RMB1.9 million in 2018 to RMB20.7 million (US$3.0 million) in 2019 which was mainly due to the gains from upward adjustment from the equity investment in Trytry Global Inc. of RMB22.4 million (US$3.2 million) in 2019, which was nil in 2018.

Others. Others increased significantly from RMB29.3 million in 2018 to RMB68.7 million (US$9.9 million) in 2019. The increase was mainly due to the increase in subsidy income granted by local authorities from RMB28.0 million in 2018 to RMB54.8 million (US$7.9 million) in 2019.

Net income

Our net income increased by 3.9% from RMB155.5 million in 2018 to RMB161.7 million (US$23.2 million) in 2019.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Revenues

Our total revenues increased by 44.0% from RMB3,740.5 million in 2017 to RMB5,387.6 million in 2018. The increase in revenues primarily driven by the increase in the total number of orders and merchandise sales. The total number of orders increased by approximately 60.2% from approximately 1,437.0 thousand in 2017 to approximately 2,301.5 thousand in 2018. Our GMV grew from RMB5,262.4 million in 2017 to RMB8,048.2 million in 2018.

Cost of revenues

Our cost of revenues increased by 41.5% from RMB3,128.4 million in 2017 to RMB4,427.8 million in 2018, primarily attributable to the growth of our merchandising sales.

Gross profit

As a result of the foregoing, our gross profit increased by 56.8% from RMB612.0 million in 2017 to RMB959.7 million in 2018. Our gross margin increased from 16.4% in 2017 to 17.8% in 2018. The increase in our gross margin was primarily due to (i) our improved product mix with higher margin, and (ii) our improved of product sources by cooperating directly with brands.

Operating expenses

Our operating expenses increased by 43.2% from RMB517.2 million in 2017 to RMB740.5 million in 2018.

Fulfillment expenses. Our fulfillment expenses increased by 40.0% from RMB99.1 million in 2017 to RMB138.7 million in 2018. The increase was primarily attributable to (i) the increase of sales volume and total number of orders fulfilled which resulted in increased delivery expenses, and third-party payment commissions, and (ii) the increase in staff compensation and benefits expenses. Delivery expenses paid to third-party delivery companies increased from RMB32.3 million in 2017 to RMB47.0 million in 2018. Third-party payment platform charges increased from RMB24.0 million in 2017 to RMB42.5 million in 2018. These increases were resulted from the significant increase in our total number of orders. Staff compensation and benefits expenses for our fulfillment personnel increased from RMB28.3 million in 2017 to RMB30.9 million in 2018, including share based compensation RMB5.1 million in 2017 and RMB1.1 million in 2018.

Marketing expenses. Our marketing expenses increased by 66.9% from RMB246.0 million in 2017 to RMB410.5 million in 2018. The increase was primarily due to the continuous investment in our marketing and brand awareness promotions as well as the compensation and benefits expenses for our sales related staff. Our advertising expenses increased from RMB111.2 million in 2017 to RMB191.5 million in 2018. Staff compensation and benefits expenses increased from RMB87.1 million in 2017 to RMB132.9 million in 2018, including share based compensation of RMB23.8 million in 2017 and RMB11.7 million in 2018.

Technology and content development expenses. Our technology and content development expenses increased by 29.5% from RMB62.1 million in 2017 to RMB80.4 million in 2018. The increase was primarily due to the continuous investment in our technology department. Compensation and benefits expenses for technology department increased from RMB52.3 million in 2017 to RMB63.3 million in 2018, including share based compensation of RMB4.0 million in 2017 and RMB3.0 million in 2018.

General and administrative expenses. Our general and administrative expenses increased by 0.6% from RMB110.1 million in 2017 to RMB110.8 million in 2018.

Other income (expenses)

We had other expenses of RMB23.0 million in 2018, compared to our other income of RMB7.1 million in 2017.

Interest expenses, net. Our interest expenses increased significantly from RMB6.6 million in 2017 to RMB42.5 million in 2018. The increase in interest expenses was mainly due to the increase in bank and other borrowings in 2018.

Foreign currency exchange (losses) gains. We recorded a loss in foreign currency exchange of RMB11.7 million in 2018, as compared to a gain of RMB9.5 million in 2017. The change in foreign currency exchange (losses)/gains was mainly due to the depreciation of RMB against US$ in 2018, compared to appreciation of RMB against US$ in 2017.

Others. Others increased significantly from RMB4.1 million in 2017 to RMB31.3 million in 2018. The increase was mainly due to the increase in subsidy income granted by local authorities from RMB4.1 million in 2017 to RMB28.0 million in 2018.

Net income

Our net income increased by 16.6% from RMB133.4 million in 2017 to RMB155.5 million in 2018.

Inflation

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

B. Liquidity and Capital Resources

Liquidity and Capital Resources

Our principal source of liquidity has been cash generated from our financing activities primarily through the issuance of preferred shares through private placements, convertible note and warrants, as well as from proceeds of our initial public offering and borrowings. As of December 31, 2018 and 2019, we had RMB1,034.4 million and RMB709.8 million (US$102.0 million) in cash and cash equivalents, respectively. Our cash and cash equivalents consist of cash on hand and time deposits, which have original maturities of three months or less and are readily convertible to decidable amounts of cash. As of December 31, 2019, we had RMB240.7 million (US$34.6 million) in the current portion of restricted cash, which consisted of cash deposits associated with one bank loan with principal amounts of RMB80.0 million (US$11.5 million) and deposits to suppliers. The use of cash deposit and its interest is restricted by the bank until the corresponding loan is fully repaid.

In May 2017, we entered into an amendment to the facility agreement with SPD Silicon Valley Bank Co., Ltd., or SPD. Pursuant to the amendment, the facility in the amount of RMB50.0 million was extended for one year with an interest rate of 7.35% per annum and matured in May 2018. In May 2018, we repaid RMB50.0 million under this facility, and concurrently entered into an amended facility agreement with SPD with maturity in August 2018. In August 2018, we repaid RMB50.0 million under this facility, and concurrently entered into an amended facility agreement with SPD with maturity in May 2019. In May 2019, we repaid RMB50.0 million under this facility, and concurrently entered into an amended facility agreement with SPD with maturity in August 2019. In August 2019, we repaid RMB50.0 million under this facility, and concurrently entered into an amended facility agreement with SPD with maturity in August 2020. In addition, RMB250.9 million of inventories and RMB 14.1 million of equipment were pledged to SPD as collaterals as of December 31, 2018; RMB260.7 million (US$37.4 million) of inventories and RMB11.4 million (US$1.6 million) of equipment were pledged to SPD as collaterals as of December 31, 2019. A guarantee was provided by our wholly-owned subsidiary in Hong Kong S.A.R. and us. Both of the original facility and amended facility agreements contain certain financial and nonfinancial covenants. As of December 31, 2018 and 2019, we met the financial covenants. As of December 31, 2018 and 2019, the outstanding balances of the short-term portion of the facilities were RMB50.0 million (US$7.2 million).

In November 2017, we entered into a two-and-half year loan agreement with National Trust Co., Ltd. in the amount of RMB150.0 million, which would mature in May 2020 and bears a fixed interest rate of 3.38% per annum. The loan is collateralized with a cash deposit of RMB123.8 million with Xiamen International Bank, which was the consignor in the loan agreement. As of December 31, 2019, all loan amounts were settled and the cash deposit amounting to RMB123.8 million became unrestricted following the loan settlement.

During 2017, we entered into an agreement with a third party non-financial institution that permits us to borrow short-term borrowings at the interest rates from 9% to 10%. For the year ended December 31, 2017, we borrowed RMB78.4 million under this agreement, among which, RMB35.2 million was outstanding as of December 31, 2017 with the accounts receivable of RMB35.2 million pledged to the third party as collateral. In February 2018, we repaid the RMB35.2 million.

During 2018, we entered into two more agreements with the third party non-financial institution that permits us to borrow short-term borrowings at the interest rate of 10%. We received RMB15.0 million and RMB20.4 million in June 2018 and August 2018, respectively. The accounts receivables of RMB15.0 million and RMB20.4 million were pledged to the third party as collaterals, we repaid these borrowings in August 2018 and October 2018, respectively. No balance was outstanding as of December 31, 2018. During 2019, we entered into four more agreements with the third-party non-financial institution that permits us to borrow short-term borrowings at the interest rate of 10%. We received RMB100.0 million (US$14.4 million) and RMB118.0 million (US$16.9 million) in June 2019 and September 2019, respectively, with accounts receivable of RMB84.6 million (US$12.2 million) and RMB85.6 million (US$12.3 million) pledged to the third party as collaterals, respectively. We repaid these borrowings in July 2019 and October 2019, respectively. No balance was outstanding as of December 31, 2019.

In December 2019, we entered into a short-term borrowing agreement with a third-party non-financial institution and borrowed RMB29.5 million (US$4.2 million) with an interest rate of 9.5% per annum and a maturing term of six months.

In August 2018, we issued convertible notes and warrants to Great World Lux Pte. Ltd and its affiliates, or Great World, in an aggregate principal amount of up to US$175.0 million. The principal amount outstanding under the convertible notes bears interest at an aggregate compounded rate of 8% per annum until August 8, 2021, or such earlier time as the notes are repurchased or converted subject to the terms specified therein. The initial conversion price is US$13.00 per ADS. The holders of the warrants are entitled to purchase 500,000 ADSs from us at an exercise price of US$18.00 per ADS. We also formed strategic partnerships with L Catterton Asia, the Asian unit of the largest and most global consumer-focused private equity firm in the world, and JD.com, China’s largest retailer, aiming to boost Secoo’s presence and network in the luxury industry.

In June 2020, we issued, sold and delivered to Qudian 5,102,041 Class A ordinary shares for which we have received US$50.0 million.

In December 2018, we entered into a loan agreement with Shanghai Pudong Development Bank Co., Ltd. for an amount of RMB80.0 million with an interest rate of 4.35% per annum, a maturing term of one year. In December 2019, we repaid RMB80.0 million (US$11.5 million) under this loan agreement, and concurrently renew the loan agreement with maturity in one year with an interest rate of 3.92% per annum. A restricted cash deposit of RMB90.5 million (US$13.0 million) was deposited to the bank for this borrowing.

We believe that our current cash will be sufficient to meet our anticipated working capital requirements and capital expenditures for next 12 months. We may, however, need additional cash resources in the future if we experience changes in business conditions or other developments. We may also need additional cash resources in the future if we wish to pursue opportunities for investment, acquisition, capital expenditure or similar actions. If we determine that our cash requirements exceed the amount of cash we have on hand, we may seek to obtain additional credit facilities or issue debt or equity securities. See “Item 3.D. Risk Factors — Risks Related to Our Business — Inability to obtain additional financing on commercially reasonable terms in the future may materially and adversely affect our business, results of operations and financial condition.”

In the future, we may rely significantly on dividends and other distributions paid by our PRC subsidiaries for our cash and financing requirements. There may be restrictions on the dividends and other distributions by our PRC subsidiaries. The PRC tax authorities may require us to adjust our taxable income under the contractual arrangements that our PRC subsidiary currently has in place with our variable interest entities in a way that could materially and adversely affect the ability of our PRC subsidiary to pay dividends and make other distributions to us. In addition, under PRC laws and regulations, our PRC subsidiaries may pay dividends only out of their accumulated profits as determined in accordance with PRC accounting standards and regulations. Our PRC subsidiaries are required to set aside at least 10% of their after-tax profits each year, if any, to fund a statutory reserve fund, until the aggregate amount of such fund reaches 50% of their respective registered capital. At their discretion, our PRC subsidiaries may allocate a portion of their after-tax profits based on PRC accounting standards to staff welfare and bonus funds. The reserve fund and the staff welfare and bonus funds cannot be distributed as cash dividends. See “Item 3.D. Risk Factors — Risks Related to Our Corporate Structure — We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business.” Furthermore, our investments made as registered capital and additional paid-in capital in our PRC subsidiaries, variable interest entities and their subsidiaries are also subject to restrictions on their distribution and transfer according to PRC laws and regulations.

As an offshore holding company, we are permitted under PRC laws and regulations to provide funding from the proceeds of our offshore fund raising activities to our PRC subsidiaries only through loans or capital contributions, and to our variable interest entities and their subsidiaries only through loans, in each case subject to the satisfaction of the applicable government registration and filing requirements. See “Item 3.D. Risk Factors—Risks Related to Doing Business in China—PRC regulation on loans to and direct investment in PRC entities by offshore holding companies and government control in currency conversion may delay or prevent us from making loans to our PRC subsidiaries and consolidated variable interest entities or making additional capital contributions to our wholly foreign-owned subsidiaries in China, which could materially and adversely affect our liquidity and our ability to fund and expand our business.” As a result, there is uncertainty with respect to our ability to provide prompt financial support to our PRC subsidiaries and variable interest entities when needed. Notwithstanding the forgoing, our PRC subsidiaries may use their own retained earnings (rather than RMB converted from foreign currency denominated capital) to provide financial support to our variable interest entities either through entrusted loans from our PRC subsidiaries to our variable interest entities or direct loans to such variable interest entities’ nominee shareholders, which would be contributed to the consolidated variable entities as capital injections. Such direct loans to the nominee shareholders would be eliminated in our consolidated financial statements against the variable interest entities’ share capital.

As of December 31, 2019, cash and cash equivalents, time deposits, and restricted cash in an aggregate amount of US$14.9 million, RMB0.2 million, HK$4.2 million, MYR2.7 million, EUR10 thousand and JPY6.0 million were held by Secoo Holding Limited and its non-PRC subsidiaries in Hong Kong and overseas. As of December 31, 2019, our subsidiaries in China held cash in the amount of RMB1.6 million (US$0.2 million), and our variable interest entities and their subsidiaries held cash in the amount of RMB832.5 million (US$119.6 million). We would need to accrue and pay withholding taxes if we were to distribute funds from our subsidiaries in China to our offshore subsidiaries. We do not intend to repatriate such funds in the foreseeable future, as we plan to use existing cash balance in China for general corporate purposes.

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

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$
	(in thousands)			
Net cash used in operating activities	(177,511)	(651,462)	(244,322)	(35,094)
Net cash (used in)/provided by investing activities	(311,581)	146,102	16,565	2,380
Net cash provided by financing activities	922,057	995,948	54,354	7,807
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(11,873)	3,380	1,132	162
Cash, cash equivalents and restricted cash at the beginning of the year	211,347	632,439	1,126,407	161,798
Cash, cash equivalents and restricted cash at the end of the year	632,439	1,126,407	954,136	137,053

Operating activities

Net cash used in operating activities for the year ended December 31, 2019 was RMB244.3 million (US$35.1 million). This amount was primarily attributable to net income of RMB161.7 million (US$23.2 million), (i) changes in operating assets and liabilities that negatively affected operating cash flow, primarily due to an increase in inventories of RMB969.5 million (US$139.3 million), and an increase in prepayments and other current assets of RMB283.2 million (US$40.7 million); (ii)change in fair value of financial instruments which negatively affected of RMB20.7 million (US$3.0million), and gain from disposal of a subsidiary which negatively affected of RMB13.5million (US$1.9 million); partly offset by (iii) changes in operating assets and liabilities that positively affected operating cash flow, primarily due to an increase in accrued expenses and other liabilities of RMB594.4 million (US$85.4 million), an increase in accounts payable of RMB58.0 million (US$8.3 million), an increase in deferred revenue of RMB35.5 (US$5.1 million), an increase in income tax payable of RMB63.4 million (US$9.1 million), an increase in long-term liabilities of RMB48.2 million (US$6.9 million) and a decrease in advance to suppliers of RMB97.4 million (US$14.0 million).

Net cash used in operating activities for the year ended December 31, 2018 was RMB651.5 million. This amount was primarily attributable to net income of RMB155.5 million, (i) changes in operating assets and liabilities that negatively affected operating cash flow, primarily due to an increase in inventories of RMB519.5 million, an increase in advance to suppliers of RMB375.0 million and an increase in prepayments and other assets of RMB99.6 million; partly offset by (ii) changes in operating assets and liabilities that positively affected operating cash flow, primarily due to an increase in accounts payable of RMB175.7 million.

Net cash used in operating activities for the year ended December 31, 2017 was RMB177.5 million. This amount was primarily attributable to net income of RMB133.4 million, (i) changes in operating assets and liabilities that negatively affected operating cash flow, primarily due to an increase in inventories of RMB439.1 million and an increase in advance to suppliers of RMB48.9 million; partly offset by (ii) changes in operating assets and liabilities that positively affected operating cash flow, primarily due to an increase in accrued expenses and other liabilities of RMB113.8 million, an increase in accounts payable of RMB43.8 million and an increase in advance from customers of RMB26.8 million.

Investing activities

Net cash provided by investing activities amounted to RMB16.6 million (US$2.4 million) in 2019, primarily attributable to the proceeds from maturity of time deposits of RMB67.3million (US$9.7 million) and proceeds from disposal of investment securities of RMB35.9 million (US$5.2 million), offset purchase of property and equipment of RMB35.4 million (US$5.1 million) and acquisition of investment in equity investees of RMB43.8 million (US$6.3 million).

Net cash provided by investing activities amounted to RMB146.1 million in 2018, primarily attributable to the proceeds from maturity of time deposits of RMB292.3 million, offset by purchase of time deposits of RMB68.6 million, purchase of equity security and put option of RMB31.4 million and purchase of property and equipment of RMB44.8 million.

Net cash used in investing activities amounted to RMB311.6 million in 2017, primarily attributable to the purchase of time deposits amounted to RMB292.3 million and the purchase of property and equipment of RMB19.3 million.

Financing activities

Net cash provided by financing activities amounted to RMB54.4 million (US$7.8 million) in 2019, primarily attributable to the proceeds from short-term borrowings, long-term borrowings, and other borrowings of RMB183.6 million (US$26.4 million), RMB30.0 million (US$4.3 million) and RMB247.5 million (US$35.6 million), respectively, offset by repayment of short-term borrowings and other borrowings of RMB183.7 million (US$26.4 million) and RMB218.0 million (US$31.3 million), respectively.

Net cash provided by financing activities amounted to RMB995.9 million in 2018, primarily attributable to the proceeds from issuance of convertible notes, amounting to RMB1,195.5 million and proceeds from short-term borrowings of RMB180.0 million, offset by repayment of short-term borrowings of RMB161.1 million and repayment of long-term borrowings of RMB150.0 million.

Net cash provided by financing activities amounted to RMB922.1 million in 2017, primarily attributable to the proceeds from our initial public offering, amounting to RMB862.2 million.

Capital Expenditures

Our capital expenditures amounted to RMB19.3 million in 2017, RMB44.8 million in 2018 and RMB35.4 million (US$5.1 million) in 2019. Between January 1, 2017 and December 31, 2019, our capital expenditures were principally used for our leasehold improvements, as well as purchases of office and other operating equipment and motor vehicles.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments — Credit Losses (Topic 326), Measurement of Credit Losses on Financial Statements, which significantly changes the way entities recognize impairment of many financial assets by requiring immediate recognition of estimated credit losses expected to occur over their remaining life, instead of when incurred. In November 2018, the FASB issued ASU No. 2018-19, Codification Improvements to Topic 326, Financial Instruments—Credit Losses, which amends Subtopic 326-20 (created by ASU No.2016-13) to explicitly state that operating lease receivables are not in the scope of Subtopic 326-20. ASU 2016-13 changes the impairment model for most financial assets and certain other instruments. The standard will replace "incurred loss" approach with an "expected loss" model for instruments measured at amortized cost. For available-for-sale debt securities, entities will be required to record allowances, rather than reduce the carrying amount, as they do today under the other-than-temporary impairment model.

Additionally, in April 2019, the FASB issued ASU No.2019-04, Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments. In May 2019, the FASB issued ASU No. 2019-05, Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief, and in November 2019, the FASB issued ASU No. 2019-10, Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates, and ASU No. 2019-11, Codification Improvements to Topic 326, Financial Instruments—Credit Losses, to provide further clarifications on certain aspects of ASU No. 2016-13 and to extend the nonpublic entity effective date of ASU No. 2016-13. The standard is effective for public business entities for annual periods beginning after December 15, 2019, and interim periods therein. The standard is effective for us beginning on January 1, 2020. We are currently in the process of evaluating the impact of the adoption of this standard on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04: Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. To simplify the subsequent measurement of goodwill, the Board eliminated Step 2 from the goodwill impairment test. Under the amendments in ASU 2017-04, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity should apply the amendments in this Update on a prospective basis. An entity is required to disclose the nature of and reason for the change in accounting principle upon transition. A public business entity that is a U.S. Securities and Exchange Commission (SEC) filer should adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. We do not expect any material impact on its consolidated financial statements upon the adoption of ASU 2017-04.

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 modifies certain disclosure requirements on fair value measurements, including (i) clarifying narrative disclosure regarding measurement uncertainty from the use of unobservable inputs, if those inputs reasonably could have been different as of the reporting date, (ii) adding certain quantitative disclosures, including (a) changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and (b) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and (iii) removing certain fair value measurement disclosure requirements, including (a) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, (b) the policy for timing of transfers between levels of the fair value hierarchy and (c) the valuation processes for Level 3 fair value measurements. The amendments in ASU 2018-13 are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. We do not expect any material impact on its consolidated financial statements.

C. Research and Development, Patents and Licenses

Research and Development

We have built our technology platform relying primarily on software and systems that we have developed in-house and to a lesser extent on third-party software that we have modified and incorporated. Our strong technology platform is vital in supporting our pursuit of a continually improving customer experience, including the customer experience of our mobile users. From our website, the primary customer interface, to the back end management systems, our technology platform supports smooth and accurate operational execution as well as seamless information flow, data consistency and analytics. We have adopted a service-oriented architecture supported by big data technology, which consist of front-end and back-end modules. Our network infrastructure is built on self-owned servers located in data centers operated by a major PRC internet data center provider. We are implementing enhanced cloud architecture and infrastructure for our core data processing system to augment our existing virtual private network as we continue to expand our operations, enabling us to achieve significant operational efficiency through a virtual and centralized network platform.

Intellectual Property

We consider our patents, trademarks, software copyrights, service marks, domain names, trade secrets, proprietary technologies and similar intellectual property rights as critical to our success, and we rely on patents, trademark, copyright and trade secret protection laws in the PRC and overseas, as well as confidentiality procedures and contractual provisions with our employees, service providers, suppliers and others to protect our intellectual proprietary rights. As of December 31, 2019, we owned 17 patents, 506 registered trademarks, copyrights to 37 software programs developed by us relating to various aspects of our operations and 68 registered domain names, including *secoo.com*. Of the 506 registered trademarks, 479 are registered in the PRC, 17 are registered in Hong Kong, 4 are registered in the US, and 6 are registered in Europe. We are in the process of applying for 2 patents in the PRC.

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the year 2019 that are reasonably likely to have a material adverse effect on our total net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Off-Balance Sheet Arrangements

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

F. Tabular Disclosure of Contractual Obligation

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

	Payment due by period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
			(in RMB thousands)		
Operating lease obligations[1]	184,152	52,946	88,655	42,551	—
Borrowings[2]	1,656,888	224,406	1,432,482	—	—
Total	1,841,040	277,352	1,521,137	42,551	—

Notes:

(1) We lease logistics centers, offline experience centers, customer service center and office space under non-cancelable operating lease agreements that expire at various dates through 2023. These lease agreements provide for periodic rental increases based on both contractually agreed upon incremental rates and on the general inflation rate as agreed upon by us and our lessors. We incurred operating lease expenses of RMB34.1 million in 2017, RMB39.6 million in 2018 and RMB59.9 million (US$8.6 million) in 2019, respectively.

(2) Includes RMB246.6 million (US$35.4 million) interest expense obligation at the interest rate under the borrowing agreements.

G. Safe Harbor

See "Forward-Looking Statements."

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

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

Directors and Executive Officers	Age	Position/Title
Richard Rixue Li	45	Chairman of the Board and Chief Executive Officer
Jeacy Jisheng Yan	40	Director
Ravi Thakran	57	Director
Jun Wang	49	Independent Director
Xiaoquan Zhang	46	Independent Director
Jian Wang	47	Independent Director
Wenning Xing	45	Independent Director
Shaojun Chen	46	Chief Financial Officer

Mr. Richard Rixue Li is our founder and has served as our Chairman of the Board and chief executive officer since our inception. Prior to founding our company, Mr. Li had been engaged in the retail and recycling business of home appliances in China since 1997. Mr. Li is currently attending the EMBA program at Tsinghua University in Beijing, China. Mr. Li graduated from Nanchang University in Nanchang, China in 1996.

Ms. Jeacy Jisheng Yan has served as our director since May 2011. Ms. Yan is a partner of IDG Capital and focuses on investment in consumer goods and services, e-commerce and online-to-offline businesses. Prior to joining IDG Capital in 2008, Ms. Yan worked at the investment banking department of Deutsche Bank Hong Kong Branch from 2005 to 2007 and as bond trader at investment bank department of WestLB New York from 2004 to 2005. Ms. Yan received her dual master degrees in industrial engineering & management science and electrical engineering from Northwestern University in 2004, and dual bachelor's degrees in electrical engineering and economics from Peking University in Beijing, China in 2001.

Mr. Ravi Thakran has served as our director since August 2018. Mr. Thakran currently serves as Chairman and Managing Partner of L Catterton Asia and has served as the Group Chairman of LVMH South Asia and South East Asia, Middle East and Australia and New Zealand since September 2007. Prior to joining LVMH, Mr. Thakran held senior management positions at the Swatch Group, Nike and Tata Group, based in various global locations. Mr. Thakran holds an MBA from the India Institute of Management, Ahmedabad.

Mr. Jun Wang has served as our independent director since September 2017. Mr. Wang is a partner at Z-Park Fund, a private equity fund focusing on investing in leading Chinese technology, healthcare and consumer companies. Mr. Wang served as Chief Financial Officer for 11 years, and remains as a member of the Board, at China Finance Online Company Limited, which is listed on NASDAQ Global Select Market. Prior to that, Mr. Wang was Senior Manager at Deloitte Beijing Office from May 2015 to May 2016. Mr. Wang received a bachelor's degree from Shandong University in 1992, a master's degree in business administration from New York University's Leonard N. Stern School of Business in 2002 and another master's degree in economics and accounting from Beijing Technology and Business University in 1995. Mr. Wang is a member of the U.S. Certified Management Accountants and has a professional designation of Chartered Financial Analyst.

Mr. Xiaoquan Zhang has served as our independent director since September 2017. Mr. Zhang is a tenured professor at the business school of Chinese University of Hong Kong. Mr. Zhang specializes in pricing of information goods, internet finance, online word-of-mouth, online advertising, incentives of creation in open source and open content projects, and use of information in financial markets. Before joining the academia, he worked as an analyst for an investment bank, and an international marketing manager for a high-tech company from September 1998 to July 2000. He also works as an advisor to Hong Kong Cyberport Entrepreneurship Center, JD Financial, China Mobile, Huawei, China Merchants Securities, and Radica Systems. He received a bachelor's degree in computer science and English and a master's degree in management from Tsinghua University in 1996 and 1999, respectively. He received a doctor's degree in management from MIT Sloan School of Management in 2006.

Mr. Jian Wang has served as our independent director since December 2017. Mr. Wang has more than twenty years of management experience in the retail sector and has served since August 2013 as the chairman and chief executive officer of Five Star Holdings Group Co., Ltd., a company engaged in retail chain store operation and supply chain management with notable franchise brands. Prior to that, Mr. Wang served as the senior vice president of Best Buy Co., Inc. and the chief executive officer of Jiangsu Five-Star Electric Appliances Co. Ltd. Mr. Wang received a master's degree in administrative management from Nanjing University in 2000 and EMBA degrees from CEIBS and Tsinghua PBCSF in 2009 and 2016, respectively.

Mr. Wenning Xing has served as our independent director since September 2018. Mr. Xing serves as the China Managing Director of Hearst, an operator of several international magazine and digital media brands such as ELLE, Harper's Bazaar and Cosmopolitan, Hearst Media China, Trends Media Group, Fitch China, A&E Networks, ESPN, VICE, Hearst Ventures, and a media-focused investment fund. Under his tenure, Hearst made investments such as Legendary Pictures, Impression Creative, Kunlun Fight, Bilibili, Liulishuo, Atzuche and Zcool. Wenning is also in charge of handling government and public relations, strategic business development, and mergers & acquisitions at Hearst. Before joining Hearst, Wenning held several senior executive positions, including Chief Strategy Officer at a subsidiary of People's Daily, the biggest newspaper group in China, founder and Chief Representative at Fremantle Media China and Executive Director at Bertelsmann China and held key posts at Time Warner and China Central Television (CCTV). Wenning is a member of the International Academy of Television Arts & Sciences, and currently serves as a juror for the International Emmy Awards. Wenning has been featured in a number of high profile news articles, including the NY Times in 2012. Wenning is a graduate of Harvard University and Columbia University.

Mr. Shaojun Chen has served as chief financial officer since 2015. Previously, Mr. Chen has also served as our vice president of finance from April 2012 to 2015. Prior to joining our Company, Mr. Chen worked as the financial controller at China Dongxiang Group, a company listed on the Stock Exchange of Hong Kong, from 2008 to 2011. He worked as finance manager at Li Ning Company Limited, a company listed on the Stock Exchange of Hong Kong, from 2005 to 2008 in charge of budget, financial control and financial disclosure. Mr. Chen was an accounting manager focusing on public offering projects at Grant Thornton International Ltd. (formerly known as Beijing JingDu Certified Public Accountants Co., Ltd.), where he worked from 1997 to 2004. Mr. Chen is a Chinese Certified Public Accountant. Mr. Chen received a master degree in accounting from Capital University of Economics and Business in Beijing, China in 2002, and a bachelor's degree in accounting from Beijing Technology and Business University in Beijing, China in 2002.

Employment Agreements and Indemnification Agreements

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

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

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

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

B. Compensation

In 2019, we paid an aggregate of approximately RMB2.9 million (US$0.4 million) in cash to our executive officers, and we paid approximately RMB1.1 million (US$0.2 million) in cash to our non-executive director. We have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our executive officers and directors. Our PRC subsidiaries and variable interest entities are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, unemployment insurance and other statutory benefits and a housing provident fund.

2017 Employee Stock Incentive Plan

On December 31, 2014, we adopted a 2014 Employee Stock Incentive Plan, or the 2014 Plan, to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of our business.

We have adopted a 2017 Employee Stock Incentive Plan, or the 2017 Plan, which has replaced all of the 2014 Plan in its entirety. The awards granted and outstanding under the 2014 Plan has survived the termination of the 2014 Plan and remains effective and binding under the 2014 Plan. The maximum aggregate number of our shares which may be issued pursuant to all awards under the 2017 Plan is 1,307,672 Class A ordinary shares as of December 31, 2019.

The following paragraphs describe the principal terms of the 2017 Plan.

Types of Awards. The 2017 Plan permits the awards of options, share appreciation rights and share purchase rights.

Plan Administration. Our board of directors or a committee designated by the Board will administer the 2017 Plan. The committee or the full board of directors, as applicable, will determine the participants to receive awards, the type and number of awards to be granted to each participant, and the terms and conditions of each award grant.

Award Agreement. Awards granted under the 2017 Plan are evidenced by an award agreement that sets forth terms, conditions and limitations for each award, which may include the term of the award, the provisions applicable in the event of the grantee's employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind the award.

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

Vesting Schedule. In general, the awards are subject to the vesting schedule of a minimum of four years, except for specified in the relevant award agreement.

Exercise of Options. The plan administrator determines the exercise price for each award, which is stated in the award agreement. The vested portion of option will expire if not exercised prior to the time as the plan administrator determines at the time of its grant.

Transfer Restrictions. Awards are transferable (i) by will or the laws of descent and (ii) to the extent and manner authorized by the plan administrator.

Termination and amendment. Our board of directors has the authority to amend or terminate the plan. However, no such action may adversely affect in any material way any awards previously granted unless agreed by the recipient.

The following table summarizes, as of December 31, 2019, the options granted under our 2017 Plan to our executive officer, excluding awards that were forfeited or cancelled after the relevant grant dates.

Name	Class A Ordinary Shares Underlying Options Awarded	Exercise Price (US$/Share)	Date of Grant	Date of Expiration
Shaojun Chen	*	0.001	December 31, 2014	December 31, 2024
Total	*	—	—	—

* Less than 1% of our total outstanding share capital

As of December 31, 2019, other individuals as a group held options to purchase 1,103,878 Class A ordinary shares of our company with an exercise price of US$0.001 per Class A ordinary share.

C. Board Practice

Board of Directors

Our board of directors consists of seven directors. A director is not required to hold any shares in our company by way of qualification. A director who is in any way, whether directly or indirectly, interested in a contract or proposed contract with our company is required to declare the nature of his interest at a meeting of our directors. A director may vote in respect of any contract, proposed contract, or arrangement notwithstanding that he may be interested therein, and if he does so his vote shall be counted and he may be counted in the quorum at any meeting of our directors at which any such contract or proposed contract or arrangement is considered. Our directors may exercise all the powers of our company to borrow money, and to mortgage or charge its undertaking, property and uncalled capital, and issue debentures, debenture stock or other securities whenever money is borrowed or as security for any debt, liability or obligation of the company or of any third party. None of our non-executive directors has a service contract with us that provides for benefits upon termination of service.

Committees of the Board of Directors

We have established three committees: an audit committee, a compensation committee and a nominating and corporate governance committee. We have adopted a charter for each of the three committees. Each committee's members and functions are described below.

Audit Committee. Our audit committee consists of Jun Wang, Jian Wang and Xiaoquan Zhang. Jun Wang is the chairman of our audit committee. We have determined that Jun Wang, Jian Wang and Xiaoquan Zhang satisfy the "independence" requirements of NASDAQ and Rule 10A-3 under the Securities Exchange Act of 1934. The audit committee will oversee our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee will be responsible for, among other things:

(a) appointing the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;

(b) reviewing with the independent auditors any audit problems or difficulties and management's response;

(c) discussing the annual audited financial statements with management and the independent auditors;

(d) reviewing the adequacy and effectiveness of our accounting and internal control policies and procedures and any steps taken to monitor and control major financial risk exposures;

(e) reviewing and approving all proposed related party transactions;

(f) meeting separately and periodically with management and the independent auditors; and

(g) monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

Compensation Committee. Our compensation committee consists of Jun Wang and Jian Wang. Jian Wang is the chairman of our compensation committee. We have determined that Jun Wang and Jian Wang satisfy the "independence" requirements of NASDAQ. The compensation committee will assist the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee will be responsible for, among other things:

(a) reviewing and approving, or recommending to the board for its approval, the compensation for our chief executive officer and other executive officers;

(b) reviewing and recommending to the board for determination with respect to the compensation of our non-employee directors;

(c) reviewing periodically and approving any incentive compensation or equity plans, programs or similar arrangements; and

(d) selecting compensation consultant, legal counsel or other adviser only after taking into consideration all factors relevant to that person's independence from management.

Nominating and Corporate Governance Committee. Our nominating and corporate governance committee consists of Xiaoquan Zhang and Jian Wang. Xiaoquan Zhang is the chairperson of our nominating and corporate governance committee. We have determined that Xiaoquan Zhang and Jian Wang satisfy the "independence" requirements of NASDAQ. The nominating and corporate governance committee will assist the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The nominating and corporate governance committee will be responsible for, among other things:

(a) selecting and recommending to the board nominees for election by the shareholders or appointment by the board;

(b) reviewing annually with the board the current composition of the board with regards to characteristics such as independence, knowledge, skills, experience and diversity;

(c) making recommendations on the frequency and structure of board meetings and monitoring the functioning of the committees of the board; and

(d) advising the board periodically with regards to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any remedial action to be taken.

Duties of Directors

Under Cayman Islands law, all of our directors owe fiduciary duties to our company, including a duty of loyalty, a duty to act honestly and a duty to act in what they believe in good faith to be in our best interests. Our directors must also exercise their powers only for a proper purpose. Our directors also have a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands. In fulfilling their duty of care to us, our directors must ensure compliance with our current memorandum and articles of association, and the class rights vested thereunder in the holders of the shares. Our company has the right to seek damages if a duty owed by our directors is breached. In limited exceptional circumstances, a shareholder may have the right to seek damages in our name if a duty owed by our directors is breached.

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

(a) convening shareholders' general meetings;

(b) declaring dividends and distributions;

(c) appointing officers and determining the term of office of the officers;

(d) exercising the borrowing powers of our company and mortgaging the property of our company; and

(e) approving the transfer of shares in our company, including the registration of such shares in our share register.

Terms of Directors and Officers

Our officers are elected by and serve at the discretion of the board of directors. Our directors are generally not subject to a term of office and hold office until such time as they are removed from office by an ordinary resolution of the shareholders. A director's office shall be vacated if the director (i) becomes bankrupt or makes any arrangement or composition with his creditors; (ii) dies or is found to be or becomes of unsound mind; (iii) resigns his office by notice in writing to our company; (iv) without special leave of absence from the board of directors, is absent from meetings of the board of directors for three consecutive meetings and our board of directors resolves that his office be vacated; or (v) is removed from office pursuant to any other provisions of our memorandum and articles of association.

D. Employees

As of December 31, 2017, 2018 and 2019, we had 829, 1,329 and 1,010 full-time employees, respectively. The following table sets forth the number of our full-time employees categorized by areas of operations as of December 31, 2019:

Function	Number of employees
Business development, sales and marketing	519
Technology support	140
Fulfillment	187
Administration and management	164
Total	1,010

Our success depends to a large extent on our ability to attract, train, motivate and retain qualified personnel. We believe we offer our employees competitive compensation packages and an environment that encourages self-development and, as a result, have generally been able to attract and retain qualified personnel and maintain a stable core management team.

As required by laws and regulations in China, we participate in various employee social security plans that are organized by municipal and provincial governments, including pension, unemployment insurance, childbirth insurance, work-related injury insurance, medical insurance and housing insurance. We are required under PRC law to make contributions to employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time. To date, we have not been involved in any significant labor disputes.

E. Share Ownership

Except as specifically noted, the following table sets forth information with respect to the beneficial ownership of our ordinary shares as of the date of this annual report by:

(a) each of our directors and executive officers; and

(b) each person known to us to own beneficially more than 5% of our ordinary shares.

The calculations in the table below are based on 30,224,240 ordinary shares outstanding as of the date of this annual report on an as-converted basis, consisting of 23,652,811 Class A ordinary shares and 6,571,429 Class B ordinary shares outstanding, excluding 517,454 Class A ordinary shares reserved as treasury stock.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days, including through the exercise of any option, warrant or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.

	Class A Ordinary Shares	Class B Ordinary Shares	Total Ordinary Shares on an As-converted Basis	% of Total Ordinary Shares on an As-converted Basis†	% of Aggregate Voting Power††
Directors and Executive Officers:					
Richard Rixue Li(1)	*	6,571,429	6,572,929	21.7	84.7
Jeacy Jisheng Yan(2)	—	—	—	—	—
Ravi Thakran	—	—	—	—	—
Jun Wang	—	—	—	—	—
Xiaoquan Zhang	—	—	—	—	—
Jian Wang	—	—	—	—	—
Wenning Xing	—	—	—	—	—
Shaojun Chen	*	—	*	*	*
All Directors and Executive Officers as a Group	*	6,571,429	6,645,939	22.0	84.8
Principal Shareholders:					
Siku Holding Limited (3)	—	6,571,429	6,571,429	21.7	84.7
Qu Plus Limited (4)	5,102,041	—	5,102,041	16.9	3.3
IDG Funds(5)	4,964,889	—	4,964,889	16.4	3.2
CMC Galaxy Holdings Ltd(6)	2,376,854	—	2,376,854	7.9	1.5
Pingan entities(7)	1,861,782	—	1,861,782	6.2	1.2

* Less than 1%.

** Except for Ms. Jeacy Jisheng Yan, the business address for our directors and executive officers is Secoo Tower-Sanlitun Rd A No. 3 Courtyard Bldg 2, Chaoyang District, Beijing, 100027, The People's Republic of China.

† For each person and group included in this column, percentage ownership is calculated by dividing the number of shares beneficially owned by such person or group (including voting rights granted by other shareholders who retain the economic interest in the shares being voted) by the sum of the total number of shares outstanding, which is 30,224,240 as of the date of this annual report and the number of shares such person or group has the right to acquire upon exercise of option, warrant or other right within 60 days after the date of this annual report.

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

(1) Represents (i) 1,500 Class A ordinary shares in the form of ADSs held by Mr. Li and (ii) 6,571,429 Class B ordinary shares beneficially owned by Mr. Li through Siku Holding Limited, a BVI company, as described in footnote (3) below. Siku Holding Limited is 99% beneficially owned by Mr. Li.

(2) The business address of Ms. Yan is Floor 6, Tower A, COFCO Plaza, 8 Jianguomennei Avenue, Beijing, China, 100005.

(3) Represents 6,571,429 Class B ordinary shares directly held by Siku Holding Limited, a British Virgin Islands company 99% beneficially owned by Mr. Richard Rixue Li and 1% beneficially owned by Ms. Zhaohui Huang. The registered address of Siku Holding Limited is P.O. Box 3321, Drake Chambers, Road Town, Tortola, British Virgin Islands.

(4) Represents 5,102,041 Class A ordinary shares directly held by Qu Plus Limited. Qu Plus Limited is a BVI limited company which is ultimately controlled by Qudian Inc. The registered address of Qu Plus Limited is Craigmuir Chambers, Road Town, Tortola, VG 1110, British Virgin Islands.

(5) Represents (i) 99,206 Class A ordinary shares directly held by IDG Technology Venture Investment IV, L.P., (ii) 92,639 Class A ordinary shares directly held by IDG-Accel China Growth Fund III L.P., (iii) 6,568 Class A ordinary shares directly held by IDG-Accel China III Investors L.P., (iv) 1,250,000 Class A ordinary shares directly held by IDG Technology Venture Investment IV, L.P., (v) 758,929 Class A ordinary shares directly held by IDG Technology Venture Investment IV, L.P., (vi) 625,313 Class A ordinary shares directly held by IDG-Accel China Growth Fund III L.P., (vii) 44,330 Class A ordinary shares directly held by IDG-Accel China III Investors L.P., (viii) 396,825 Class A ordinary shares directly held by IDG Technology Venture Investment IV, L.P., (ix) 370,556 Class A ordinary shares directly held by IDG-Accel China Growth Fund III L.P., (x) 26,270 Class A ordinary shares directly held by IDG-Accel China III Investors L.P., (xi) 220,315 Class A ordinary shares directly held by IDG Technology Venture Investment IV, L.P., (xii) 205,729 Class A ordinary shares directly held by IDG-Accel China Growth Fund III L.P., (xiii) 14,585 ordinary shares directly held by IDG-Accel China III Investors L.P., (xiv) 548,752 Class A ordinary shares directly held by IDG-Accel China Growth Fund III L.P., (xv) 38,903 Class A ordinary shares directly held by IDG-Accel China III Investors L.P., (xvi) 248,362 Class A ordinary shares directly held by IDG-Accel China Growth Fund III L.P., and (xvii) 17,607 Class A ordinary shares directly held by IDG-Accel China III Investors L.P. IDG Technology Venture Investment IV, L.P. is a Delaware limited partnership which is controlled by its sole general partner, IDG Technology Venture Investment IV, LLC, which is controlled by its two managing members, Mr. Quan Zhou and Mr. Chi Sing Ho. IDG-Accel China Growth Fund III L.P.is a Cayman Islands limited partnership which is controlled by its immediate general partner IDG-Accel China Growth Fund III Associates L.P., or IDG-Accel III Associates L.P., a Cayman Islands limited partnership. IDG-Accel III Associates L.P. is controlled by its general partner IDG-Accel China Growth Fund GP III Associates Ltd., or IDG-Accel III Associates Ltd., a Cayman Islands limited company. IDG-Accel China III Investors L.P. is a Cayman Islands limited partnership which is controlled by its sole general partner, IDG-Accel III Associates Ltd. Mr. Quan Zhou and Mr. Chi Sing Ho are currently serving as members of board of directors of IDG-Accel III Associates Ltd. IDG Technology Venture Investment IV, L.P., IDG-Accel China Growth Fund III L.P., IDG-Accel China III Investors L.P. are collectively referred to as the IDG Funds.

(6) Represents 2,376,854 Class A ordinary shares directly held by CMC Galaxy Holdings Ltd. CMC Galaxy Holdings Ltd is a Cayman Islands company wholly owned by CMC Capital Partners L.P., a Cayman Islands exempted limited partnership acting by its general partner, CMC Capital Partners GP, L.P., a Cayman Islands exempted limited partnership activity by its general partner, CMC Capital Partners GP, Ltd., a Company incorporated with limited liability in the Cayman Islands. CMC Capital Partners GP, Ltd. is ultimately controlled indirectly by Mr. Ruigang Li. The registered address of CMC Galaxy Holdings Ltd is Harneys Services (Cayman) Limited at 4th Floor, Harbour Place, 103 South Church Street, George Town, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands.

(7) Represents (i) 1,063,875 Class A ordinary shares directly held by Pingan eCommerce Limited Partnership and (ii)797,907 Class A ordinary shares directly held by Rhythm Way Limited. Pingan eCommerce Limited Partnership is a Cayman Islands limited partnership which is ultimately controlled by Ping An Insurance (Group) Company of China, Ltd. The registered address of Pingan eCommerce Limited Partnership is Floor 4, Willow House, Cricket Square, PO Box 268, Grand Cayman KY1-1104, Cayman Islands. Rhythm Way Limited is a British Virgin Islands company beneficially owned by Pingan eCommerce Limited Partnership. The registered address of Rhythm Way Limited is PO Box 957, Road Town, Torrola, British Virgin Islands. Pingan eCommerce Limited Partnership and Rhythm Way Limited are collectively referred as Pingan Entities.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

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

B. Related Party Transactions

Transactions with Shareholders and Affiliates

During the year ended December 31, 2017, we paid RMB0.3 million on behalf of Jiangxi Tiangong Hi Tech Co., Ltd. (“Jiangxi Tiangong”), a related party that under the control of Mr. Richard Rixue Li, the Group’s chairman and chief executive officer. We have amount due from Jiangxi Tiangong of RMB0.04 million and RMB0.03 million (US$4 thousand) as of December 31, 2018 and 2019, respectively.

During the year ended December 31, 2018, we paid RMB2.1 million on behalf of Yichun Guangyao Technology Co., Ltd., a related party that under the control of Mr. Richard Rixue Li, our chairman and chief executive officer, which was repaid during the year ended December 31, 2019.

During the year ended December 31, 2015, we borrowed RMB18.0 million from Mr. Richard Rixue Li, our chairman and executive officer, to fund working capital, among which RMB1.0 million, RMB0.5 million and RMB0.3 million (US$0.04 million) were repaid during the years ended December 31, 2017, 2018 and 2019, respectively. We have an amount due to Mr. Richard Rixue Li for RMB0.8 million and RMB0.5 million (US$0.07 million) as of December 31, 2018 and 2019, respectively. The amounts were unsecured, non-interest bearing and have no defined repayment term.

During the year ended December 31, 2018, we borrowed RMB4.5 million from Mr. Rimei Li, CEO of our subsidiary, to fund working capital, RMB4.1 million and RMB0.4 million (US$0.06 million) were repaid during the years ended December 31, 2018 and 2019, respectively. We have an amount due to Mr. Rimei Li for RMB0.4 million and nil as of December 31, 3018 and 2019, respectively.

Contractual Arrangements with Our Variable Interest Entities and Their Shareholders

PRC laws and regulations currently limit foreign ownership of companies that engage in value-added telecommunications service or auction businesses in China. As a result, we operate our relevant businesses through contractual arrangements between Kutianxia, our PRC subsidiary, and Beijing Auction and Beijing Secoo, our variable interest entities, and their respective shareholders. For a description of these contractual arrangements, see “Item 4.C. Organizational Structure — Contractual Arrangements with Our Variable Interest Entities and Their Shareholders.”

Employment Agreements and Indemnification Agreements

See “Item 6. Directors, Senior Management and Employees—A. Employment Agreements and Indemnification Agreements.”

Share Incentive Plan

See “Item 6. Directors, Senior Management and Employees—B. Compensation—2017 Employee Stock Incentive Plan.”

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

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

Legal Proceedings

From time to time, we may in the future become a party to various legal or administrative proceedings arising in the ordinary course of our business, including actions with respect to intellectual property infringement, violation of third-party licenses or other rights, breach of contract, labor and employment claims. We are currently not a party to, and we are not aware of any threat of, any legal or administrative proceedings that, in the opinion of our management, are likely to have any material and adverse effect on our business, financial condition, cash-flow or results of operations.

Dividend Policy

Our board of directors has discretion on whether to distribute dividends, subject to applicable laws. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our directors. Under Cayman Islands law, a Cayman Islands company may pay a dividend on its shares out of either profit or share premium amount, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts due in the ordinary course of business. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant.

We do not have any present plan to pay any cash dividends on our ordinary shares in the foreseeable future after our initial public offering. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

We are a holding company incorporated in the Cayman Islands. We may rely on dividends from our subsidiaries in China for our cash requirements, including any payment of dividends to our shareholders. PRC regulations may restrict the ability of our PRC subsidiaries to pay dividends to us. See "Item 4.B. Business Overview—Regulation—Regulations Relating to Dividend Distribution."

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

B. Significant Changes

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

A. Offering and Listing Details

See "—C. Markets."

B. Plan of Distribution

Not applicable.

C. Markets

Our ADSs have been listed on the Nasdaq Global Market since September 2017 under the symbol "SECO".

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The following are summaries of material provisions of our current memorandum and articles of association, insofar as they relate to the material terms of our ordinary shares. The information set forth in Exhibit 2.5 to this Annual Report on Form 20-F is incorporated herein by reference.

Ordinary Shares

General. All of our issued and outstanding ordinary shares are fully paid and non-assessable. Our ordinary shares are issued in registered form, and are issued when entered in our register of members. Our shareholders who are nonresidents of the Cayman Islands may freely hold and vote their shares.

Voting Rights. Our Class A ordinary shares and Class B ordinary shares vote together as a single class on all matters submitted to a vote of our shareholders, except as may otherwise be required by law or provided for in our current memorandum and articles of association. In respect of matters requiring shareholders' vote, each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to twenty votes. At any shareholders' meeting, a resolution put to the vote of the meeting shall be decided on a poll.

An ordinary resolution to be passed at a meeting by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast at a meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes attaching to the ordinary shares cast at a meeting. Both ordinary resolutions and special resolutions may also be passed by a unanimous written resolution signed by all the shareholders of our company, as permitted by the Companies Law (2020 Revision) of the Cayman Islands (the "**Companies Law**") and our current memorandum and articles of association. A special resolution will be required for important matters such as a change of name or making changes to our memorandum and articles of association. Our shareholders may, among other things, increase, sub-divide or consolidate our share capital by ordinary resolution.

Liquidation. On a return of capital on winding up or otherwise (other than on conversion, redemption or purchase of ordinary shares), assets available for distribution among the holders of ordinary shares shall be distributed among the holders of the ordinary shares on a pro rata basis. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders proportionately.

Calls on Ordinary Shares and Forfeiture of Ordinary Shares. Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their ordinary shares in a notice served to such shareholders at least 14 calendar days prior to the specified time and place of payment. The ordinary shares that have been called upon and remain unpaid are subject to forfeiture.

Redemption, Repurchase and Surrender of Ordinary Shares. We may issue shares on terms that such shares are subject to redemption, at our option or at the option of the holders thereof, on such terms and in such manner as may be determined, before the issue of such shares, by our board of directors or by our shareholders by special resolution. Our company may also repurchase any of our shares provided that the manner and terms of such purchase have been approved by our board of directors or by ordinary resolution of our shareholders, or are otherwise authorized by our current memorandum and articles of association. Under the Companies Law, the redemption or repurchase of any share may be paid out of our company's profits or out of the proceeds of a fresh issue of shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account and capital redemption reserve) if the company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Companies Law no such share may be redeemed or repurchased (a) unless it is fully paid up, (b) if such redemption or repurchase would result in there being no shares outstanding, or (c) if the company has commenced liquidation. In addition, our company may accept the surrender of any fully paid share for no consideration.

Variations of Rights of Shares. If at any time the share capital is divided into different classes of shares, the rights attached to any class of shares may, unless otherwise provided by the terms of issue of the shares of that class, be materially adversely varied with the written consent of the holders of three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, subject to any rights or restrictions for the time being attached to the shares of the class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with or subsequent to them or the redemption or purchase of any shares of any class by our company. The rights of the holders of shares shall not be deemed to be materially adversely varied by the creation or issue of shares with preferred or other rights including, without limitation, the creation of shares with enhanced or weighted voting rights.

Changes in Capital. Our company may from time to time by ordinary resolution of our shareholders:

- increase our share capital by new shares of such amount as it thinks expedient;
- consolidate and divide all or any of our share capital into shares of a larger amount than our existing Shares;
- subdivide our shares, or any of them, into shares of an amount smaller than that fixed by our current memorandum and articles of association, provided that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in case of the share from which the reduced Share is derived; and
- cancel any shares that, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled.

Our shareholders may, by special resolution, amongst other things, reduce our share capital and any capital redemption reserve in any manner authorized by law.

Issuance of Additional Shares. Our current memorandum and articles of association authorizes our board of directors to issue additional ordinary shares from time to time as our board of directors shall determine, to the extent there are available authorized but unissued shares.

Our current memorandum and articles of association authorizes our board of directors to establish from time to time one or more series of preference shares and to determine, with respect to any series of preference shares, the terms and rights of that series, including:

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

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

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

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

Registered Office and Objects

Our registered office in the Cayman Islands is located at Suite#4-210, Governors Square, 23 Lime Tree Bay Avenue, PO Box 32311,, Grand Cayman KY1-1209, Cayman Islands. The objects for which our company is established are unrestricted and we have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

For details of our board committees, see "Item 6.C. Directors, Senior Management and Employees — Board Practices — Board of Directors."

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in "Item 4. Information on the Company" or elsewhere in this annual report on Form 20-F.

D. Exchange Controls

See "Item 4.B. Business Overview—PRC Government Regulations—Regulations of Foreign Currency Exchange and Dividend Distribution."

E. Taxation

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

Cayman Islands

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or after execution brought within the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties that are applicable to any payments made to or by our company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Hong Kong

Before 2018, our subsidiary incorporated in Hong Kong is subject to the uniform tax rate of 16.5% on taxable income generated from the operations in Hong Kong. Hong Kong's two-tier income tax system was officially implemented on April 1, 2018. For the first HK$2.0 million of assessable profits, we are subject to profits tax rate of 8.25%, and the subsequent profits are taxed at 16.5%. There is an anti-fragmentation measure where each group will have to nominate only one company in the group to benefit from the progressive rates. Under the Hong Kong tax laws, we are exempted from the Hong Kong income tax on our foreign-derived income and there are no withholding taxes in Hong Kong on the remittance of dividends.

PRC

Our PRC subsidiaries and consolidated variable interest entities are companies incorporated under PRC law and, as such, are subject to PRC enterprise income tax on their taxable income in accordance with the relevant PRC income tax laws. Under the PRC Enterprise Income Tax Law, which became effective on January 1, 2008 and was further amended on February 24, 2017 and December 29, 2018, respectively, and its implementation rules, which became effective on January 1, 2008 and was further amended on April 23, 2019, a uniform 25% enterprise income tax rate is generally applicable to both foreign-invested enterprises and domestic enterprises, unless they qualify for certain exceptions. Our PRC subsidiaries and consolidated variable interest entities are all subject to the tax rate of 25% for the periods presented in the consolidated financial statements included elsewhere in this annual report.

Under the PRC Enterprise Income Tax Law and its implementation rules, dividends from our PRC subsidiaries paid out of profits generated after January 1, 2008, are subject to a withholding tax of 10%, unless there is a tax treaty with China that provides for a different withholding tax rate. Distributions of profits generated before January 1, 2008 are exempt from PRC withholding tax. Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income, the withholding tax rate with respect to the payment of dividends by a PRC enterprise to a Hong Kong enterprise is reduced to 5% from a standard rate of 10%, if such Hong Kong enterprise directly holds at least 25% equity interest in the PRC enterprise. Pursuant to the Notice of the State Administration of Taxation on the Issues concerning the Application of the Dividend Clauses of Tax Agreements, or Circular 81, a Hong Kong resident enterprise must meet the following conditions, among others, in order to enjoy the reduced withholding tax rate: (i) it must be a company; (ii) it must directly own the required percentage of equity interest and voting rights in the PRC resident enterprise; and (iii) it must have directly owned such required percentage in the PRC resident enterprise throughout the 12 months prior to receiving the dividends. Furthermore, the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers, which became effective in November 2015 and replaced the Administrative Measures for Non-Resident Enterprises to Enjoy Treatments under Tax Treaties (For Trial Implementation), provide that any non-resident enterprise meeting conditions for enjoying the convention treatment may be entitled to the convention treatment itself when filing a tax return or making a withholding declaration through a withholding agent, subject to the subsequent administration by the tax authorities.

There are also other conditions for enjoying the reduced withholding tax rate according to other relevant tax rules and regulations. Accordingly, Hong Kong Secoo may be able to benefit from the 5% withholding tax rate for the dividends it receives from Kutianxia, if it satisfies the conditions prescribed under Circular 81 and other relevant tax rules and regulations, and obtains the approvals as required. However, according to Circular 81, if the relevant tax authorities consider the transactions or arrangements we have are for the primary purpose of enjoying a favorable tax treatment, the relevant tax authorities may adjust the favorable withholding tax. Under the PRC Enterprise Income Tax Law, an enterprise established outside of the PRC with "de facto management bodies" within the PRC is considered a resident enterprise and will be subject to the enterprise income tax at the rate of 25% on its global income. The implementation rules define the term "de facto management bodies" as the body that exercises full and substantial control and overall management over the business, production, personnel, accounts and properties of an enterprise. Circular 82 provides certain specific criteria for determining whether the "de facto management body" of a Chinese-controlled offshore-incorporated enterprise is located in China. Although Circular 82 only applies to offshore enterprises controlled by PRC enterprises, not those controlled by PRC individuals, the determining criteria set forth in Circular 82 may reflect the SAT's general position on how the "de facto management body" test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises, non-PRC enterprises, or individuals.

Although we do not believe that our legal entities organized outside of the PRC constitute PRC resident enterprises, it is possible that the PRC tax authorities could reach a different conclusion. However, if one or more of our legal entities organized outside of the PRC were characterized as PRC resident enterprises, it would be subject to enterprise income tax on its worldwide income at a rate of 25%. See also "Item 3.D. Risk Factors—Risks Related to Doing Business in China—If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders."

U.S. Federal Income Tax Considerations

The following discussion is a summary of U.S. federal income tax considerations generally applicable to the ownership and disposition of our ADSs or ordinary shares by a U.S. Holder (as defined below) that holds our ADSs or ordinary shares as "capital assets" (generally, property held for investment). This discussion is based on the U.S. Internal Revenue Code of 1986, as amended (the "Code"), U.S. Treasury regulations promulgated thereunder ("Regulations"), published positions of the Internal Revenue Service (the "Service"), court decisions and other applicable authorities, all as currently in effect as of the date hereof and all of which are subject to change or differing interpretations (possibly with retroactive effect).

This discussion does not describe all of the U.S. federal income tax considerations that may be applicable to U.S. Holders in light of their particular circumstances or U.S. Holders subject to special treatment under U.S. federal income tax law, such as:

- banks, insurance companies and other financial institutions;
- tax-exempt entities;
- real estate investment trusts;
- regulated investment companies;
- dealers or traders in securities;
- certain former citizens or residents of the United States;
- persons that elect to mark their securities to market;
- persons holding our ADSs or ordinary shares as part of a "straddle," conversion or other integrated transaction;
- persons that have a functional currency other than the U.S. dollar; and
- persons that actually or constructively own 10% or more of our equity (by vote or value).

In addition, this discussion does not address any U.S. state or local or non-U.S. tax considerations or any U.S. federal estate, gift, alternative minimum tax or Medicare contribution tax considerations. Each U.S. Holder is urged to consult its tax advisor concerning the U.S. federal income tax considerations to it in light of its particular situation as well as any considerations arising under the laws of any other taxing jurisdiction.

For purposes of this discussion, a "U.S. Holder" is a beneficial owner of our ADSs or ordinary shares that is for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust that (i) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons or (ii) has a valid election in effect under applicable Regulations to be treated as a U.S. person.

If a partnership (or other entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds our ADSs or ordinary shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. A partner in a partnership holding our ADSs or ordinary shares is urged to consult its tax advisor regarding the tax considerations generally applicable to it of the ownership and disposition of our ADSs or ordinary shares.

The discussion below assumes that the representations contained in the deposit agreement are true and that the obligations in the deposit agreement and any related agreement have been and will be complied with in accordance with its terms. If a U.S. Holder holds ADSs, such holder should be treated as the beneficial holder of the underlying ordinary shares represented by those ADSs for U.S. federal income tax purposes.

Passive Foreign Investment Company Considerations

A non-U.S. corporation, such as our company, will be classified as a PFIC for U.S. federal income tax purposes for any taxable year, if either (i) 75% or more of its gross income for such year consists of certain types of "passive" income or (ii) 50% or more of the value of its assets (determined on the basis of a quarterly average) during such year produce or are held for the production of passive income. Passive income generally includes dividends, interest, royalties, rents, annuities, net gains from the sale or exchange of property producing such income and net foreign currency gains. For this purpose, cash and assets readily convertible into cash are categorized as passive assets and the company's unbooked intangibles associated with active business activity are taken into account as non-passive assets.

In addition, a non-U.S. corporation will be treated as owning its proportionate share of the assets and earning its proportionate share of the income of any other corporation in which it owns, directly or indirectly, more than 25% (by value) of the stock. Although the law in this regard is unclear, we treat our variable interest entities as being beneficially owned by us for U.S. federal income tax purposes because we control their management decisions, we are entitled to substantially all of the economic benefits associated with these entities, and, as a result, we consolidate their results of operations in our U.S. GAAP financial statements.

Based on our current income and assets and the value of our ADSs, we do not believe that we were a PFIC for our taxable year ending December 31, 2019 and we do not expect to be classified as a PFIC in the foreseeable future. While we do not anticipate becoming a PFIC, changes in the nature of our income or assets, or fluctuations in the market price of our ADSs, may cause us to become a PFIC for future taxable years. In estimating the value of our goodwill and other unbooked intangibles, we have taken into account our market capitalization, which may fluctuate over time. Among other factors, if our market capitalization declines, we may become classified as a PFIC for future taxable years. Under circumstances where revenues from activities that produce passive income significantly increase relative to our revenues from activities that produce non-passive income or where we determine not to expend significant amounts of cash for working capital or other purposes, our risk of becoming classified as a PFIC may substantially increase. In addition, if it were determined that that we are not the owner of our variable interest entities for U.S. federal income tax purposes, we may be treated as a PFIC for our current taxable year and in future taxable years.

If we are classified as a PFIC for any taxable year during which a U.S. Holder holds our ADSs or ordinary shares, the PFIC tax rules discussed below under "— *Passive Foreign Investment Company Rules*" will generally apply to such U.S. Holder for such taxable year and, unless the U.S. Holder makes certain elections, will apply in future years even if we cease to be a PFIC. The discussion below under "— *Dividends*" and "— *Sale or Other Taxable Disposition of our ADSs or Ordinary Shares*" assumes that we will not be classified as a PFIC for U.S. federal income tax purposes.

Dividends

Any cash distributions (including any amount of any PRC tax withheld) paid on our ADSs or ordinary shares out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles, will generally be includible in the gross income of a U.S. Holder as dividend income on the day actually or constructively received by the U.S. Holder, in the case of ordinary shares, or by the depositary, in the case of ADSs. Because we do not intend to determine our earnings and profits on the basis of U.S. federal income tax principles, any distribution we pay will generally be reported as dividend income for U.S. federal income tax purposes. Dividends received on our ADSs or ordinary shares will not be eligible for the dividends received deduction allowed to corporations under the Code.

Individuals and certain other non-corporate U.S. Holders will be subject to tax at the lower capital gain tax rate applicable to "qualified dividend income" on dividends paid on our ADSs, provided that certain conditions are satisfied, including that (i) our ADSs are readily tradable on an established securities market in the United States, or, in the event that we are deemed to be a PRC resident enterprise under the PRC tax law, we are eligible for the benefits of the U.S.-PRC income tax treaty (the "Treaty"), (ii) we are neither a PFIC nor treated as such with respect to a U.S. Holder (as discussed below) for the taxable year in which the dividend was paid and the preceding taxable year, and (iii) certain holding period requirements are met. Our ADSs are listed on the NASDAQ Global Market, which is an established securities market in the United States, and we anticipate that our ADSs should qualify as readily tradable, although there can be no assurances in this regard. Because our ordinary shares are not listed on an established securities market, we do not expect that the dividends we pay on our ordinary shares that are not represented by ADSs will meet the conditions required for such reduced tax rates, unless we are deemed to be a PRC resident enterprise (as described above). We expect, however, to be eligible for the benefits of the Treaty. Assuming we are deemed to be a PRC resident enterprise and we are eligible for such benefits, dividends we pay on our ordinary shares, regardless of whether such shares are represented by the ADSs, would be eligible for the reduced rates of taxation described in this paragraph.

For U.S. foreign tax credit purposes, dividends will generally be treated as income from foreign sources and will generally constitute passive category income. In the event that we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law, a U.S. Holder may be subject to PRC taxes on dividends paid on our ADSs or ordinary shares. A U.S. Holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit not in excess of any applicable treaty rate in respect of any nonrefundable foreign withholding taxes imposed on dividends received on our ADSs or ordinary shares. A U.S. Holder who does not elect to claim a foreign tax credit on foreign tax withheld may instead claim a deduction, for U.S. federal income tax purposes, in respect of such withholding, but only for a year in which such U.S. Holder elects to do so for all creditable foreign income taxes. The rules governing the foreign tax credit are complex. Each U.S. Holder is urged to consult its tax advisor regarding the availability of the foreign tax credit under its particular circumstances.

Sale or Other Taxable Disposition of our ADSs or Ordinary Shares

A U.S. Holder will generally recognize capital gain or loss upon the sale or other taxable disposition of our ADSs or ordinary shares in an amount equal to the difference, if any, between the amount realized upon the sale or other taxable disposition and the U.S. Holder's adjusted tax basis in such ADSs or ordinary shares. Any capital gain or loss will be long-term if the ADSs or ordinary shares have been held for more than one year and will generally be U.S.-source gain or loss for U.S. foreign tax credit purposes. The deductibility of a capital loss may be subject to limitations. In the event that gain from the disposition of the ADSs or ordinary shares is subject to tax in the PRC because we are deemed to be a PRC resident enterprise, and such gain is deemed to be U.S. source gain, a U.S. Holder may not be able to credit such tax against their U.S. federal income tax liability unless such U.S. Holder has other income from foreign sources in the appropriate category for purposes of the foreign tax credit rules. However, a U.S. Holder that is eligible for the benefits of the Treaty may be able to elect to treat such gain as PRC-source gain. Each U.S. Holder is urged to consult its tax advisor regarding the tax considerations if a foreign tax is imposed on a disposition of our ADSs or ordinary shares, including the availability of the foreign tax credit under its particular circumstances.

Passive Foreign Investment Company Rules

If we are classified as a PFIC for any taxable year during which a U.S. Holder owns our ADSs or ordinary shares, and unless such U.S. Holder makes a "mark-to-market" election (as described below), such U.S. Holder will generally be subject to special tax rules that have a generally penalizing effect, regardless of whether we remain a PFIC, on (i) any excess distribution that we make to such U.S. Holder (which generally means any distribution paid during a taxable year to such U.S. Holder that is greater than 125% of the average annual distributions paid in the three preceding taxable years or, if shorter, such U.S. Holder's holding period for our ADSs or ordinary shares), and (ii) any gain realized on the sale or other disposition, including a pledge, of our ADSs or ordinary shares. Under the PFIC rules:

- the excess distribution or gain will be allocated ratably over a U.S. Holder's holding period for the ADSs or ordinary shares;

- amounts allocated to the current taxable year and any taxable years in such U.S. Holder's holding period prior to the first taxable year in which we are classified as a PFIC will be taxable as ordinary income; and

- amounts allocated to each of the other taxable years will be subject to tax at the highest tax rate in effect applicable to such U.S. Holder for that year, and such amounts will be increased by an additional tax equal to interest on the resulting tax deemed deferred with respect to such years.

If we are a PFIC for any taxable year during which a U.S. Holder holds our ADSs or ordinary shares and any of our subsidiaries (including any variable interest entity) is also a PFIC, such U.S. Holder will be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC and would be subject to the rules described above on certain distributions by a lower-tier PFIC and a disposition of shares of a lower-tier PFIC even though such U.S. Holder may not receive the proceeds of those distributions or dispositions.

A U.S. Holder of "marketable stock" in a PFIC may make a mark-to-market election with respect to such stock to mitigate certain adverse tax consequences described above. Marketable stock is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter ("regularly traded") on a qualified exchange (such as the NASDAQ Global Market or other market as defined in applicable Regulations). We believe that a U.S. Holder may make a mark-to-market election with respect to our ADSs, but not our ordinary shares, provided that our ADSs remain listed on the NASDAQ Global Market and that our ADSs are regularly traded. We anticipate that our ADSs should qualify as being regularly traded, but no assurances may be given in this regard. If a U.S. Holder makes this election, such holder will generally (i) include as ordinary income for each taxable year that we are a PFIC the excess, if any, of the fair market value of our ADSs held at the end of the taxable year over the adjusted tax basis of such ADSs and (ii) deduct as an ordinary loss the excess, if any, of the adjusted tax basis of our ADSs over the fair market value of such ADSs held at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. The U.S. Holder's adjusted tax basis in our ADSs would be adjusted to reflect any income or loss resulting from the mark-to-market election. If a U.S. Holder makes a mark-to-market election in respect of our ADSs and we cease to be a PFIC, such holder will not be required to take into account the gain or loss described above during any period that we are not classified as a PFIC. If a U.S. Holder makes a mark-to-market election, any gain such U.S. Holder recognizes upon the sale or other disposition of our ADSs in a year when we are a PFIC will be treated as ordinary income and any loss will be treated as ordinary loss, but such loss will only be treated as ordinary loss to the extent of the net amount previously included in income as a result of the mark-to-market election.Because, as a technical matter, a mark-to-market election cannot be made for any lower-tier PFICs that we may own, a U.S. Holder would generally continue to be subject to the general PFIC rules described above with respect to such U.S. Holder's indirect interest in any investments held by us that are treated as an equity interest in a PFIC for U.S. federal income tax purposes.

We do not intend to provide the information necessary for a U.S. Holder to make a qualified electing fund election in the event that we are classified as a PFIC.

If we are classified as a PFIC, a U.S. Holder must file an annual report with the IRS. Each U.S. Holder is urged to consult its tax advisors concerning the U.S. federal income tax considerations of owning and disposing of our ADSs or ordinary shares if we are or become a PFIC, including the unavailability of a qualified electing fund election, the possibility of making a mark-to-market election and the annual PFIC filing requirements, if any.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We have filed with SEC a registration statement on Form F-1, including relevant exhibits and securities under the Securities Act with respect to underlying ordinary shares represented by the ADSs. We have also filed with SEC a related registration statement on Form F-6 (File No.: 333-220174) to register the ADSs.

We are subject to periodic reporting and other informational requirements of the Exchange Act as applicable to foreign private issuers. Accordingly, we are required to file reports, including annual reports on Form 20-F, and other information with SEC. All information filed with SEC can be obtained over the Internet at SEC's website at *www.sec.gov* or inspected and copied at the public reference facilities maintained by SEC at 100 F Street, N.E., Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the SEC. Please call SEC at 1-800-SEC-0330 or visit the SEC website for further information on the operation of the public reference rooms.

As a foreign private issuer, we are exempt from the rules of the Exchange Act prescribing the furnishing and content of proxy statements to shareholders, and our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we will not be required under the Exchange Act to file periodic reports and financial statements with SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we intend to furnish the depositary with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders' meeting and other reports and communications that are made generally available to our shareholders. The depositary will make such notices, reports and communications available to holders of ADSs and, upon our written request, will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depositary from us.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Foreign Exchange Risk

Substantially all of our revenues are denominated in RMB. And our expenses are denominated in RMB, U.S. dollars or EUR. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge exposure to such risk. Although our exposure to foreign exchange risks should be limited in general, the value of your investment in our ADSs will be affected by the exchange rate between U.S. dollar and Renminbi because the value of our business is effectively denominated in RMB, while our ADSs will be traded in U.S. dollars.

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between Renminbi and the U.S. dollar in the future.

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

Interest Rate Risk

Our exposure to interest rate risk primarily relates to interest income generated by excess cash, which is mostly held in interest-bearing bank deposits. Interest-earning instruments carry a degree of interest rate risk. We obtain borrowings from commercial banks and third parties from time to time to meet our working capital expenditure requirements. All of our bank and third parties borrowings as of December 31, 2019 bear fixed interest rates and have maturity terms less than three years. If we were to renew any of these borrowings, we might be subject to interest rate risk.

We have not used derivative financial instruments to hedge the interest rate risk. We have not been exposed to material risks due to changes in market interest rates. However, we cannot provide assurance that we will not be exposed to material risks due to changes in market interest rate in the future.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Fees and Expenses

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

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

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

(a) Fees for the transfer and registration of Class A ordinary shares charged by the registrar and transfer agent for the Class A ordinary shares in the Cayman Islands (i.e., upon deposit and withdrawal of Class A ordinary shares).

(b) Expenses incurred for converting foreign currency into U.S. dollars.

(c) Expenses for cable, telex and fax transmissions and for delivery of securities.

(d) Taxes and duties upon the transfer of securities, including any applicable stamp duties, any stock transfer charges or withholding taxes (i.e., when ordinary shares are deposited or withdrawn from deposit).

(e) Fees and expenses incurred in connection with the delivery or servicing of ordinary shares on deposit.

(f) Fees and expenses incurred in connection with complying with exchange control regulations and other regulatory requirements applicable to Class A ordinary shares, deposited securities, ADSs and ADRs.

(g) Any applicable fees and penalties thereon.

The depositary fees payable upon the issuance and cancellation of ADSs are typically paid to the depositary bank by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depositary bank and by the brokers (on behalf of their clients) delivering the ADSs to the depositary bank for cancellation. The brokers in turn charge these fees to their clients. Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary services fee are charged by the depositary bank to the holders of record of ADSs as of the applicable ADS record date.

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

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

The depositary has agreed to pay certain amounts to us in exchange for its appointment as depositary. We may use these funds towards our expenses relating to the establishment and maintenance of the ADR program, including investor relations expenses, or otherwise as we see fit. The depositary may pay us a fixed amount, it may pay us a portion of the fees collected by the depositary from holders of ADSs, and it may pay specific expenses incurred by us in connection with the ADR program. For the year ended December 31, 2019, we did not receive any reimbursement from the depositary.

PART II.

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

Material Modifications to the Rights of Security Holders

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

Use of Proceeds

The following "Use of Proceeds" information relates to the registration statement on Form F-1, as amended (File Number 333-220174) (the "F-1 Registration Statement") in relation to our initial public offering of 8,500,000 ADSs representing 4,250,000 Class A ordinary shares, at an initial offering price of US$13.00 per ADS. Our initial public offering closed in September 2017. Jefferies LLC and BNP Paribas Securities Corp. were the representatives of the underwriters for our initial public offering.

The F-1 Registration Statement was declared effective by the SEC on September 19, 2017. For the period from the effective date of the F-1 Registration Statement to December 31, 2019, the total expenses incurred for our company's account in connection with our initial public offering was approximately US$10.4 million, which included US$7.7 million in underwriting discounts and commissions for the initial public offering and approximately US$2.7 million in other costs and expenses for our initial public offering. We received net proceeds of approximately US$100.1 million from our initial public offering. None of the transaction expenses included payments to directors or officers of our company or their associates, persons owning more than 10% or more of our equity securities or our affiliates. None of the net proceeds from the initial public offering were paid, directly or indirectly, to any of our directors or officers or their associates, persons owning 10% or more of our equity securities or our affiliates.

For the period from September 19, 2017, the date that the Form F-1 was declared effective by the SEC, to December 31, 2019, we had used a portion of the net proceeds received from our initial public offering, which consisted of US$42.2 million invested in our marketing and branding efforts, US$15.0 million used in strengthening our IT infrastructure and technology capabilities, US$20.0 million used to expand our logistic network, and US$22.9 million used for general corporate purposes.

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

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports filed under the Exchange Act is recorded, processed, summarized and reported within the specified time periods and accumulated and communicated to our management, including our principal executive officer and principal accounting officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, under the supervision and with the participation of our principal executive officer and our principal accounting officer, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) or 15d-15(e) promulgated under the Exchange Act, as of December 31, 2019. Based on that evaluation, our principal executive officer and principal accounting officer have concluded that our disclosure controls and procedures are not effective in ensuring that material information required to be disclosed in this annual report is recorded, processed, summarized and reported to them for assessment, and required disclosure is made within the time period specified in the rules and forms of the Commission.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. 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 and includes those policies and procedures that (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements. As required by Section 404 of the Sarbanes-Oxley Act and related rules as promulgated by the SEC, our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2019 using criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

In connection with the audit of our consolidated financial statements as of December 31, 2019 and for the year ended December 31, 2019, we identified one material weakness in our internal control over financial reporting, as defined in the standards established by the Public Company Accounting Oversight Board of the United States. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness identified related to the lack of sufficient financial reporting and accounting personnel with appropriate knowledge to implement key controls over period end financial reporting and to properly prepare and review financial statements and related disclosures in accordance with U.S. GAAP and SEC reporting requirements.

We will continue to recruit experienced personnel to build a strong accounting and finance team. However, we cannot assure you that we complete such implementation in a timely manner. See "Item 3.D. Risk Factors—Risks Related to Our Business—If we fail to implement and maintain an effective system of internal controls or fail to remediate the material weakness in our internal control over financial reporting that has been identified, we may be unable to accurately report our results of operations or prevent fraud, and investor confidence and the market price of our ADSs may be materially and adversely affected."

Attestation Report of the Company's Registered Public Accounting Firm

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting as we qualify as an "emerging growth company" under section 3(a) of the Securities Exchange Act of 1934, as amended, and are therefore exempt from the attestation requirement.

Changes in Internal Control over Financial Reporting

In 2019, we took actions to address the abovementioned material weakness: we have (i) hired a new reporting manager and a new reporting associate with appropriate knowledge and experience in U.S. GAAP accounting and SEC reporting, who also have experience in internal control, internal audit and SOX compliance; (ii) launching of a new accounting system to ensure sales data generated and maintained by various business applications are complete and accurate and can be reconciled with the financial reporting system on time, which also enhance our effectiveness and enhance control of financial analysis. In addition, we will continue to take other steps to strengthen our internal control over financial reporting, including (i) establishing a formal and regular training program for accounting personnel, including attending external U.S. GAAP training and (ii) implementing and formalizing comprehensive internal controls over financial reporting, including developing a comprehensive policy and procedure manual, to allow for prevention, early detection and resolution of potential compliance issues.

Other than the implementation and refinement of the controls necessary to remediate the previous year's material weakness, there were no changes in our internal controls over financial reporting that occurred during the period covered by this annual report on Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Mr. Jun Wang, an independent director and member of our audit committee, is an audit committee financial expert.

ITEM 16B. CODE OF ETHICS

Our board of directors has adopted a code of ethics that applies to all of the directors, officers and employees of us and our subsidiaries, whether they work for us on a full-time, part-time, consultative, or temporary basis. In addition, we expect those who do business with us, such as consultants, suppliers and collaborators, to also adhere to the principles outlined in the code of ethics. Certain provisions of the code of ethics apply specifically to our chief executive officer, chief financial officer, senior finance officer, controller, vice presidents and any other persons who perform similar functions for us. We have filed our code of business conduct and ethics as an exhibit to our registration statement on Form F-1 (No. 333-220174) in connection with our initial public offering in September 2017, which was incorporated by reference thereto in this annual report.

ITEM 16C. PRINCIPAL ACCOUNT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by KPMG Huazhen LLP, our principal accountant, for the periods indicated.

	For the Year Ended December 31,	
	2018	2019
	(in thousands of RMB)	
Audit fees[(1)]	8,061.5	8,948.4
Tax fees[(2)]	—	1,270.0

(1) "Audit fees" means the aggregate fees billed or payable for professional services rendered by our principal accountant for the audit of our consolidated financial statements.

(2) "Tax fees" means the aggregate fees billed for services rendered by independent registered public accounting firm for transfer pricing and research and development super deduction services.

The policy of our audit committee is to pre-approve all audit and other service provided by KPMG Huazhen LLP as described above, other than those for *de minimis* services which are approved by the Audit Committee prior to the completion of the audit.

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

None.

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

On November 16, 2017, our board of directors authorized a share repurchase program, under which we may repurchase our Class A ordinary shares in the form of ADSs with an aggregate value of up to US$20 million during the next 12-month period.

The following table sets forth a summary of our repurchase of our ADSs under the share repurchase program described in the paragraph above. All shares were repurchased in the open market pursuant to the share repurchase program announced on November 16, 2017.

Period	Total Number of ADSs Purchased	Average Price Paid Per ADS	Total Number of ADSs Purchased as Part of the Publicly Announced Plan	Approximate Dollar Value of ADSs that May Yet Be Purchased Under the Plan
September 10 — September 28, 2018	315,719	US$ 13.14	315,719	US$ 9,391,923
Total	315,719	US$ 13.14	315,719	US$ 9,391,923

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

Rule 5635(c) of the Nasdaq Rules requires a Nasdaq-listed company to obtain its shareholders' approval of all equity compensation plans, including stock plans, and any material amendments to such plans. Rule 5615 of the Nasdaq Rules permits a foreign private issuer like our company to follow home country practice in certain corporate governance matters. We rely on home country practice exemption with respect to the requirement for annual shareholders meeting and did not hold an annual shareholders meeting in 2019. We may also opt to rely on additional home country practice exemptions in the future. As a result, our shareholders may be afforded less protection than they would otherwise enjoy under the Nasdaq Stock Market corporate governance listing standards applicable to U.S. domestic issuers. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our American Depositary Shares—As a company incorporated in the Cayman Islands, we will be permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the Nasdaq Global Market corporate governance listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with the Nasdaq Global Market corporate governance listing standards."

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III.

ITEM 17. FINANCIAL STATEMENTS

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

ITEM 18. FINANCIAL STATEMENTS

The consolidated financial statements for Secoo Holding Limited and its subsidiaries are included at the end of this annual report.

ITEM 19. EXHIBITS

Exhibit Number	Description of Document
1.1	Amended and Restated Memorandum and Articles of Association of the Registrant, effective September 21, 2017 (incorporated herein by reference to Exhibit 3.2 to the Form F-1/A filed on September 11, 2017 (File No. 333-220174))
2.1	Registrant's Specimen American Depositary Receipt (included in Exhibit 4.3) (incorporated herein by reference to Exhibit 4.3 to the Form F-1/A filed on September 11, 2017 (File No. 333-220174))
2.2	Registrant's Specimen Certificate for Class A Ordinary Shares (incorporated herein by reference to Exhibit 4.2 to the Form F-1/A filed on September 11, 2017 (File No. 333-220174))
2.3	Form of Deposit Agreement, among the Registrant, the depositary and holder of the American Depositary Receipts (incorporated herein by reference to Exhibit 4.3 to the Form F-1/A filed on September 11, 2017 (File No. 333-220174))
2.4	Amended and Restated Shareholders Agreement between the Registrant and other parties thereto dated July 8, 2015 (incorporated herein by reference to Exhibit 4.4 to the Form F-1 filed on August 25, 2017 (File No. 333-220174))
2.5*	Description of Securities
4.1	2014 Employee Stock Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Form F-1 filed on August 25, 2017 (File No. 333-220174))
4.2	2017 Employee Stock Incentive Plan (incorporated herein by reference to Exhibit 10.2 to the Form F-1/A filed on September 11, 2017 (File No. 333-220174))
4.3	Form of Indemnification Agreement between the Registrant and its directors and executive officers (incorporated herein by reference to Exhibit 10.3 to the Form F-1 filed on August 25, 2017 (File No. 333-220174))

Exhibit Number	Description of Document
4.4	Form of Employment Agreement between the Registrant and its executive officers (incorporated herein by reference to Exhibit 10.4 to the Form F-1 filed on August 25, 2017 (File No. 333-220174))
4.5	English translation of the Share Pledge Agreement between Kutianxia, Beijing Secoo and the shareholders of Beijing Secoo dated May 8, 2017 (incorporated herein by reference to Exhibit 10.5 to the Form F-1 filed on August 25, 2017 (File No. 333-220174))
4.6	English translation of the Exclusive Option Agreement between Kutianxia, Beijing Secoo and the shareholders of Beijing Secoo dated May 24, 2011 (incorporated herein by reference to Exhibit 10.6 to the Form F-1 filed on August 25, 2017 (File No. 333-220174))
4.7	English translation of the Powers of Attorney between Kutianxia and the shareholders of Beijing Secoo taking effect from May 24, 2011 (incorporated herein by reference to Exhibit 10.7 to the Form F-1 filed on August 25, 2017 (File No. 333-220174))
4.8	English translation of the Exclusive Intellectual Property Purchase Agreement between Kutianxia and Beijing Secoo dated May 24, 2011 (incorporated herein by reference to Exhibit 10.8 to the Form F-1 filed on August 25, 2017 (File No. 333-220174))
4.9	English translation of the Exclusive Business Cooperation Agreement between Kutianxia and Beijing Secoo dated May 24, 2011 (incorporated herein by reference to Exhibit 10.9 to the Form F-1 filed on August 25, 2017 (File No. 333-220174))
4.10	The Equity Interest Pledge Agreement between Kutianxia, Beijing Auction and the shareholders of Beijing Auction dated September 15, 2014 (incorporated herein by reference to Exhibit 10.10 to the Form F-1 filed on August 25, 2017 (File No. 333-220174))
4.11	The Exclusive Option Agreement between Kutianxia, Beijing Auction and the shareholders of Beijing Auction dated September 15, 2014 (incorporated herein by reference to Exhibit 10.11 to the Form F-1 filed on August 25, 2017 (File No. 333-220174))
4.12	The Powers of Attorney between Kutianxia and the shareholders of Beijing Auction taking effect from September 15, 2014 (incorporated herein by reference to Exhibit 10.12 to the Form F-1 filed on August 25, 2017 (File No. 333-220174))
4.13	The Loan Agreement between Kutianxia and the shareholders of Beijing Auction dated September 15, 2014 (incorporated herein by reference to Exhibit 10.13 to the Form F-1 filed on August 25, 2017 (File No. 333-220174))
4.14	The Exclusive Business Cooperation Agreement between Kutianxia and Beijing Auction dated September 15, 2014 (incorporated herein by reference to Exhibit 10.14 to the Form F-1 filed on August 25, 2017 (File No. 333-220174))
4.15	English translation of the Supplemental Agreement to Exclusive Business Cooperation Agreement between Kutianxia and Beijing Secoo dated March 26, 2015 (incorporated herein by reference to Exhibit 10.15 to the Form F-1 filed on August 25, 2017 (File No. 333-220174))
4.16	The Supplement Agreement to the Exclusive Business Cooperation Agreement between Kutianxia and Beijing Auction dated March 26, 2015 (incorporated herein by reference to Exhibit 10.16 to the Form F-1 filed on August 25, 2017 (File No. 333-220174))
4.17	Loan Agreement between Beijing Secoo and National Trust Co., Ltd. dated December 20, 2017 (incorporated herein by reference to Exhibit 4.17 to the Form 20-F filed on April 26, 2018 (File No. 001-38201))
4.18	Deposit Pledge Agreements between Hong Kong Secoo and National Trust Co., Ltd. dated December 20, 2017 (incorporated herein by reference to Exhibit 4.18 to the Form 20-F filed on April 26, 2018 (File No. 001-38201))

Exhibit Number	Description of Document
4.19	Convertible Note and Warrant Subscription Agreement between Secoo and Great World Lux Pte. Ltd dated July 9, 2018 (incorporated herein by reference to Exhibit 4.19 to the Form 20-F filed on April 29, 2019 (File No. 001-38201))
4.20*	Share Purchase Agreement between Secoo and Qu Plus Limited dated June 3, 2020
4.21*	Investor Rights Agreement among Secoo, Qu Plus Limited and Mr. Richard Rixue Li dated June 4, 2020
8.1*	List of Principal Subsidiaries and Variable Interest Entities of the Registrant
11.1	Code of Business Conduct and Ethics of the Registrant (incorporated herein by reference to Exhibit 99.1 to the Form F-1 filed on August 25, 2017 (File No. 333-220174))
12.1*	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1**	CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2**	CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of Han Kun Law Offices
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Scheme Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed with this Annual Report on Form 20-F.

** Furnished with this Annual Report on Form 20-F.

SIGNATURES

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

Secoo Holding Limited

By: /s/ Richard Rixue Li
Name: Richard Rixue Li
Title: Director and Chief Executive Officer

Date: June 11, 2020

SECOO HOLDING LIMITED

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Secoo Holding Limited:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Secoo Holding Limited and subsidiaries (the Company) as of December 31, 2018 and 2019, the related consolidated statements of comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

Change in Accounting Principle

As discussed in note 2 to the consolidated financial statements, as of January 1, 2018, the Company has changed its method of accounting for revenue recognition due to the adoption of Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers. In addition, as of January 1, 2019, the Company has changed its method of accounting for leases due to the adoption of ASC Topic 842, Leases.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the 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. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG Huazhen LLP

We have served as the Company's auditor since 2016.

Beijing, China
June 11, 2020

SECOO HOLDING LIMITED
CONSOLIDATED BALANCE SHEETS
(All amounts in thousands, except for share and per share data)

	As of December 31,		
	2018	2019	
	RMB	RMB	US$ (Note 2(e))
Assets			
Current assets			
Cash and cash equivalents	1,034,385	709,823	101,960
Time deposits	68,632	—	—
Restricted cash	89,222	240,741	34,580
Investment securities	26,032	2,318	333
Accounts receivable, net	119,580	123,226	17,700
Inventories	1,712,740	2,680,428	385,019
Advances to suppliers	429,219	333,826	47,951
Prepayments and other current assets, net	133,551	431,107	61,925
Amounts due from related parties	13,284	30	4
Total current assets	**3,626,645**	**4,521,499**	**649,472**
Non-current assets			
Property and equipment, net	56,698	83,816	12,039
Intangible asset, net	12,267	10,390	1,492
Restricted cash	2,800	3,572	513
Investments in equity investees	2,859	71,595	10,284
Deferred tax assets	51,214	106,637	15,317
Goodwill	20,413	23,560	3,384
Operating lease right-of-use assets	—	159,321	22,885
Other non-current assets	19,030	16,806	2,418
Total non-current assets	**165,281**	**475,697**	**68,332**
Total assets	**3,791,926**	**4,997,196**	**717,804**

SECOO HOLDING LIMITED
CONSOLIDATED BALANCE SHEETS (Continued)
(All amounts in thousands, except for share and per share data)

	As of December 31,		
	2018	2019	
	RMB	RMB	US$ (Note 2(e))
LIABILITIES			
Current liabilities			
Short-term borrowings and current portion of long-term borrowings (including short-term borrowings and current portion of long-term borrowings of consolidated VIEs without recourse to the Company of RMB134,324 and RMB159,500 as of December 31, 2018 and 2019, respectively. Note 1)	134,324	159,500	22,911
Accounts payable (including accounts payable of consolidated VIEs without recourse to the Company of RMB384,280 and RMB324,069 as of December 31, 2018 and 2019, respectively. Note 1)	498,579	569,045	81,738
Amounts due to related parties (including amount due to related parties of consolidated VIEs without recourse to the Company of RMB1,561 and RMB330 as of December 31, 2018 and 2019, respectively. Note 1)	1,564	488	70
Advances from customers (including advances from customers of consolidated VIEs without recourse to the Company of RMB63,684 and RMB30,707 as of December 31, 2018 and 2019, respectively. Note 1)	66,954	57,122	8,205
Income tax payable (including income tax payable of consolidated VIEs without recourse to the Company of RMB42,699 and RMB91,516 as of December 31, 2018 and 2019, respectively. Note 1)	47,278	110,615	15,888
Accrued expenses and other current liabilities (including accrued expenses and other current liabilities of consolidated VIEs without recourse to the Company of RMB235,461 and RMB807,348 as of December 31, 2018 and 2019, respectively. Note 1)	305,436	895,694	128,659
Deferred revenue (including deferred revenue of consolidated VIEs without recourse to the Company of RMB62,372 and RMB97,859 as of December 31, 2018 and 2019, respectively. Note 1)	62,478	97,965	14,072
Operating lease liabilities (including operating lease liabilities of consolidated VIEs without recourse to the Company of nil and RMB32,602 as of December 31, 2018 and 2019, respectively. Note 1)	—	38,608	5,546
Total current liabilities	**1,116,613**	**1,929,037**	**277,089**
Non-current liabilities			
Long-term borrowings, excluding current portion (including long-term borrowings, excluding current portion, of consolidated VIEs without recourse to the Company of nil and RMB30,000 as of December 31, 2018 and 2019, respectively. Note 1)	1,151,560	1,215,249	174,560
Operating lease liabilities (including operating lease liabilities of consolidated VIEs without recourse to the Company of nil and RMB108,672 as of December 31, 2018 and 2019, respectively. Note 1)	—	113,782	16,344
Long-term liabilities (including long-term liabilities of consolidated VIEs without recourse to the Company of RMB14,240 and RMB9,165 as of December 31, 2018 and 2019, respectively. Note 1)	14,240	77,344	11,110
	1,165,800	**1,406,375**	**202,014**
Total liabilities	**2,282,413**	**3,335,412**	**479,103**
Commitments and contingencies (Note 27)			

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

SECOO HOLDING LIMITED
CONSOLIDATED BALANCE SHEETS (Continued)
(All amounts in thousands, except for share and per share data)

	As of December 31,		
	2018	2019	
	RMB	RMB	US$ (Note 2(e))
Mezzanine Equity			
Redeemable non-controlling interest	7,587	9,337	1,341
Total mezzanine equity	**7,587**	**9,337**	**1,341**
Shareholders' Equity			
Class A ordinary shares (US$0.001 par value, 150,000,000 shares authorized including Class A shares and Class B shares, 19,068,224 shares issued, 18,550,770 shares outstanding as of December 31, 2018 and 2019)	126	126	18
Class B ordinary shares (US$0.001 par value, 150,000,000 shares authorized including Class A shares and Class B shares, 6,571,429 shares issued and outstanding as of December 31, 2018 and 2019; each Class B ordinary shares is convertible into one Class A ordinary share)	41	41	6
Treasury shares (517,454 Class A ordinary shares as of December 31, 2018 and 2019, at cost)	(71,018)	(71,018)	(10,201)
Additional paid-in capital	2,839,342	2,848,145	409,110
Accumulated losses	(1,280,753)	(1,126,330)	(161,787)
Accumulated other comprehensive loss	(6,373)	(26,500)	(3,806)
Total equity attributable to ordinary shareholders	**1,481,365**	**1,624,464**	**233,340**
Non-redeemable non-controlling interest	**20,561**	**27,983**	**4,020**
Total Shareholders' Equity	**1,501,926**	**1,652,447**	**237,360**
Total liabilities, mezzanine equity and shareholders' equity	**3,791,926**	**4,997,196**	**717,804**

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

SECOO HOLDING LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(All amounts in thousands, except for share and per share data)

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$ (Note 2(e))
Revenues:				
Merchandise sales	3,680,795	5,244,446	6,609,874	949,449
Marketplace and other services	59,660	143,131	235,706	33,857
Total revenues	**3,740,455**	**5,387,577**	**6,845,580**	**983,306**
Cost of revenues	(3,128,441)	(4,427,844)	(5,648,633)	(811,375)
Gross profit	**612,014**	**959,733**	**1,196,947**	**171,931**
Operating expenses:				
Fulfillment expenses	(99,064)	(138,710)	(190,503)	(27,364)
Marketing expenses	(245,989)	(410,548)	(480,442)	(69,011)
Technology and content development expenses	(62,081)	(80,398)	(101,477)	(14,576)
General and administrative expenses	(110,059)	(110,802)	(208,052)	(29,885)
Total operating expenses	**(517,193)**	**(740,458)**	**(980,474)**	**(140,836)**
Income from operations	**94,821**	**219,275**	**216,473**	**31,095**
Other income (expenses):				
Interest income	2,339	12,870	9,420	1,353
Interest expenses	(8,901)	(55,403)	(118,867)	(17,074)
Foreign currency exchange gains (losses)	9,477	(11,737)	(3,426)	(492)
Change in fair value of financial instruments	—	1,891	20,660	2,968
Others	4,148	29,378	68,837	9,887
Income before income tax	**101,884**	**196,274**	**193,097**	**27,737**
Income tax benefits (expenses)	31,525	(40,728)	(31,426)	(4,514)
Net income	**133,409**	**155,546**	**161,671**	**23,223**
Less: Gain (loss) attributable to redeemable non-controlling interest	(298)	2,001	1,120	161
Less: Gain (loss) attributable to non-redeemable non-controlling interest	(349)	1,712	5,499	790
Net income attributable to Secoo Holding Limited	**134,056**	**151,833**	**155,052**	**22,272**
Accretion to redeemable non-controlling interest redemption value	(798)	—	(629)	(90)
Accretion to preferred share redemption value	(202,679)	—	—	—
Net income (loss) attributable to ordinary shareholders of Secoo Holding Limited	**(69,421)**	**151,833**	**154,423**	**22,182**

SECOO HOLDING LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Continued)
(All amounts in thousands, except for share and per share data)

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$ (Note 2(e))
Net income	**133,409**	**155,546**	**161,671**	**23,223**
Other comprehensive income (loss)				
Foreign currency translation adjustments, net of nil income taxes	81,834	(1,041)	(19,955)	(2,866)
Total other comprehensive income (loss), net of income taxes	**81,834**	**(1,041)**	**(19,955)**	**(2,866)**
Comprehensive income	**215,243**	**154,505**	**141,716**	**20,357**
Less: Comprehensive income (loss) attributable to redeemable non-controlling interest	(298)	2,005	1,121	161
Less: Comprehensive income (loss) attributable to non-redeemable non-controlling interest	(283)	1,736	5,671	815
Comprehensive income attributable to ordinary shareholders of Secoo Holding Limited	**215,824**	**150,764**	**134,924**	**19,381**
Net income (loss) per Class A and Class B ordinary share				
—Basic	(5.55)	6.02	6.15	0.88
—Diluted	(5.55)	5.80	5.89	0.85
Weighted average number of Class A and Class B ordinary shares outstanding used in computing net income (loss) per share				
—Basic	12,500,821	25,235,404	25,122,199	25,122,199
—Diluted	12,500,821	26,182,922	26,221,104	26,221,104

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

SECOO HOLDING LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(All amounts in thousands, except for share data)

	Class A ordinary shares		Class B ordinary shares		Treasury Shares		Additional paid-in capital	Accumulated losses	Accumulated other comprehensive income/ (loss)	Total shareholder's (deficit)/ equity	Non-redeemable non-controlling interest	Total (deficit)/ equity
	Shares	RMB	Shares	RMB	Shares	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Balance as of January 1, 2017	**7,500,000**	**47**	**—**	**—**	**—**	**—**	**—**	**(1,363,165)**	**(87,072)**	**(1,450,190)**	**2,037**	**(1,448,153)**
Net income for the year	—	—	—	—	—	—	—	134,056	—	134,056	(349)	133,707
Issuance of Class A ordinary shares upon initial public offering ("IPO"), net of issuance cost	5,403,846	36	—	—	—	—	862,125	—	—	862,161	—	862,161
Re-designating Class A ordinary shares to Class B ordinary shares	(6,571,429)	(41)	6,571,429	41	—	—	—	—	—		—	—
Conversion of preferred shares to Class A ordinary shares	12,735,807	84	—	—	—	—	1,855,185	—	—	1,855,269	—	1,855,269
Share-based compensation	—	—	—	—	—	—	46,077	—	—	46,077	—	46,077
Repurchase of Class A ordinary shares	—	—	—	—	(359,595)	(42,606)	—	—	—	(42,606)	—	(42,606)
Redeemable non-controlling interest redemption value accretion	—	—	—	—	—	—	—	(798)	—	(798)	—	(798)
Redeemable Convertible Preferred Shares redemption value accretion	—	—	—	—	—	—	—	(202,679)	—	(202,679)	—	(202,679)
Foreign currency translation adjustments, net of nil tax	—	—	—	—	—	—	—	—	81,768	81,768	66	81,834
Balance as of December 31, 2017	**19,068,224**	**126**	**6,571,429**	**41**	**(359,595)**	**(42,606)**	**2,763,387**	**(1,432,586)**	**(5,304)**	**1,283,058**	**1,754**	**1,284,812**
Net income for the year	—	—	—	—	—	—	—	151,833	—	151,833	1,712	153,545
Share-based compensation	—	—	—	—	—	—	23,675	—	—	23,675	—	23,675
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	—	17,071	17,071
Repurchase of Class A ordinary shares	—	—	—	—	(157,859)	(28,412)	—	—	—	(28,412)	—	(28,412)
Beneficial conversion feature on convertible note (Note 14)	—	—	—	—	—	—	44,072	—	—	44,072	—	44,072
Issuance of warrant (Note 14)							8,208			8,208		8,208
Foreign currency translation adjustments, net of nil tax	—	—	—	—	—	—	—	—	(1,069)	(1,069)	24	(1,045)
Balance as of December 31, 2018	**19,068,224**	**126**	**6,571,429**	**41**	**(517,454)**	**(71,018)**	**2,839,342**	**(1,280,753)**	**(6,373)**	**1,481,365**	**20,561**	**1,501,926**
Net income for the year	—	—	—	—	—	—	—	155,052	—	155,052	5,499	160,551
Share-based compensation	—	—	—	—	—	—	8,803	—	—	8,803	—	8,803
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	—	1,751	1,751
Redeemable non-controlling interest redemption value accretion	—	—	—	—	—	—	—	(629)	—	(629)	—	(629)
Foreign currency translation adjustments, net of nil tax	—	—	—	—	—	—	—	—	(20,127)	(20,127)	172	(19,955)
Balance as of December 31, 2019	**19,068,224**	**126**	**6,571,429**	**41**	**(517,454)**	**(71,018)**	**2,848,145**	**(1,126,330)**	**(26,500)**	**1,624,464**	**27,983**	**1,652,447**
US$ (Note 2(e))		**18**		**6**		**(10,201)**	**409,110**	**(161,787)**	**(3,806)**	**233,340**	**4,020**	**237,360**

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

SECOO HOLDING LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(All amounts in thousands)

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$ (Note 2(e))
Cash flows from operating activities:				
Net income	**133,409**	**155,546**	**161,671**	**23,223**
Adjustments to reconcile net income to net cash used in operating activities				
Share-based compensation	46,077	23,675	8,803	1,264
Inventory write-downs	1,328	9,018	14,273	2,050
Depreciation and amortization expenses	13,424	18,233	25,417	3,651
Reduction in the carrying amount of the operating lease right-of-use assets	—	—	28,549	4,101
Loss on disposal of property and equipment	1,540	166	403	58
Unrealized foreign currency exchange (gain)/losses	(3,154)	6,013	1,270	182
Deferred tax benefits	(43,981)	(7,291)	(55,771)	(8,011)
Allowance for doubtful accounts	—	—	8,731	1,254
Share of losses on investment in equity investees	—	141	762	109
Change in fair value of financial instruments	—	(1,891)	(20,660)	(2,968)
Amortization of issuance costs of convertible note	—	165	14,598	2,097
Gain from disposal of a subsidiary	—	—	(13,531)	(1,944)
Changes in operating assets and liabilities, net of effects of acquisition of a subsidiary and disposal of a subsidiary:				
Accounts receivable	(33,218)	(60,155)	(11,264)	(1,618)
Inventories	(439,110)	(519,493)	(969,470)	(139,256)
Advance to suppliers	(48,908)	(375,011)	97,384	13,988
Amount due from related parties	(38)	(13,246)	2,105	302
Amount due to related parties	1,173	(821)	—	—
Prepayments and other assets	(8,943)	(99,589)	(283,181)	(40,673)
Other non-current assets	—	—	(6,129)	(880)
Accounts payable	43,785	175,716	58,000	8,331
Advance from customers	26,835	(3,630)	(12,432)	(1,786)
Accrued expenses and other liabilities	113,814	(44,800)	594,425	85,384
Deferred revenue	6,543	50,427	35,487	5,097
Operating lease right-of-use assets	—	—	(6,140)	(882)
Operating lease liabilities	—	—	(29,176)	(4,191)
Income tax payable	11,913	35,365	63,337	9,098
Long-term liabilities	—	—	48,217	6,926
Net cash used in operating activities	**(177,511)**	**(651,462)**	**(244,322)**	**(35,094)**
Cash flows from investing activities:				
Cash received from disposal of property and equipment	45	398	—	—
Purchase of property and equipment	(19,308)	(44,750)	(35,416)	(5,087)
Cash paid for investment in equity investees	—	(3,000)	(43,780)	(6,289)
Cash paid for business combination, net of cash acquired	—	4,600	(1,911)	(274)
Cash decreased due to disposal of a subsidiary	—	—	(3,230)	(464)
Purchase of equity securities and put option	—	(31,393)	(2,375)	(341)
Proceeds from maturity of time deposits	—	292,318	67,335	9,672
Proceeds from disposal of investment securities	—	—	35,942	5,163
Purchase of time deposits	(292,318)	(68,632)	—	—
Issuance of loan to a supplier	—	(3,439)	—	—
Net cash (used in) / provided by investing activities	**(311,581)**	**146,102**	**16,565**	**2,380**

SECOO HOLDING LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(All amounts in thousands)

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$ (Note 2(e))
Cash flows from financing activities:				
Proceeds from issuance of Class A ordinary shares upon IPO, net of issuance cost	862,161	—	—	—
Repurchase of Class A ordinary shares	(40,677)	(30,341)	—	—
Repayment to related parties	(1,025)	(4,562)	(724)	(104)
Borrowing from related parties	—	4,480	—	—
Proceeds from short-term borrowings	115,676	180,000	183,609	26,374
Proceeds from long-term borrowings	124,324	30,000	30,000	4,309
Repayment of short-term borrowings	(204,611)	(161,065)	(183,707)	(26,388)
Repayment of long-term borrowings	—	(150,000)	(4,324)	(621)
Proceeds from other borrowings	123,409	35,410	247,500	35,551
Repayment for other borrowings	(57,200)	(101,619)	(218,000)	(31,314)
Proceeds from issuance of convertible note	—	1,195,478	—	—
Payment of issuance cost for convertible note	—	(1,833)	—	—
Net cash provided by financing activities	**922,057**	**995,948**	**54,354**	**7,807**
Effect of exchange rate changes on Cash, cash equivalents and restricted cash	**(11,873)**	**3,380**	**1,132**	**162**
Net increase/(decrease) in cash, cash equivalents and restricted cash	**421,092**	**493,968**	**(172,271)**	**(24,745)**
Cash, cash equivalents and restricted cash at the beginning of the year	**211,347**	**632,439**	**1,126,407**	**161,798**
Cash, cash equivalents and restricted cash at the end of the year	**632,439**	**1,126,407**	**954,136**	**137,053**
Supplemental information				
Interest paid	10,796	13,460	56,510	8,117
Income tax paid	777	15,458	41,656	5,984
Accrual for purchase of property and equipment	1,313	—	8,356	1,200
Receivable from disposal of property and equipment	15	—	—	—
Accrual for repurchase of ordinary shares	1,929	—	—	—
Accrual for business acquisition (Note 5)	—	15,996	697	100
ROU assets obtained in exchange for new operating lease liabilities	—	—	138,049	19,829
Consideration payable for acquiring equity interests	—	—	1,992	286
Receivable from disposal of a subsidiary	—	—	10,000	1,436

SECOO HOLDING LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(All amounts in thousands)

The following table provides a reconciliation of cash and cash equivalents, restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statement of cash flows.

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US$ (Note 2(e))
Cash and cash equivalents	453,425	1,034,385	709,823	101,960
Restricted cash, current	55,214	89,222	240,741	34,580
Restricted cash, non-current	123,800	2,800	3,572	513
Total cash, cash equivalents and restricted cash	**632,439**	**1,126,407**	**954,136**	**137,053**

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

SECOO HOLDING LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in thousands, except for share and per share data)

1. Description of Business and Organization

Description of Business

Secoo Holding Limited ("Secoo" or the "Company") was incorporated in the Cayman Islands on January 4, 2011. Secoo, through its consolidated subsidiaries, variable interest entities and variable interest entities' subsidiaries (collectively referred to as the "Group") is primarily engaged in the sale of upscale brand products including handbags, watches, jewelry and other premium lifestyle products through its own internet platforms and offline experience centers. Secoo also offers its website as a marketplace to third party merchants to facilitate their sales of upscale products and services. The Group's principal operations and geographic markets are mainly in the People's Republic of China ("PRC" or "China").

Organization

The Group operates its website in the PRC through Beijing Secoo Trading Ltd. ("Beijing Secoo"), a limited liability company established under the laws of the PRC on April 30, 2009, and Beijing Wo Mai Wo Pai Auction Co., Ltd ("Beijing Auction"), a limited liability company established under the laws of the PRC on September 15, 2014. Beijing Secoo holds the necessary PRC operating licenses for the online business, and Beijing Auction holds the necessary PRC operating license for the auction business. The equity interests of Beijing Secoo and Beijing Auction (collectively referred to as the "VIEs") are legally held by individuals who act as nominee equity holders of the VIEs on behalf of Kutianxia (Beijing) Information Technology Ltd. ("Kutianxia"), the Company's indirectly wholly-owned subsidiary in the PRC. Beijing Secoo entered into a series of contractual agreements with Kutianxia and its legal shareholders, including Powers of Attorney, an Exclusive Business Cooperation Agreement, Equity Pledge Agreements, Exclusive Option to Purchase Agreements, and an Exclusive Option to Purchase Intellectual Properties Agreement (collectively, the "Beijing Secoo VIE Agreements"). Beijing Auction entered into a series of contractual agreements with Kutianxia and its legal shareholders, including Powers of Attorney, an Exclusive Business Cooperation Agreement, Equity Pledge Agreements, Exclusive Option to Purchase Agreements and Loan Agreements (collectively, the "Beijing Auction VIE Agreements", and together with the Beijing Secoo VIE Agreements, the "VIE Agreements").

Pursuant to the VIE Agreements, the Group, through Kutianxia, is able to exercise effective control over, bears the risks of, enjoys substantially all of the economic benefits of VIEs, and has an exclusive option to purchase all or part of the equity interests in VIEs when and to the extent permitted by PRC law at the minimum price possible. The Company's management concluded that Beijing Secoo and Beijing Auction are variable interest entities of the Group and Kutianxia is the primary beneficiary of Beijing Secoo and Beijing Auction. As such, the financial statements of the VIEs are included in the consolidated financial statements of the Company.

The principal terms of the agreements entered into among the VIEs, their nominee equity holders and Kutianxia, the primary beneficiary, are further described below.

- *Powers of Attorney*

  Kutianxia and each of the shareholders of Beijing Secoo entered into a Powers of Attorney. Pursuant to the Powers of Attorney, the shareholders of Beijing Secoo irrevocably appointed Kutianxia as their attorney-in-fact to exercise all shareholder rights, including, but not limited to, participation in the shareholders' meeting, appointing or removing directors, executive officers and senior management, disposing of all or part of the shareholder's equity interests in Beijing Secoo, casting shareholder's vote on matters requiring shareholders' approval and doing all other acts in the capacity of shareholder as permitted by Beijing Secoo's Memorandum and Articles of Association. In addition, Kutianxia has a right to assign its rights and benefits under the Powers of Attorney to any other parties without an advance notice to the shareholders of Beijing Secoo. The Powers of Attorney shall continue in force and be irrevocable as long as the shareholders of Beijing Secoo remain as the registered legal shareholders of Beijing Secoo.

  The Powers of Attorney between Kutianxia and the shareholders of Beijing Auction contains the same terms as those described above. The Powers of Attorney will be in effect for as long as the shareholders of Beijing Auction hold any equity interests in Beijing Auction.

SECOO HOLDING LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

1. Description of Business and Organization (Continued)

· *Exclusive Business Cooperation Agreement*

Kutianxia and Beijing Secoo entered into an Exclusive Business Cooperation Agreement, whereby Kutianxia is appointed as the exclusive service provider for the provision of business support, technology and consulting services to Beijing Secoo. Unless a written consent is given by Kutianxia, Beijing Secoo is not allowed to engage a third party to provide such services, while Kutianxia is able to designate another party to render such services to Beijing Secoo. Beijing Secoo shall pay Kutianxia on a quarterly basis a service fee, which shall be an amount that is determined by Kutianxia based on the amount of services provided, and the market value for those services, and Kutianxia has the sole discretion to adjust the basis of calculation of the service fee amount according to service provided to Beijing Secoo. Kutianxia owns the exclusive intellectual property rights, whether created by Kutianxia or Beijing Secoo, as a result of the performance of the Exclusive Business Cooperation Agreement. The Exclusive Business Cooperation Agreement has an initial term of ten years and can be indefinitely extended at the sole discretion of Kutianxia. Beijing Secoo is not permitted to terminate the agreement except if Kutianxia commits gross negligence or fraud.

The Exclusive Business Cooperation Agreement between Kutianxia and Beijing Auction contains the same terms as those described above, except that Beijing Auction shall pay Kutianxia a monthly service fee determined at the sole discretion of Kutianxia on the basis of the scope and complexity of the work, the experience of staff personnel and their time spent and the market price of such work. The Exclusive Business Cooperation Agreement will be in effect for an unlimited term, unless terminated in writing by Kutianxia, or the Exclusive Business Cooperation Agreement shall be terminated as of the expiration date of the business term of either Kutianxia or Beijing Auction if the renewal of the business term of the respective companies is not approved by the relevant government authorities. Beijing Auction is not permitted to terminate the Exclusive Business Cooperation Agreement.

· *Equity Pledge Agreement*

An Equity Pledge Agreement was entered into by and among Kutianxia, Beijing Secoo and the shareholders of Beijing Secoo. To guarantee payment from Beijing Secoo for services rendered pursuant to the Exclusive Business Cooperation Agreement, the shareholders of Beijing Secoo pledged their respective shares in Beijing Secoo under the Equity Pledge Agreement to Kutianxia as collateral for Beijing Secoo's service fee payment. In the event Beijing Secoo fails to pay Kutianxia its service fee, Kutianxia will have the right to sell the pledged shares and apply the proceeds received to pay any outstanding service fees due by Beijing Secoo to Kutianxia. The shareholders of Beijing Secoo agree that, during the term of the Equity Pledge Agreement, they will not dispose of the pledged shares or create or allow any encumbrance on the pledged shares, and they also agree that Kutianxia's rights relating to the equity pledges shall not be prejudiced by any legal actions of the shareholders of Beijing Secoo, their successors or their designees. The equity pledges have been registered with the relevant registration authority and became effective and enforceable since registration. During the term of the Equity Pledge Agreement, Kutianxia is entitled to receive dividends attributable to the pledged Beijing Secoo shares. The Equity Pledge Agreement has a term of ten years which shall be automatically extended corresponding to the extension of the Exclusive Business Cooperation Agreement. The Equity Pledge Agreement shall be terminated as and when the Exclusive Business Cooperation Agreement terminates.

Pursuant to the Equity Pledge Agreement entered into among Kutianxia, Beijing Auction, and the nominee shareholders, the shareholders of Beijing Auction pledge all of their equity interests in Beijing Auction to guarantee their and Beijng Auction's performance of their obligations under the contractual arrangements including, but not limited to, the Exclusive Business Cooperation Agreement, Exclusive Option to Purchase Agreement, Loan Agreement and Powers of Attorney. If Beijing Auction or its shareholders breach their contractual obligations under these agreements, Kutianxia, as pledgee, will have the right to dispose of the pledged equity interests of Beijing Auction. The shareholders of Beijng Auction agree that, during the term of the Equity Pledge Agreement, they will not dispose of the pledged equity interests or create or allow any encumbrance on the pledged equity interests without the prior written consent of Kutianxia, and they also agree that Kutianxia's rights relating to the pledged equity interests shall not be prejudiced by the legal actions of the shareholders, their successors or their designees. The shareholders of Beijing Auction shall subscribe for additional equity in Beijing Auction only upon the written consent of Kutianxia and the additional equity shall thereon deemed to be pledged equity interests subject to the terms of the Equity Pledge Agreement. During the term of the Equity Pledge Agreement, Kutianxia has the right to receive all of the dividends and profits distributed on the pledged equity interests.

SECOO HOLDING LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

1. Description of Business and Organization (Continued)

In the event of liquidation of Beijing Auction, any distribution from the liquidation proceeds of Beijing Auction received by the shareholders of Beijing Auction shall be deposited into an account designated by Kutianxia and subject to the supervision of Kutianxia or the funds in the account shall be unconditionally transferred to Kutianxia to the extent permitted by PRC law. The Equity Pledge Agreement became effective and enforceable on the date when the pledge of equity interests were registered with the relevant office of the Administration for Industry and Commerce in accordance with the PRC Property Rights Law and remain effective until Beijing Auction and its shareholders discharge all their obligations under the Equity Pledge Agreement. Kutianxia has a right to terminate the Agreement if Beijing Auction or its shareholders have any material breach of the terms of the Agreement, and may assign its rights and obligations under the Beijing Auction Agreements to any designated parties. Beijing Auction, and its shareholders shall not have any right to terminate the Agreement.

· *Exclusive Option to Purchase Agreement*

Each of the shareholders of Beijing Secoo entered into an Exclusive Option to Purchase Agreement with Kutianxia and Beijing Secoo, pursuant to which the shareholders of Beijing Secoo granted Kutianxia or its designated person an irrevocable and exclusive option to purchase, at its discretion and to the extent permitted under the PRC law, all or part of the shareholders' equity interests in Beijing Secoo at the minimum price that the PRC law permits at the time unless a valuation of the shares is required by the PRC law. Beijing Secoo and its shareholders agree that without the prior written consent of Kutianxia, they will not undertake any acts which may adversely affect the interests and rights of Kutianxia in Beijing Secoo. The shareholders of Beijing Secoo commit that without the prior written consent of Kutianxia, they will not sell, pledge or dispose of their equity interests in Beijing Secoo to any other parties. Beijing Secoo commits that without the prior written consent of Kutianxia, it will not increase or decrease its registered capital, amend its Articles of Association, sell, pledge, dispose of or permit a lien to be created on its assets, commit to any debts or liabilities not arising in the ordinary course of business, grant any loans or credit to any person, enter into any material contracts not in the ordinary course of business, enter into any investments, business acquisitions or combinations, dissolving Beijing Secoo, or distribute dividends to the shareholders. Beijing Secoo and its shareholders shall appoint those individuals recommended by Kutianxia as directors of the company. Beijing Secoo shall provide operating and financial information to Kutianxia at the request of Kutianxia and ensure the continuance of the business. The Exclusive Option to Purchase Agreement has an initial term of ten years and can be extended indefinitely at the discretion of Kutianxia.

The Exclusive Option to Purchase Agreement entered into among Kutianxia, Beijing Auction and its nominee shareholders contains the same terms as those described above, except that the purchase price for the equity interests shall equal the amount that the shareholders contributed to Beijing Auction as its registered capital or a pro-rata amount if only portion of the equity interests is purchased, or the minimum price permitted by applicable PRC law, whichever is higher. The Exclusive Option to Purchase Agreement will remain effective until all equity interests in Beijing Auction held by its shareholders are transferred or assigned to Kutianxia or its designees. The shareholders of Beijing Auction shall not have any right to terminate the Exclusive Option to Purchase Agreement.

· *Exclusive Option to Purchase Intellectual Properties Agreement*

Kutianxia and Beijing Secoo entered into an Exclusive Option to Purchase Intellectual Properties Agreement, pursuant to which Beijing Secoo granted to Kutianxia or its designees an exclusive and irrevocable right to purchase, to the extent permitted by the PRC law, a list of specified intellectual properties at any time Kutianxia would desire. The intellectual properties comprise domain names, copyright of the design or content of the websites, trademarks owned by Beijing Secoo and all intellectual properties purchased or developed by Beijing Secoo during the term of the Exclusive Option to Purchase Intellectual Properties Agreement, including but not limited to trademarks, trademark applications, patents, patent applications, software copyright, domain names, websites and technology knowhow. The Exclusive Option to Purchase Intellectual Properties Agreement has a term of ten years and is renewable at the option of Kutianxia for another ten years.

SECOO HOLDING LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

1. Description of Business and Organization (Continued)

- *Loan Agreements*

  Loan Agreements were entered into between Kutianxia and each of the shareholders of Beijing Auction. Under these Loan Agreements, Kutianxia made interest-free loans in an aggregate amount of RMB1 million to the shareholders of Beijing Auction exclusively for the purpose of the initial capitalization and the subsequent financial needs of Beijing Auction. The loans shall be repaid in full if the shareholders of Beijing Auction cease to be employees of Kutianxia, Beijing Auction or their affiliates; and can only be repaid with the proceeds derived from the sale of all of the equity interests in Beijing Auction to Kutianxia or its designated representatives pursuant to the Exclusive Option to Purchase Agreements. The term of the loans is ten years from the date of the Loan Agreements and may be extended upon mutual written consent of Kutianxia and the shareholders of Beijing Auction.

The revenue producing assets that are held by the VIEs primarily comprise of network equipment, purchased software and the website. Substantially all of such assets are recognized in the Company's consolidated financial statements, except for certain internally developed software, which were not recorded on the Company's consolidated balance sheets as they do not meet all the capitalization criteria. The VIEs also have assembled work force for sales, marketing and operations.

Risks in relation to the VIE structure

In the opinion of the Company's management, the contractual arrangements have resulted in Kutianxia having the power to direct activities that most significantly impact the VIEs and the VIEs' subsidiaries, including appointing key management, setting up operating policies, exerting financial controls and transferring profit or assets out of the VIEs and the VIEs' subsidiaries at its discretion. Kutianxia considers that it has the right to receive all the benefits and assets of the VIEs and the VIEs' subsidiaries. As the VIEs and the VIEs' subsidiaries were established as limited liability companies under the PRC law, their creditors do not have recourse to the general credit of Kutianxia for the liabilities of the VIEs and VIEs' subsidiaries, and Kutianxia does not have the obligation to assume the liabilities of the VIEs and VIEs' subsidiaries.

The Group has determined that the VIE agreements are in compliance with PRC laws and are legally enforceable. However, uncertainties in the PRC legal system could limit the Group's ability to enforce the VIE Agreements; and if the shareholders of the VIEs were to reduce their interest in the Group, their interests may diverge from that of the Group and that may potentially increase the risk that they would seek to act contrary to the contractual terms.

The Group's ability to control the VIEs and the VIEs' subsidiaries also depends on the rights provided to Kutianxia under the Powers of Attorney to vote on all matters requiring shareholders' approval in the respective VIEs. As noted above, the Group believes these Powers of Attorney are legally enforceable but yet they may not be as effective as direct equity ownership. In addition, if the corporate structure of the Group or the contractual arrangements between Kutianxia, the VIEs and their respective shareholders were found to be in violation of any existing PRC laws and regulations, the relevant PRC regulatory authorities could:

- revoke the Group's business and operating licenses;
- require the Group to discontinue or restrict its operations;
- restrict the Group's right to collect revenues;
- block the Group's websites;
- require the Group to restructure the operations, re-apply for the necessary licenses or relocate its businesses, staff and assets;
- impose additional conditions or requirements with which the Group may not be able to comply; or
- take other regulatory or enforcement actions against the Group that could be harmful to the Group's business.

The imposition of any of the above restrictions or actions may result in a material and adverse effect on the Group's ability to conduct its business. In addition, if the imposition of any of these restrictions causes the Group to lose the right to direct the activities of the VIEs and the VIEs' subsidiaries or the right to receive their economic benefits, the Group would no longer be able to consolidate the VIEs and the VIEs' subsidiaries. The Group believes the likelihood to lose the Group's current ownership structure or the contractual arrangements with the VIEs and the VIEs' subsidiaries is remote based on the current facts and circumstances.

SECOO HOLDING LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

1. Description of Business and Organization (Continued)

The equity interests of VIEs are legally held by Mr. Richard Rixue Li and Ms. Zhaohui Huang as nominee equity holders on behalf of the Group. Mr. Richard Rixue Li and Ms. Zhaohui Huang are also directors of the Group. Mr. Richard Rixue Li and Ms. Zhaohui Huang each holds 87.6% and 0.2% of the total voting rights of the Company as of December 31, 2019, respectively, assuming the exercise of all outstanding options held by Mr. Richard Rixue Li and Ms. Zhaohui Huang as of such date. The Group cannot assure that when conflicts of interest arise, either of the nominee equity holders will act in the best interests of the Group or such conflicts will be resolved in the Group's favor. Currently, the Group does not have any arrangements to address potential conflicts of interest between the nominee equity holders and the Group, except that Kutianxia could exercise the purchase option under the exclusive option agreement with the nominee equity holders to request them to transfer all of their equity ownership in VIEs to a PRC entity or individual designated by the Group. The Group relies on the nominee equity holders, who are both the Group's directors and who owe a fiduciary duty to the Group, to comply with the terms and conditions of the contractual arrangements. Such fiduciary duty requires directors to act in good faith and in the best interests of the Group and not to use their positions for personal gains. If the Company cannot resolve any conflict of interest or dispute between the Group and the nominee equity holders of VIEs, the Group would have to rely on legal proceedings, which could result in disruption of the Group's business and subject the Group to substantial uncertainty as to the outcome of any such legal proceedings.

There is no VIE in which the Group has a variable interest but is not the primary beneficiary. Currently there is no contractual arrangement that could require the Group to provide additional financial support to the VIEs.

SECOO HOLDING LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

The following consolidated assets and liabilities information of the Group's VIEs and VIEs' subsidiaries as of December 31, 2018 and 2019, and consolidated operating results and cash flows information for the years ended December 31, 2017, 2018 and 2019, have been included in the accompanying consolidated financial statements. All intercompany transactions and balances with the Company and its subsidiaries have been eliminated upon consolidation.

	As of December 31,	
	2018	2019
	RMB	RMB
Cash and cash equivalents	543,525	686,091
Restricted cash	—	150,050
Accounts receivable, net	119,563	82,943
Inventories	1,661,056	2,606,739
Advances to suppliers	329,741	176,317
Prepayments and other current assets	103,056	399,717
Amounts due from related parties	12,898	11
Total current assets	**2,769,839**	**4,101,868**
Property and equipment, net	41,758	55,476
Intangible asset, net	12,267	10,390
Restricted cash	2,800	3,572
Investments in equity investees	2,859	29,699
Deferred tax assets	35,029	65,716
Goodwill	20,413	23,560
Operating lease right-of-use assets	—	147,819
Other non-current assets	5,188	13,606
Total non-current assets	**120,314**	**349,838**
Total assets	**2,890,153**	**4,451,706**
Short-term borrowings and current portion of long-term borrowings	134,324	159,500
Accounts payable	384,280	324,069
Amount due to intercompany	1,882,797	2,501,418
Amount due to related parties	1,561	330
Advances from customers	63,684	30,707
Income tax payable	42,699	91,516
Accrued expenses and other current liabilities	235,461	807,348
Deferred revenue	62,372	97,859
Operating lease liabilities	—	32,602
Total current liabilities	**2,807,178**	**4,045,349**
Long-term borrowings, excluding current portion	—	30,000
Operating lease liabilities	—	108,672
Long-term liabilities	14,240	9,165
Total non-current liabilities	**14,240**	**147,837**
Total liabilities	**2,821,418**	**4,193,186**

	For the Year Ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Total revenues	3,504,055	4,996,168	6,277,535
Net income	169,851	103,438	182,443
Net cash (used in)/ provided by operating activities	(19,779)	(714,718)	290,615
Net cash used in investing activities	(11,996)	(38,342)	(51,679)
Net cash provided by financing activities	101,599	1,183,163	54,452
Net increase in cash, cash equivalents and restricted cash	69,824	430,103	293,388
Cash, cash equivalents and restricted cash at the beginning of the year	46,398	116,222	546,325
Cash, cash equivalents and restricted cash at the end of the year	116,222	546,325	839,713

SECOO HOLDING LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

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

(b) Principles of Consolidation

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

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power or has the power to govern the financial and operating policies, 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 directors. A VIE is an entity in which the Company, or its subsidiary, through contractual arrangements, exercises effective control over the activities that most impact the economic performance, bears the risks of, and enjoys the rewards normally associated with ownership of the entity, and therefore the Company or its subsidiary is the primary beneficiary of the entity.

All intercompany transactions and balances among the Company, its subsidiaries, the VIEs and the VIEs' subsidiaries have been eliminated upon consolidation.

(c) Use of Estimates

The preparation of the consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related disclosures of contingent assets and liabilities at the balance sheet date, and the reported revenues and expenses during the reported period in the consolidated financial statements and accompanying notes. Significant accounting estimates include, but not limited to, the standalone selling prices of performance obligations of revenue contracts, sales returns, fair values of put option, fair value of obersvable transaction for equity investment without readily determinable fair value, noncontrolling interests with respect to business combinations, share-based compensation, convertible note and warrant, useful life of long-lived assets, recoverability of the carrying value of goodwill, purchase price allocations, inventory write-downs for excess and obsolete inventories, realization of deferred tax assets, and redemption value of the redeemable preferred shares. Actual results may differ materially from those estimates.

(d) Foreign Currency

The Group's reporting currency is Renminbi ("RMB"). The functional currency of the Company and its subsidiaries incorporated in the British Virgin Islands ("BVI") and United States of America is the United States dollars ("US$"). The functional currencies of the Company's subsidiaries incorporated in Hong Kong Special Administrative Region ("HK" or "Hong Kong"), Italy, Japan and Malaysia are the Hong Kong dollars, the Euro dollars, the Japanese Yen and the Ringgit Malaysia, respectively. The functional currency of the Company's PRC subsidiaries, VIEs and VIEs' subsidiaries is the RMB.

Transactions denominated in currencies other than the functional currency are remeasured into the functional currency at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in a foreign currency are remeasured into the functional currency using the applicable exchange rate at the balance sheet date. The resulting exchange differences are recorded as foreign currency exchange gains (losses) in the consolidated statements of comprehensive income.

The financial statements of the non-PRC Group's entities are translated from the functional currency into RMB. Assets and liabilities are translated into RMB using the applicable exchange rates at the balance sheet date. Equity accounts other than earnings generated in the current periods are translated into RMB using the appropriate historical rates. Revenues, expenses, gains and losses are translated into RMB using the average exchange rates for the relevant period. The resulting foreign currency translation adjustments are recorded as a component of other comprehensive income or loss in the consolidated statements of comprehensive income, and the accumulated foreign currency translation adjustments are recorded as a component of accumulated other comprehensive loss in the consolidated statements of shareholders' equity.

SECOO HOLDING LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

2. Summary of Significant Accounting Policies (Continued)

(e) Convenience Translation

Translations of the consolidated financial statements from RMB into US$ 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$1.00=RMB6.9618, representing the noon buying rate in The City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2019. No representation is made that the RMB amounts could have been, or could be, converted, realized or settled into US$ at that rate on December 31, 2019, or at any other rate.

The US$ convenience translation is not required under U.S. GAAP and all US$ convenience translation amounts in the accompanying consolidated financial statements are unaudited.

(f) Commitments and Contingencies

In the normal course of business, the Group is subject to loss contingencies, such as legal proceedings and claims arising out of its business, that cover a wide range of matters, including, among others, government investigations, shareholder lawsuits, and non-income tax matters. An accrual for a loss contingency is recognized when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. If a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed.

(g) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, cash at bank and time deposits, which have original maturities of three months or less and are readily convertible to known amounts of cash.

(h) Time Deposits

Time deposits represent deposits at banks with original maturities of more than three months but less than one year.

(i) Restricted Cash

Restricted cash primarily represents cash deposited with a bank in conjunction with a borrowing from the bank and deposits to suppliers. Restriction on the use of such cash and the interest earned thereon is imposed by the bank and remains effective throughout the term of the bank borrowing or payables. The cash restricted for use longer than one year is classified as non-current assets in the consolidated balance sheets.

In November 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash (“ASU 2016-18”). According to the ASU, the amounts generally described as restricted cash are included with cash when reconciling the beginning-of-period and end-of-period total amounts shown on the consolidated statements of cash flows using a retrospective transition method to each period. As a result of the adoption of ASU 2016-18 on January 1, 2018, the consolidated statement of cash flows was retrospectively adjusted by excluding the increase of restricted cash of RMB492 from cash flows from operating activities, and the decrease of RMB23,714 from cash flows from financing activities for the year ended December 31, 2017.

(j) Accounts Receivable

Accounts receivable mainly represent amounts due from customers and installment payment by end customers with payment period within one year. Accounts receivable are recorded net of an allowance for doubtful accounts, if any. The Group considers many factors in assessing the collectability of its accounts receivable, such as the age of the amounts due, the payment history, credit-worthiness and the financial condition of the debtor. An allowance for doubtful accounts is recorded in the period in which a loss is determined to be probable. The Group also makes a specific allowance if there is strong evidence indicating that an account receivable is likely to be unrecoverable. Accounts receivable are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers. Nil, nil and RMB7,598 allowance for accounts receivable was provided as of December 31, 2017, 2018 and 2019, respectively.

SECOO HOLDING LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

2. Summary of Significant Accounting Policies (Continued)

(k) Inventories

Inventories, consisting of products available for sale, are stated at the lower of cost or net realizable value. The cost of inventory is determined using the identified cost of the specific item. Inventory is written down for damaged goods and slow-moving merchandise, which is dependent upon factors such as historical and forecasted consumer demand, and the sales promotion. Write downs are recorded in cost of revenues in the consolidated statements of comprehensive income.

(l) Property and Equipment, net

Property and equipment, net are stated at cost less accumulated depreciation and impairment. Property and equipment are depreciated at rates sufficient to write off their costs less impairment and residual value (estimated at 5% of cost) over their estimated useful lives on a straight-line basis. Leasehold improvements are depreciated on a straight-line basis over the period of the lease or their estimated useful lives, if shorter. The estimated useful lives are as follows:

Category	Estimated useful lives
Electronic equipment	3-5 years
Software	10 years
Transportation equipment	4 years
Office equipment	3-5 years
Leasehold improvement	Shorter of 5 years or lease term

Expenditures for repairs and maintenance are expensed 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 consolidated statements of comprehensive income.

(m) Investments

The Group's investments consist of investment securities and investments in equity investees.

Investment securities

The Company's investment securities represent equity securities traded publicly in the open market, which are measured at fair value with changes recorded in changes in fair value of financial instruments in the consolidated statements of comprehensive income.

Investment in equity investees

Investment in equity investees represents the Group's investments in privately held companies, which includes equity method investments and investments measured using Measurement Alternative.

The Group applies the equity method of accounting to account for an equity investment, 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. After the date of investment, the Group subsequently adjusts the carrying amount of the investment to recognize the Group's proportionate share of each equity investees' net income or loss in other income (expenses). The Group evaluates the equity method investments for impairment under ASC 323-10. An impairment loss on the equity method investments is recognized in earnings when the decline in value is determined to be other-than-temporary. The Group reviews its equity method investments to determine whether a decline in fair value to below the carrying value is other-than-temporary. The primary factors the Group considers in its determination are the duration and severity of the decline in fair value; the financial condition, operating performance and the prospects of the equity investee; and other company specific information 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.

For equity investees where the Group does not have the ability to exercise significant influence, and there are no readily determinable fair values, the Group accounted for these investments as cost method investments prior to adopting ASU 2016-01, Financial Instruments—Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Liabilities ("ASU 2016-01"). These investments are accounted under the measurement alternative upon the Group's adoption of ASU 2016-01 (the "Measurement Alternative") on January 1, 2018. Under the Measurement Alternative, the carrying value is measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer. All gains and losses on these investments, realized and unrealized, are recognized in change in fair value of financial instruments in the consolidated statements of comprehensive income. The adoption of new standard did not impact accumulated losses as of January 1, 2018. The Group performs a qualitative assessment considering impairment indicators to evaluate whether its equity security without readily determinable fair value is impaired.

2. Summary of Significant Accounting Policies (Continued)

(n) Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired in a business combination.

Goodwill is not depreciated or amortized but is tested for impairment on an annual basis as of December 31, and in between annual tests when an event occurs or circumstances change that could indicate that the asset might be impaired. In accordance with the FASB guidance on "Testing of Goodwill for Impairment", a company first has the option to assess 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 company decides, as a result of its qualitative assessment, that it is more likely than not that 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 each reporting unit with its carrying amount, including goodwill. If the carrying amount of each reporting unit exceeds its fair value, an impairment loss equal to the difference between the implied fair value of the reporting unit's goodwill and the carrying amount of goodwill will be recorded. 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.

(o) Impairment of Long-lived Assets

Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be fully recoverable or that the useful life is shorter than the Group had originally estimated. When these events occur, the Group evaluates the impairment for the long-lived assets by comparing the carrying value of the assets to an estimate of future undiscounted cash flows expected to be generated from the use of the assets and their eventual disposition. If the sum of the expected future undiscounted cash flows is less than the carrying value of the assets, the Group recognizes an impairment loss based on the excess of the carrying value of the assets over the fair value of the assets. No impairment of long-lived assets was recognized for the years ended December 31, 2017, 2018 and 2019.

(p) Transfer of financial assets

Transfers are accounted for as sale and corresponding transferred accounts receivable are de-recognized in the consolidated balance sheets pursuant to ASC Topic 860, Transfers and Servicing ("ASC 860"), only if they meet all of the three criteria: (i) the transferred financial assets have been isolated from the transferor and its creditor, (ii) each transferee has the rights to pledge or exchange the transferred assets, or the transferor has no continuing involvement with the transferred financial assets, and (iii) the transferor does not maintain effective control over the transferred financial assets or third-party beneficial interests related to those transferred assets. Otherwise, the transfer of the assets will be accounted for as a financing type transaction if the conditions in ASC 860-10-40-5 were not met.

Beginning August 2019, the Group entered into periodically arrangements with one third-party non-financial institution to transfer the Group's accounts receivables arising from consumer financing. The transfers of accounts receivables meet the criteria as defined in the ASC 860 and therefore are derecognized in the consolidated balance sheet. In 2019, RMB87,160 consumer accounts receivables financial assets were derecognized through the sales type arrangements. Proceeds from the derecognition were RMB87,160. The investor has no recourse to the Group if the underlying consumers fail to pay amounts contractually on due.

2. Summary of Significant Accounting Policies (Continued)

(q) Value Added Taxes

The Company's PRC subsidiaries are subject to value added tax ("VAT"). Revenue from sales of second-hand merchandise purchased from individual vendors is subject to VAT at the concession rate of 2% or 3% depending on the sales term. Revenue from sales of brand new merchandise purchased from entities is generally subject to VAT at the rate of 17% prior to May 1, 2018, 16% from May 1, 2018 to March 31, 2019 and 13% since April 1, 2019. Service revenue is subject to VAT at the rate of 6%. The VAT payable is recorded in Accrued expenses and other current liabilities in the consolidated balance sheets.

(r) Fair Value

Fair value represents 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. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability.

Accounting guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Accounting guidance establishes a three-level fair value hierarchy and 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 are:

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.

Short-term financial assets and liabilities of the Group primarily consist of cash and cash equivalents, time deposits, restricted cash, investment securities, put option (included in prepayments and other current assets), accounts receivable, net, amounts due from related parties, short-term borrowings and current portion of long-term borrowings, accounts payable, contingent considerations (included in accrued expenses and other current liabilities), and amounts due to related parties.

The Group measures investment securities, put option, and contingent considerations at fair value on a recurring basis. Investment securities were measured at fair value using observable inputs. Put option and contingent considerations were measured at fair value using unobservable inputs. As of December 31, 2018 and 2019, the carrying amounts of other financial instruments approximated to their fair values due to the short term maturity of these instruments.

Long-term financial asset of the Group is restricted cash recognized in non-current assets. As of December 31, 2018 and 2019, the carrying values of restricted cash recognized in non-current assets approximated to their fair values as the interest rates approximate the rates in the market.

Long-term financial liabilities of the Group are long-term loans, convertible note and contingent considerations (included in long-term liabilities). As of December 31, 2018 and 2019, the carrying values of long-term loans approximated to their fair values as the interest rates of the Group's long-term loans approximate the rates currently offered by the banks for similar loans. The convertible note was initially recognized based on the relative fair value of the convertible note and warrant and subsequently measured at amortized cost using effective interest rate. The estimated fair values of the convertible note based on a market approach were approximately US$190,122 (equivalent to RMB1,307,184) and US$180,830 (equivalent to RMB1,258,902) as of December 31, 2018 and 2019, respectively, and represents a Level 3 valuation in accordance with ASC 820, "Fair Value Measurements and Disclosures" ("ASC 820"). When determining the estimated fair value of the convertible note, the Company used a commonly accepted valuation methodology and market-based risk measurements that are indirectly observable, such as credit risk. The fair value of the bifurcated derivative from convertible note was nil as of December 31, 2018 and 2019.

SECOO HOLDING LIMITED
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2. Summary of Significant Accounting Policies (Continued)

(s) Revenue

Revenues are generated primarily from merchandise sales, marketplace services and other services.

Periods prior to January 1, 2018

Prior to January 1, 2018, revenues are recognized when the following four criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the selling price is fixed or determinable; and (4) collectability is reasonably assured.

Sales allowances for returns, which reduce revenues, are estimated based on historical experience. Revenues are recorded net of value-added taxes.

In accordance with ASC 605-45, *Revenue Recognition: Principal Agent Considerations*, the Group considers several factors in determining whether it acts as the principal or as an agent in the arrangement of merchandise sales and provision of various related services and thus whether it is appropriate to record the revenue and the related cost of sales on a gross basis or record the net amount earned as service fees.

Merchandise Sales

The Group generates revenues mainly from merchandise sales when the Group acts as principal for the sales of brand products to end customers online through its own internet platforms and offline at the offline experience centers. Online sales include sales through the Company's online shopping mall, flash sales, auction and overseas sales.

The Group is considered as a principal for the following reasons: (1) The Group is the primary obligor and is responsible for the acceptability of the products and the fulfillment of the delivery services; (2) The Group is responsible to compensate end customers if the products are counterfeit or defective goods; (3) The Group is also responsible for the loyalty program benefits offered in conjunction with the merchandise sales to the buyers; (4) The Group has latitude in establishing selling prices and selecting suppliers; (5) The Group assumes credit risks on receivables; and (6) The Group has legal ownership of the inventory and has significant inventory risks even for those inventory with payment deferred until the following month after the inventory is sold as it has physical loss risk after acceptance of all the goods purchased from suppliers. Accordingly, the Group considers itself as the principal in the arrangement with the end customers and records revenue earned from merchandise sales on a gross basis.

With respect to proceeds from merchandise sales, before determining the timing of revenue recognition, the Group allocates proceeds from merchandise sales among sales of the products and customer loyalty program benefits based on relative fair value of each deliverable. Proceeds allocated to sales of goods are recognized as merchandise sales upon acceptance of delivery of products by buyers. Proceeds allocated to customer loyalty program benefits are recorded as deferred revenue.

The Group collect cash from end customers before or upon deliveries of products mainly through banks, third party online payment platforms or delivery companies. Cash collected from end customers before product delivery is recognized as advances from customers.

Marketplace and other services

Service revenues include marketplace service revenue and other services revenue through the internet platform. Marketplace service revenue refers to the commission fee earned by the Group when the Group acts as an agent for sales of vendors' goods and lifestyle services. Vendor's goods can be sold through auction or online ordering and lifestyle services can be sold through online ordering.

2. Summary of Significant Accounting Policies (Continued)

In addition, the other services revenue primarily consists of 1) advertising service revenue, and 2) service fees from the provision of repair and maintenance services to products such as handbags and watches.

With respect to the marketplace service revenue, the Group does not have general inventory risk or latitude in establishing prices. Accordingly, the Group records the net amount as marketplace service fees earned.

The Group recognizes other service revenue when the services are rendered. The Group recognizes marketplace service revenue at the time that the Group has provided the service and is entitled to payment.

Period commencing January 1, 2018

As of January 1, 2018, the Company has changed its method of accounting for revenue recognition due to the adoption of Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers ("ASC 606"). Since the adoption of ASC 606", the Company recognizes revenues upon the satisfaction of its performance obligation (upon transfer of control of promised goods or services to customers) in an amount that reflects the consideration to which the Company expects to be entitled to in exchange for those goods or services, excluding amounts collected on behalf of third parties. The adoption of new revenue standard did not impact accumulated losses as of January 1, 2018. The Group has updated significant accounting policies and relevant disclosures hereinafter.

To achieve that core principle, the Group applies the five steps defined under Topic 606: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. Revenue arrangements with multiple performance obligations are divided into separate distinct goods or services. The Group allocates the transaction price to each performance obligation based on the relative standalone selling price of the goods or services provided. Revenue is recognized upon the transfer of control of promised goods or services to a customer.

Revenue recognition policies for each type of revenue steam are as follows:

Merchandise Sales

The Group presents the revenue generated from its sales of merchandise on a gross basis as the Group has control of the goods and has the ability to direct the use of goods to obtain substantially all the benefits. In making this determination, the Group also assesses whether it is primarily obligated in these transactions, is subject to inventory risk, has latitude in establishing prices, or has met several but not all of these indicators.

Revenues are measured as the amount of consideration the Group expects to receive in exchange for transferring products to customers. Consideration from merchandise sales is recorded net of value-added tax, discounts and return allowances. Return allowances of RMB1,232 and RMB3,046 as of December 31, 2018 and 2019, respectively, which reduce revenue, are estimated based utilizing the most likely amount method based on historical data and updated at the end of each reporting period.

With respect to considerations from merchandise sales, the Group allocates proceeds from merchandise sales among sales of the products, customer loyalty program benefits and coupons with material rights based on relative standalone selling price. Proceeds allocated to sales of goods are recognized as revenue from merchandise sales when the receipt of merchandise is confirmed by the customer, which is the point that the control of the merchandise is transferred to the customer. Proceeds allocated to customer loyalty program benefits and coupons are recorded as deferred revenue.

The Group utilizes delivery service providers to deliver products to its consumers ("shipping activities") but the delivery service is not considered as a separate obligation as the shipping activities are performed before the consumers obtain control of the products. Therefore, shipping activities are not considered a separate promised service to the consumers but rather are activities to fulfill the Group's promise to transfer the products and are recorded as fulfillment expenses.

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

2. Summary of Significant Accounting Policies (Continued)

Marketplace and other services

With respect to the marketplace service revenue, the Group does not consider it controls the products before they are transferred to the customer or have the ability to direct the use of the goods and obtain substantially all of their benefits. The Group bears no physical and general inventory risk and has no discretion in establishing price, so it has determined that revenue from its sales of products under these arrangements are marketplace service fees in nature. Revenue is recognized when the Group has fulfilled its selling performance obligations on behalf of the principal in the transaction, which is when the products are accepted by the customer.

The Group recognizes other service revenue when control of promised service is transferred to the customers in an amount of consideration to which the Group expects to be entitled to in exchange for those services.

Contract balances

The timing of revenue recognition, billings and cash collections result in accounts receivable and contract liability (i.e. deferred revenue). Accounts receivable are recognized in the period when the Company has transferred products or provided services to its customers and when its right to consideration is unconditional. Amounts collected on accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows.

The Group collects cash from end customers before or upon deliveries of products mainly through banks, third party online payment platforms or delivery companies. The cash collected from the customer before the Company has transferred products or provided services, is initially recorded in deferred revenue (a contract liability) in the consolidated balance sheets and subsequently recognized as revenue when the receipt of merchandise is confirmed by the customers, which is the point that the control of the merchandise is transferred to the customer.

The amounts of revenue recognized during the years ended December 31, 2018 and 2019 from the opening balance of deferred revenue as of January 1, 2018 and 2019, was RMB64,580 and RMB54,948, respectively. The remaining performance obligation is expected to be recognized as revenue within the next 12 months.

The Group has elected the practical expedient not to disclose the information about remaining performance obligations which are part of contracts that have an original expected duration of one year or less.

Advance from customers

Under marketplace revenue, the Group collects full amount from end customers and only records the net commission fee as revenue at the point of customer acceptance. The amounts that the Group collected in excess of the net commission fee are recorded under advance from customers account in the Group’s consolidated balance sheets.

2. Summary of Significant Accounting Policies (Continued)

(t) Customer Loyalty Program

Customers earn loyalty program points from qualified purchases from the Group. The loyalty program points can be used as cash for future purchases from the Group, which will directly reduce the amount paid by the customer. The loyalty program points expire on December 31 of the following year after they are awarded, and are redeemable for a maximum of 30% on the customers' future purchase amounts. Loyalty program point is considered as a separate performance obligation identified in the contract. Therefore, the sales consideration is allocated to the merchandise and loyalty program points based on the relative standalone selling price of the merchandise and loyalty program points. Consideration allocated to loyalty program point is initially recorded as deferred revenue and recognized as revenues when loyalty program points are used or expire. The Group estimates the relative standalone selling price, including an estimate of the breakage for points that members will never use. The Group reviews the relative standalone selling price of loyalty program point at least annually based upon the latest available information regarding redemption and expiration patterns.

The Group provides coupons in promotion events or at the time a customer signs up as a registered member. Customers may enjoy certain discount on future purchases from the Group upon satisfying the conditions stipulated in such coupons. The coupons granted are categorized into 1) coupons granted concurrent with a revenue transaction and 2) coupons granted not concurrent with a revenue transaction. When the coupon is granted concurrent with a revenue transaction, the Group determines whether the coupon represents a material right of the current transaction. If the coupon represents a material right, the transaction price is allocated between merchandise sale and the coupon based on the estimated standalone selling price taking into consideration the coupon's forfeiture rate. If the coupon does not represent a material right or coupons granted not concurrent with a revenue transaction, it is recognized as a reduction of revenue on the future purchases. The amount of coupons with material rights recognized as deferred revenue were insignificant as of December 31, 2018 and 2019.

(u) Cost of Revenues

Cost of revenues primarily consist of cost of merchandise sold and inventory write-down, repair and maintenance staff payroll and related depreciation and amortization. Payment processing, packaging material and product delivery costs are classified as fulfillment expenses in the consolidated statements of comprehensive income.

(v) Fulfillment Expenses

Fulfillment expenses represent packaging material costs and those costs incurred in shipping and operating and staffing the Group's fulfillment and customer service centers, including costs attributable to receiving, inspecting, and warehousing inventories; picking, packaging, and preparing customer orders for shipment; and collecting payments from customers and responding to inquiries from customers. Fulfillment expenses also include amounts payable to third parties that assist the Group in payment collections and product deliveries. Shipping costs included in fulfillment expenses were RMB32,277, RMB47,041 and RMB63,247 for the years ended December 31, 2017, 2018 and 2019, respectively.

(w) Marketing Expenses

Marketing expenses mainly consist of advertising costs, promotion expenses, payroll and related expenses for personnel engaged in marketing activities. Advertising costs, which consist primarily of online and offline advertisements, are expensed when the services are received. The advertising expenses were RMB111,154, RMB191,501 and RMB183,744 for the years ended December 31, 2017, 2018 and 2019, respectively.

(x) Technology and Content Development Expenses

Technology and content development expenses mainly consist of technology infrastructure expenses and payroll and related costs for employees involved in application development, category expansion, editorial content production and system support, as well as costs associated with computation, storage and telecommunication infrastructures.

For internal use software, the Group expensed all costs incurred for the preliminary project stage and post implementation-operation stage of development, and costs associated with repair or maintenance of the existing platforms. Third-party costs incurred in the application development stage are capitalized and amortized over the estimated useful life.

2. Summary of Significant Accounting Policies (Continued)

(y) General and Administrative Expenses

General and administrative expenses mainly consist of payroll and related costs for employees involved in general corporate functions, including accounting, finance, tax, legal and human resources, professional fees and other general corporate expenses as well as costs associated with the use by these functions of facilities and equipment, such as depreciation and operating lease costs.

(z) Share-based Compensation

The Company periodically grants share-based awards, including but not limited to, restricted shares and share options to eligible employees and directors.

Share-based awards granted to the employees before the Group's IPO are subject to service and performance conditions, and are measured at the grant date fair value of the awards using the graded vesting method, net of estimated forfeitures, if and when the Company considers that it is probable that the performance condition will be achieved. Share-based awards granted to the employees after the Group's IPO are subject to service conditions, and are measured at the grant date fair value of the awards using straight line method, net of estimated forfeitures.

A change in any of the terms or conditions of share-based awards is accounted for as a modification of the awards. The Group calculates incremental compensation cost of a modification as the excess of the fair value of the modified awards over the fair value of the original awards immediately before its terms are modified at the modification date. For vested awards, the Group recognizes incremental compensation cost in the period the modification occurs. For awards not being fully vested, the Group recognizes the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original awards over the remaining requisite service period after modification.

Share-based compensation in relation to the restricted shares is measured based on the fair market value of the Company's ordinary shares at the grant date of the award. Prior to IPO, estimation of the fair value of the Company's ordinary shares involves significant assumptions that might not be observable in the market, and a number of complex and subjective variables, including discount rate, and subjective judgments regarding the Company's projected financial and operating results, its unique business risks, the liquidity of its ordinary shares and its operating history and prospects at the time the grants are made. Share-based compensation in relation to the share options is estimated using the Binominal Option Pricing Model. The determination of the fair value of share options is affected by the share price of the Company's ordinary shares as well as the assumptions regarding a number of complex and subjective variables, including the expected share price volatility, risk-free interest rate, exercise multiple and expected dividend yield. The fair value of these awards was determined with the assistance from a valuation report prepared by an independent valuation firm using management's estimates and assumptions.

(aa) Employee Benefits

The Company's subsidiaries, the VIEs and the VIEs' subsidiaries in China participate in a government mandated, multiemployer, defined contribution plan, pursuant to which certain retirement, medical, housing and other welfare benefits are provided to employees. PRC labor laws require the entities incorporated in China to pay to the local labor bureau a monthly contribution calculated at a stated contribution rate on the monthly basic compensation of qualified employees. For its employees in the PRC, the Group has participated in defined contribution benefit plans and social insurance plans organized by the relevant local governmental authorities. For its employee in Hong Kong, the Group participates in the mandatory provident fund scheme with contributions calculated in accordance with the provisions under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong). The Group has no further commitments beyond its monthly contribution. Employee social benefits included as expenses in the accompanying consolidated statements of comprehensive income amounted to RMB32,606, RMB54,257 and RMB75,922 for the years ended December 31, 2017, 2018 and 2019, respectively.

(bb) Subsidy Income

Subsidy income represent amounts granted by local government authorities as an incentive for companies to promote and develop. Subsidy income received by the Group were nonrefundable and were for the purpose of giving immediate incentive with no future costs or obligations are recognized as others in the accompanying consolidated statements of comprehensive income amounted to RMB4,148, RMB27,952 and RMB54,751 in the Company's consolidated statements of comprehensive income for the years ended December 31, 2017, 2018 and 2019, respectively.

2. Summary of Significant Accounting Policies (Continued)

(cc) Income Tax

Current income taxes are provided on the basis of net income for financial reporting purposes, and 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 tax assets and liabilities are recognized for the tax effects of temporary differences and are determined by applying enacted statutory tax rates that will be in effect in the period in which the temporary differences are expected to reverse to the temporary differences between the financial statements' carrying amounts and the tax bases of assets and liabilities. A valuation allowance is provided to reduce the amount of deferred tax assets if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes arising from a change in tax rates is recognized in the consolidated statements of comprehensive income in the period of change.

The Group applies a "more likely than not" recognition threshold in the evaluation of uncertain tax positions. The Group recognizes the benefit of a tax position in its consolidated financial statements if the tax position is "more likely than not" to prevail based on the facts and technical merits of the position. Tax positions that meet the "more likely than not" recognition threshold are measured at the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement. Unrecognized tax benefits may be affected by changes in interpretation of laws, rulings of tax authorities, tax audits, and expiry of statutory limitations. In addition, changes in facts, circumstances and new information may require the Group to adjust the recognition and measurement estimates with regard to individual tax positions. Accordingly, unrecognized tax benefits are periodically reviewed and re-assessed. Adjustments, if required, are recorded in the Group's consolidated financial statements in the period in which the change that necessities the adjustments occurs. The ultimate outcome for a particular tax position may not be determined with certainty prior to the conclusion of a tax audit and, in certain circumstances, a tax appeal or litigation process. As of December 31, 2018 and 2019, the Group did not have any significant unrecognized uncertain tax positions.

(dd) Leases

Prior to January 1, 2019, payments made under operating lease, were charged to the consolidated statements of comprehensive income on a straight-line basis over the term of underlying lease. Leases with escalated rent provisions are recognized on a straight-line basis commencing with the beginning of the lease term. There is no capital improvement funding, lease concessions or contingent rent in the lease agreements. The Company has no legal or contractual asset retirement obligations at the end of the lease term.

As of January 1, 2019, the Company has changed its method of accounting for leases due to the adoption of ASC Topic 842, Leases by using the modified retrospective method. The Group has elected the package of practical expedients, which allows the Group to carry forward the historical lease classification, not to assess whether a contract is or contains a lease and initial direct costs for any leases that exist prior to adoption of the new standard. The Group also elected the practical expedient of the short-term lease exemption for contracts with lease terms of 12 months or less. The Group categorizes leases with contractual terms longer than twelve months as either operating or finance lease. However, the Group has no finance leases for any of the periods presented.

The Group determines if an arrangement is a lease or contains a lease at lease inception. For operating leases, the Group recognizes a right-of-use asset and a lease liability based on the present value of the lease payments over the lease term, reduced by lease incentives received, plus any initial direct costs, using the discount rate for the lease at the commencement date. Variable lease payments not dependent on an index or rate are excluded from the ROU asset and lease liability calculations and are recognized in expense in the period which the obligation for those payments is incurred. As the rate implicit in the Group's lease is not typically readily available, the Group uses an incremental borrowing rate based on the information available at the lease commencement date in determining the present value of lease payments. This incremental borrowing rate reflects the fixed rate at which the Group could borrow on a collateralized basis the amount of the lease payments in the same currency, for a similar term, in a similar economic environment. The Group's lease terms may include options to extend or terminate the lease. Such options are accounted for only when it is reasonably certain that the Group will exercise the options. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Group accounts for lease and non-lease components separately.

Upon adoption, the Group recognized operating lease right-of-use assets of RMB43,680 and total lease liabilities of RMB43,517 for operating leases as of January 1, 2019. There was no impact of adopting ASU 2016-02 on the Group's opening accumulated losses and current year net income. As of December 31, 2019, the Group recognized operating lease right-of-use assets of RMB159,321, and total operating lease liabilities of RMB152,390, including current portion of RMB38,608 and non-current portion of RMB113,782.

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

2. Summary of Significant Accounting Policies (Continued)

(ee) Earnings (Loss) per Share

Basic earnings (loss) per Class A and Class B share is computed by dividing net income/(loss) attributable to holders of Class A and Class B ordinary shares, considering the accretions to redemption value of the preferred shares and accretions to redemption value of the redeemable non-controlling interest, by the weighted average number of Class A and Class B ordinary shares outstanding during the year using the two-class method. Under the two-class method, any net income is allocated between Class A and Class B ordinary shares and other participating securities based on their participating rights. Diluted earnings/(loss) per share is calculated by dividing net income/(loss) attributable to Class A and Class B ordinary shareholders, as adjusted for the accretion and allocation of net income related to the preferred shares and accretion related to redeemable non-controlling interest, if any, by the weighted average number of Class A and Class B ordinary and dilutive ordinary equivalent shares outstanding during the year. Ordinary equivalent shares consist of shares issuable upon the conversion of the preferred shares and convertible note, exercise of the warrant using the if-converted method, unvested restricted shares and Class A ordinary shares issuable upon the exercise of outstanding share option (using the treasury stock method). Ordinary equivalent shares are not included in the denominator of the diluted earnings per share calculation when inclusion of such shares would be anti-dilutive.

(ff) Treasury Shares

Treasury shares represents ordinary shares repurchased by the Group that are no longer outstanding and are held by the Group. The repurchase of ordinary shares is accounted for under the cost method whereby the entire cost of the acquired share is recorded as treasury share.

(gg) Segment Reporting

The Group's chief operating decision maker has been identified as the Chief Executive Officer, who reviews consolidated results when making decisions about allocating resources and assessing performance of the Group. For the purpose of internal reporting and management's operation review, the Company's Chief Executive Officer and management personnel do not segregate the Company's business by product or service lines. All product and service categories are viewed as in one and the only operating segment.

(hh) Statutory Reserves

The Group's subsidiaries, VIEs and VIEs' subsidiaries established in the PRC are required to make appropriations to certain non-distributable reserve funds.

In accordance with the laws applicable to the Foreign Investment Enterprises established in the PRC, the Group's subsidiaries registered as wholly foreign owned enterprise have to make appropriations from their after-tax profits (as determined under generally accepted accounting principles in the PRC ("PRC GAAP")) to non-distributable 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 after-tax profits calculated in accordance with PRC GAAP. Appropriation is not required if the general reserve fund has reached 50% of the registered capital of the company. Appropriations to the enterprise expansion fund and staff bonus and welfare fund are made at the respective company's discretion.

In addition, in accordance with the PRC Company Laws, the Group's VIE and VIE's subsidiaries, registered as Chinese domestic companies, must make appropriations from their after-tax profits as determined under the PRC GAAP to non-distributable reserve funds including statutory surplus fund and discretionary surplus fund. The appropriation to the statutory surplus fund must be 10% of the after-tax profits as determined under PRC GAAP. Appropriation is not required if the statutory surplus fund has reached 50% of the registered capital of the company. Appropriation to the discretionary surplus fund is made at the discretion of the company.

The general reserve fund, enterprise expansion fund, statutory surplus fund and discretionary surplus fund are restricted for use. They may only be applied to offset losses or increase the registered capital of the respective company. The staff bonus and welfare fund is liability in nature and is restricted to make payment of special bonuses to employees and for the collective welfare of employees. None of these reserves is allowed to be transferred to the Company by way of cash dividends, loans or advances, nor can they be distributed except under liquidation.

For the years ended December 31, 2017, 2018 and 2019, appropriations of nil, nil and RMB908, respectively, were made to the statutory reserve by the Group's wholly foreign owned PRC subsidiaries, VIEs and VIEs' subsidiaries.

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

2. Summary of Significant Accounting Policies (Continued)

(ii) Recently issued Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments — Credit Losses* (Topic 326), Measurement of Credit Losses on Financial Statements, which significantly changes the way entities recognize impairment of many financial assets by requiring immediate recognition of estimated credit losses expected to occur over their remaining life, instead of when incurred. In November 2018, the FASB issued ASU No. 2018-19, Codification Improvements to Topic 326, Financial Instruments—Credit Losses, which amends Subtopic 326-20 (created by ASU No.2016-13) to explicitly state that operating lease receivables are not in the scope of Subtopic 326-20. ASU 2016-13 changes the impairment model for most financial assets and certain other instruments. The standard will replace "incurred loss" approach with an "expected loss" model for instruments measured at amortized cost. For available-for-sale debt securities, entities will be required to record allowances rather than reduce the carrying amount, as they do today under the other-than-temporary impairment model. Additionally, in April 2019, the FASB issued ASU No.2019-04, Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments. In May 2019, the FASB issued ASU No. 2019-05, Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief, and in November 2019, the FASB issued ASU No. 2019-10, Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates, and ASU No. 2019-11, Codification Improvements to Topic 326, Financial Instruments—Credit Losses, to provide further clarifications on certain aspects of ASU No. 2016-13 and to extend the nonpublic entity effective date of ASU No. 2016-13. The standard is effective for public business entities for annual periods beginning after December 15, 2019, and interim periods therein. The standard is effective for the Company beginning on January 1, 2020. The Company is currently in the process of evaluating the impact of the adoption of this standard on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04: *Intangibles—Goodwill and Other* (Topic 350): Simplifying the Test for Goodwill Impairment. To simplify the subsequent measurement of goodwill, the Board eliminated Step 2 from the goodwill impairment test. Under the amendments in ASU 2017-04, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity should apply the amendments in this Update on a prospective basis. An entity is required to disclose the nature of and reason for the change in accounting principle upon transition. A public business entity that is a U.S. Securities and Exchange Commission (SEC) filer should adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company does not expect any material impact on its consolidated financial statements upon the adoption of ASU 2017-04.

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 modifies certain disclosure requirements on fair value measurements, including (i) clarifying narrative disclosure regarding measurement uncertainty from the use of unobservable inputs, if those inputs reasonably could have been different as of the reporting date, (ii) adding certain quantitative disclosures, including (a) changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and (b) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and (iii) removing certain fair value measurement disclosure requirements, including (a) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, (b) the policy for timing of transfers between levels of the fair value hierarchy and (c) the valuation processes for Level 3 fair value measurements. The amendments in ASU 2018-13 are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company does not expect any material impact on its consolidated financial statements.

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3. Concentration and Risk

Concentration of customers and suppliers

There are no customers or suppliers from whom revenue or purchases individually represent greater than 10% of the total revenues or the total purchases of the Group for the years ended December 31, 2017, 2018 and 2019.

Concentration of credit risk

Assets that potentially subject the Group to significant concentrations of credit risk primarily consist of cash and cash equivalents, restricted cash and accounts receivable. As of December 31, 2019, substantial all of the Group's cash, cash equivalents and restricted cash were held by reputable financial institutions, of which RMB937,251 (as of December 31, 2018: RMB961,803) were located in the PRC and RMB8,956 (as of December 31, 2018: RMB223,326) were located in Hong Kong which management believes are of high credit quality and financially sound based on public available information.

The majority of the customers are required to pay in full before or upon taking delivery of the merchandise either through the online payment processing financial institutions, companies or the Group's appointed cash collection delivery companies. To a lesser extent, a portion of the customers pay by installments within a period from 3 to 12 months. Accounts receivable are receivables from the customers. The risk with respect to accounts receivable is mitigated by credit evaluations the Group performs on these collection agents and customers and its ongoing monitoring process of their outstanding balances. Although accounts receivable are generally unsecured, the Group considers the credit risk of accounts receivable is low.

Currency risk

The Group's operational transactions and its assets and liabilities are primarily denominated in RMB, which is not freely convertible into foreign currencies. The Group's cash and cash equivalents denominated in RMB are subject to such government controls and amounted to RMB526,009 and RMB681,203 as of December 31, 2018 and 2019. The value of the RMB is subject to changes in the central government policies and international economic and political developments that affect the supply and demand of RMB in the foreign exchange market. 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 from China in currencies other than RMB by the Group must be processed through the PBOC or other China foreign exchange regulatory bodies which require certain supporting documentation in order to effect the remittance.

Interest rate risk

The Group's short-term borrowings and long-term borrowing bear interests at fixed rates. If the Group were to renew these loans, the Group might be subject to interest rate risk.

4. Fair Value Measurement

Fair value is the price that would be received from the sale of an asset or paid to transfer a liability assuming an orderly transaction in the most advantageous market at the measurement date. U.S. GAAP establishes a hierarchical disclosure framework which prioritizes and ranks the level of observability of inputs used in measuring fair value.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

As of December 31, 2018 and 2019, assets and liabilities measured at fair value on a recurring basis are summarized below:

Description	Fair value at December 31, 2019	Level 1	Level 2	Level 3
Investment securities (Note 6)	2,318	2,318	—	—
Contingent consideration (Note 5)	(17,704)	—	—	(17,704)

Description	Fair value at December 31, 2018	Level 1	Level 2	Level 3
Investment securities (Note 6)	26,032	26,032	—	—
Put option (Note 4)	7,898	—	—	7,898
Contingent consideration (Note 5)	(15,869)	—	—	(15,869)

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

Investment securities were valued based on the quoted market price and were classified as Level 1.

Put option and contingent consideration were measured at fair value using unobservable inputs and categorized in Level 3 of the fair value hierarchy. The put option represents the put option granted by the selling shareholder of Sasseur, a Singapore listed company associated with the Company's investment in the equity security of the Singapore listed company in 2018. The fair value of the financial instrument is included in the prepayments and other current assets in the Company's consolidated balance sheets. Pursuant to the put option agreement, the Company has the right to request the grantor to repurchase all of the Company's equity investments of this Singapore listed company (see Note 6) at the original purchase price, plus annualized interest of 7.5%. The put option is measured at fair value. On April 17, 2019, the Company exercised the put option and the realized gain was RMB633 in 2019.

The contingent consideration liabilities for the acquisition of Wang Pok Timepieces Limited ("Wang Pok") and E-GO FASHION (Hong Kong) ("E-GO") (see Note 5) are classified within Level 3 as the fair values are measured based on the inputs linked to the achievement of the performance targets that are unobservable in the market.

The following table provides additional information about the reconciliation of the fair value measurements of assets and liabilities using significant unobservable inputs (level 3).

	Put option	Contingent consideration
Balance as of December 31, 2017	—	—
Initial recognition	5,496	(15,974)
Total gains for the period included in earnings	2,402	105
Balance as of December 31, 2018	7,898	(15,869)
Initial recognition	—	(697)
Payment during the year	—	1,344
Total gains for the period included in earnings	633	(2,510)
Exercised during the year	(8,531)	—
Foreign currency translation	—	28
Balance as of December 31, 2019	—	(17,704)

The put option was valued as of December 31, 2018 using the Black-Scholes pricing model at the reporting date. The calculation was based on the exercise price, annual risk-free rate of 5.25%, dividend yield of 0% and volatility of 41.0%.

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

The Company measures its property and equipment, intangible assets, goodwill and investment in equity investees at fair value on a non-recurring basis whenever events or changes in circumstances indicate that the carrying value may no longer be recoverable. No such impairment was recognized for the years ended December 31, 2017, 2018 and 2019.

5. Business Acquisition

In 2018, the Company acquired 51% equity interest of Beijing Xuri Travel ("Xuri") and 100% equity interest of Beijing Guanda Travel ("Guanda"). Both entities are engaged in inbound and outbound tourism business. The total considerations for these two acquisitions amounted to RMB3,400, which was paid in cash during 2018.

In October 2018, The Company entered into a share purchase agreement to acquire 51% equity interest of Wang Pok Timepieces Limited ("Wang Pok"). The total consideration is HKD25,500 (equivalent to RMB22,636). Wang Pok engages in trading of watches and accessories. The consideration will be payable by the instalments as: (i) first payment totaling HKD2,550 (equivalent to RMB2,264) upon the closing of acquisition; (ii) 3-year instalments up to HKD22,950 (equivalent to RMB20,372), which are subject to achievement of future financial performance targets of the Wang Pok indicated in the share purchase agreement. As of acquisition date, the total fair value of the considerations for this acquisition amounted to RMB18,238, of which RMB2,264 was paid in 2018. The Company paid RMB1,344 acquisition cost in 2019. As of December 31, 2018 and 2019, contingent consideration with a fair value amounting to RMB15,869 and RMB17,007, respectively, were recorded, which included RMB3,654 and RMB10,253 in accrued expenses and other current liabilities, and RMB12,215 and RMB6,754 in long-term liabilities in the consolidated balance sheets, respectively.

In March 2019, the Company acquired 51% equity interest of E-GO FASHION (Hong Kong) ("E-GO"), which was engaged in luxury wholesales and supply chain. The total maximum consideration is HKD18,889 (equivalent to RMB16,099). The consideration will be payable by the instalments as: (i) first payment totaling HKD2,365 (equivalent to RMB2,016) upon the closing of acquisition; (ii) 3-year instalments up to HKD16,524 (equivalent to RMB14,083), which are subject to achievement of future financial performance targets of E-GO indicated in the share purchase agreement. As of acquisition date, the total fair value of the considerations for this acquisition amounted to HKD3,183 (equivalent to RMB2,713), of which HKD2,365 (equivalent to RMB2,016) was paid in 2018. As of December 31, 2019, contingent consideration with a fair value amounting to RMB697 is recorded at long-term liabilities in the consolidated balance sheets.

All the four acquisitions were using the acquisition method of accounting. Accordingly, the acquired assets and liabilities acquired were recorded at their fair value at the date of acquisition. The purchase price allocation was based on a valuation analysis that utilized and considered generally accepted valuation methodologies such as the income, market and cost approach. The Group engaged a third-party valuation firm to assist with the valuation of assets acquired and liabilities assumed in this business combination. The determination and allocation of fair values to the identifiable assets acquired, liabilities assumed and non-controlling interests is based on various assumptions and valuation methodologies requiring considerable judgment from management. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. The Company determine 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 assets, forecasted life cycle and forecasted cash flows over that period.

Subsequent to the date of the Wang Pok and E-go acquisition, the Company re-measured the estimated fair values of the contingent consideration at each reporting date. For the years ended December 31, 2018 and 2019, the Company recorded gain of RMB105 and loss of RMB2,510 in fair value change of financial instruments in the Company's consolidated statements of comprehensive income as a result of the Company's re-measurement of the estimated fair value of the contingent consideration at the reporting date.

The excess of the total cash consideration, fair value of contingent consideration plus the fair value of non-controlling interest over the fair value of the net identifiable assets acquired was recorded as goodwill which is not amortized and not tax deductible. The Company recorded RMB20,413 and RMB2,825 of goodwill from Wang Pok and E-GO business acquisitions, respectively. The acquisitions were not material to the consolidated financial statements for the years ended December 31, 2018 and 2019, as such pro forma results of operations are not presented. Goodwill resulted from the above acquisitions was assigned to one single reporting unit.

6. Investments

Investment securities

In March 2018, the Company subscribed for 8,000,000 of the ordinary shares of Sasseur and a put option (See Note 4) for a total consideration of approximately USD5,000 (equivalent to RMB31,393) upon its initial public offering. The related unrealized loss recognized in 2018 was RMB511 and was included in change in fair value of financial instruments in the consolidated statements of comprehensive income. In March 2019, the Company sold all shares of the Singapore listed company and realized gain of RMB231 was recognized in 2019.

In August 2019, the Company invested in 9F Inc. with a total consideration of USD333 (equivalent to RMB2,375). As of December 31, 2019, the accumulated unrealized loss related to the investment in 9F Inc. was RMB57 and was included in change in fair value of financial instruments in the consolidated statements of comprehensive income.

Investments in equity investees

Equity Method Investments

The Group has significant influence over these equity investments but does not own a majority equity interest or otherwise control and therefore accounted for these investments under equity method. As of December 31, 2019, the Group's investments accounted for under the equity method totaled RMB16,097 (as of December 31, 2018: RMB2,859), which mainly included the investment in Jiangsu Zhongfu Duty Free Co., Ltd. ("Zhongfu") amounting to RMB10,922. For the years ended December 31, 2017, 2018 and 2019, the Group recognized its share of loss of equity method investments in the amount of nil, RMB141 and RMB762, respectively. No impairment was recorded for the years ended December 31, 2017, 2018 and 2019.

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

On April 26, 2019, the Company acquired 20% equity interest in Zhongfu for a cash consideration of RMB12,000. Investment in Zhongfu is accounted for using the equity method as the Group obtained significant influence by the right to nominate one board member out of five. The Company disposed the investment in Zhongfu in January 2020 with a consideration of RMB12,000.

Equity securities without readily determinable fair values

The Group does not have significant influence over these equity investments which do not have readily determinable market value. These investments were accounted as cost method investments prior to adopting ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Liabilities* ("ASU 2016-01"). After adoption of ASU 2016-01 on January 1, 2018, the Group accounted for these investments using the Measurement Alternative. As of December 31, 2019, the carrying amount of the Group's equity investments using the Measurement Alternative was RMB55,498. For the year ended December 31, 2019, the Group invested RMB32,883 in multiple private companies accounted for under the Measurement Alternative, which may have operational synergy with the Group's core business.

Investment in Spring Place One, Ltd. ("Spring Place")

In January 2019, the Group entered into an agreement with Spring Place to acquire 44,115 common stock, which represented 1.37% equity interest of the investee, in exchange for a cash consideration of USD2,500 (equivalent to RMB17,187). The investment was classified as equity securities without readily determinable fair values. There is no orderly transaction for an identical or a similar investment in Spring Place for the year ended December 31, 2019. No impairment on the investment was recognized for the year ended December 31, 2019.

Investment in a Yichun Guangyao Technology Co., Ltd. ("Guangyao")

In April 2018, the Group entered into an agreement to set up an entity, Guangyao, which is incorporated in PRC. The Group was entitled to 19% of the outstanding ordinary shares of Guangyao, for a total consideration was RMB9,500. The consideration was paid to Guangyao in 2019. The investment was classified as equity securities without readily determinable fair values, as the Company does not have significant influence over Guangyao and because there is no readily determinable fair value. There is no orderly transaction for an identical or a similar investment in Guangyao for the year ended December 31, 2019. No impairment on the investment was recognized for the year ended December 31, 2019.

Investment in Trytry Global Inc. ("Trytry")

In 2017, the Group entered into a share purchase agreement to acquire 20,000,000 Series Seed preferred shares of Trytry, in exchange for a cash consideration of RMB2,000. The consideration was paid to Trytry in 2019. In November 2018 and July 2019, Trytry entered into two new financing agreements with new investors and the Group. The Group subscribed for 711,462 Series A2 preferred shares issued by Trytry for a cash consideration of USD300 (equivalent to RMB2,093). After the new financing, the Group's equity shares in Trytry was 14.56%. Since the investments in both Series Seed preferred shares and Series A2 preferred shares are not in-substance common stock and the Group does not have significant influence over Trytry, the investments were accounted as equity securities without readily determinable fair values. The new round of financing provided the observable price for the Group's investment in Series Seed preferred shares and the Group engaged a third party appraiser to evaluate this investment in Series Seed preferred shares's carrying amount based on the observable price, and recognized a gain of RMB22,363 from the change in fair value. As of December 31, 2019, the carrying amount of investment in Trytry at cost adjusted for observable price changes was RMB26,456.

7. Accounts Receivable, net

Accounts receivable, net consist of the following:

	As of December 31,	
	2018	2019
	RMB	RMB
Accounts receivable	119,580	130,824
Allowance for doubtful accounts	—	(7,598)
Accounts receivable, net	**119,580**	**123,226**

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

The movement of the allowance for doubtful accounts is as follows:

	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Balance at the beginning of the year	—	—	—
Additions charged to bad debt expense	—	—	7,598
Balance at the end of the year	—	—	**7,598**

8. Inventories

As of December 31, 2018 and 2019, inventories represented products, of which amounting to RMB250,889 and RMB260,677, respectively, were pledged to a domestic bank for bank loans (see Note 13 and Note 14).

9. Prepayments and Other Current Assets

	As of December 31,	
	2018	2019
	RMB	RMB
Receivable from third-party payment platforms	59,137	249,549
Deposits	16,282	17,321
Prepaid expenses	21,454	35,669
Subsidy receivable	6,922	16,721
Staff advances	5,332	6,707
Receivable from travel agencies	—	42,231
Others*	24,424	64,042
Prepayments and Other Current Assets	**133,551**	**432,240**
Allowance for doubtful accounts	—	(1,133)
Prepayments and Other Current Assets, net	**133,551**	**431,107**

* Others primarily represent receivable from disposal of a subsidiary, receivable from distributors, deductible input VAT and interest receivable.

The movement of the allowance for doubtful accounts is as follows:

	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Balance at the beginning of the year	—	—	—
Additions charged to bad debt expense	—	—	1,133
Balance at the end of the year	—	—	**1,133**

10. Property and Equipment, net

	As of December 31,	
	2018	2019
	RMB	RMB
Electronic equipment	40,800	47,922
Software	15,200	32,119
Transportation equipment	5,327	4,011
Office equipment	10,459	11,734
Leasehold improvements	44,036	63,145
Total Property and Equipment	**115,822**	**158,931**
Accumulated depreciation	(59,124)	(75,115)
Total Property and Equipment, net	**56,698**	**83,816**

Depreciation expenses were RMB13,424, RMB17,883 and RMB23,306 for the years ended December 31, 2017, 2018 and 2019, respectively.

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

As of December 31, 2018 and 2019, property and equipment amounting to RMB14,122 and RMB11,366, respectively, were pledged to a domestic bank for bank loans (see Note 13).

11. Intangible Asset, net

Intangible asset consists of customer relationship. Customer relationship is generated from a business combination in 2018, representing the customer list of the subsidiary. Customer relationship is recorded at fair value at acquisition date and amortized on a straight-line basis over the estimated useful life of 6 years.

Definite-lived intangible asset as of December 31, 2018 and 2019 consist of the following:

	As of December 31, 2019			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Estimated Useful Life
	RMB	RMB	RMB	Year
Customer relationship	12,899	(2,509)	10,390	6

	As of December 31, 2018			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Estimated Useful Life
	RMB	RMB	RMB	Year
Customer relationship	12,617	(350)	12,267	6

Amortization expenses for intangible assets were RMB350 and RMB2,111 for the years ended December 31, 2018 and 2019, respectively.

As of December 31, 2019, amortization expenses related to the intangible assets for future periods are estimated to be as follows:

	For the Year Ending December 31,				
	2020	2021	2022	2023	2024
	RMB	RMB	RMB	RMB	RMB
Amortization expenses	2,150	2,150	2,150	2,150	1,790

12. Other Non-current Assets

	As of December 31,	
	2018	2019
	RMB	RMB
Rental and other deposits	3,217	10,933
Prepaid expenses	12,950	5,273
Others	2,863	600
Other Non-current Assets	**19,030**	**16,806**

13. Short-term Borrowings and Current Portion of Long-term Borrowings

	As of December 31,	
	2018	2019
	RMB	RMB
Bank loans	130,000	130,000
Other borrowings	—	29,500
Current portion of long-term borrowings (Note 14)	4,324	—
	134,324	**159,500**

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

In May 2017, a subsidiary of the Company entered into an amendment to the facility agreement with SPD Silicon Valley Bank Co., Ltd ("SPD"). Pursuant to the amendment, the facility in the amount of RMB50,000 was extended for one year with an interest rate of 7.35% per annum and matured in May 2018. In May 2018, the subsidiary repaid RMB50,000 under this facility, and concurrently entered into an amended facility agreement with SPD with maturity in August 2018. In August 2018, the subsidiary repaid RMB50,000 under this facility, and concurrently entered into an amended facility agreement with SPD with maturity in May 2019. In May 2019, the subsidiary repaid RMB50,000 under this facility, and concurrently entered into an amended facility agreement with SPD with maturity in August 2019. In August 2019, the subsidiary repaid RMB50,000 under this facility, and concurrently entered into an amended facility agreement with SPD with maturity in August 2020. In addition, RMB250,889 of inventories and RMB14,122 of equipment were pledged to SPD as collaterals as of December 31, 2018; RMB260,677 of inventories and RMB11,366 of equipment were pledged to SPD as collaterals as of December 31, 2019. A guarantee was provided by the Company's wholly-owned subsidiary in Hong Kong S.A.R. and the Company. Both of the original facility and amended facility agreements contain certain financial covenants. As of December 31, 2018 and 2019, the Group met the financial covenants. As of December 31, 2018 and 2019, the outstanding balances of the short-term of the facilities were RMB50,000.

During 2017, one of the Group's subsidiaries entered into an agreement with a third-party non-financial institution that permits the subsidiary to borrow short-term borrowings at the interest rates from 9% to 10%. For the year ended December 31, 2017, the Company borrowed RMB78,409 under this agreement, among which, RMB35,209 was outstanding as of December 31, 2017 with the accounts receivable of RMB35,209 pledged to the third party as collateral. In February 2018, the subsidiary repaid RMB35,209. During 2018, the subsidiary entered into two more agreements with the third party non-financial institution that permits the subsidiary to borrow short-term borrowings at the interest rates of 10%. The subsidiary received RMB15,000 and RMB20,410 in June 2018 and August 2018, respectively. The accounts receivable of RMB15,000 and RMB20,410 were pledged to the third party as collaterals, the subsidiary repaid these borrowings in August 2018 and October 2018, respectively. No balance is outstanding as of December 31, 2018. During 2019, the subsidiary entered into four more agreements with the third-party non-financial institution that permits the subsidiary to borrow short-term borrowings at the interest rate of 10%. The subsidiary received RMB100,000 and RMB118,000 in June 2019 and September 2019, with accounts receivable of RMB84,610 and RMB85,630 pledged to the third party as collaterals, respectively. The subsidiary repaid these borrowings in July 2019 and October 2019, respectively. No balance is outstanding as of December 31, 2019.

In December 2018, a subsidiary of the Group entered into loan agreement with Shanghai Pudong Development Bank Co., Ltd. and borrowed RMB80,000 with an interest rate of 4.35% per annum, a maturing term of one year. In December 2019, the subsidiary repaid RMB80,000 under this loan agreement, and concurrently renew the loan agreement with maturity in one year with an interest rate of 3.92% per annum. A restricted cash deposit of RMB90,503 was deposited to the bank for this borrowing.

In December 2019, a subsidiary of the Group entered into a short-term borrowing agreement with a third-party non-financial institution and borrowed RMB29,500 with an interest rate of 9.5% per annum and a maturing term of six months.

14. Long-term Borrowings, Excluding Current Portion

	As of December 31,	
	2018	2019
	RMB	RMB
Convertible note	1,151,560	1,185,249
Long-term loans	4,324	30,000
Less: current portion (Note 13)	(4,324)	—
	1,151,560	1,215,249

Convertible note

The principal amount and unamortized discount/premium and debt issuance costs as of December 31, 2018 and 2019 were as follows:

	As of December 31,	
	2018	2019
	RMB	RMB
Principal amount	1,201,060	1,220,835
Unamortized debt discount and issuance costs	(49,500)	(35,586)
	1,151,560	1,185,249

In August 8, 2018, the Company signed the convertible note and warrant subscription agreement (the "Agreement") with Great World Lux Pte. Ltd, pursuant to which the Company issued US$175 million (equivalent to RMB1,195,478) convertible note (the "Note") and warrant to Great World Lux Pte. Ltd on August 8, 2018.

The Note bears interest of 4% per annum, payable annually, and will mature on August 8, 2021 ("Maturity Date") unless redeemed, repurchased or converted prior to such date.

The Note is convertible at the option of the holders at any time during the conversion period, which is defined as the period starting from the first anniversary of the issue date to the Maturity Date. The conversion rate of the Note is US$26 per Class A shares, representing an initial conversion rate of 38.46 Class A Shares per US$1,000 principal amount of the Note, subject to the adjustments as described in the agreement.

The holders may require the Company to repurchase all or portion of the Notes for cash on August 8, 2021, or upon a fundamental change (the "contingent put option upon fundamental change"), at a repurchase price equal to 1) the outstanding principal amount, plus 2) accrued and unpaid interest, and plus 3) an additional amount that shall, provide the holder an internal rate of return of 8%. Additionally, pursuant to the agreement, if the EBITDA (as defined in the agreement) of the Company for the financial year ended on December 31, 2018, as determined based on the audited consolidated financial statements of the Company, is lower than US$40 million, the holder have the right to require the Company to repurchase all or portion of the Notes for cash at a repurchase price to provide the holder an internal rate of return of 12% (the "contingent put option upon performance failure"). As of December 31, 2018, the Company's EBITDA (as defined in the agreement) exceeded the US$40 million requirement. There was no requirement of EBITDA (as defined in the agreement) for the year ended December 31, 2019.

Pursuant to the Agreement, the holder of the warrant is entitled to purchase from the Company 500,000 ADS at an exercise price of US$18 per ADS.

In July 2017, the FASB issued ASU 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815). This ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The Company has early adopted ASU 2017-11, Accounting for Certain Financial Instruments with Down Round Features. ASU 2017-11 no longer requires the Company to consider down round features when determining whether its warrant and embedded conversion option is indexed to its own stock.

The Company assessed the accounting on the convertible Note and the warrant under ASC 815 *Derivatives and Hedging a*nd concluded that:

- The warrant is freestanding financial instrument as it is legally detachable and separately exercisable. Further, the warrant is indexed to the Company's own stock, and can only be settled by the physical delivery of shares, and no conditions exist in which net cash settlement could be forced upon the Company by August 8, 2021 in any other circumstances, therefore the warrant is equity classified;

- The embedded contingent put option upon fundamental change is clearly and closely related to the debt host contract and does not need to be separately account for.

- The embedded contingent put option upon performance failure is not clearly and closely related to the debt host contract and needs to be separately accounted for.

- The embedded conversion feature is indexed to the Company's own stock, and can only be settled by the physical delivery of shares, and no conditions exist in which net cash settlement could be forced upon the Company by August 8, 2021 in any other circumstances, therefore the conversion feature does not need to be separately accounted for.

The proceeds of US$175,000 (equivalent to RMB1,195,478), net of issuance cost of US$300 (equivalent to RMB1,833), was allocated to the Note and the warrant based on the relative fair value as of August 8, 2018. Accordingly, the Company recorded the warrant of US$1,201 (RMB8,208). The Company considered that the possibility of performance failure is zero, therefore the fair value of the contingent put option upon the performance failure was nil on August 8, 2018. The Company measured the effective conversion price of the Note using the Note's carrying value on August 8, 2018, and compared to the fair value of the Company's common stock on that date. As the effective conversion price of the convertible note of US$25.82 is below the fair value of the Company's common stock of US$26.78, the Company recognized a beneficial conversion feature of US$6,451 (RMB44,072).

The issuance cost is amortized as interest expense using the effective interest rate method through the maturity date of the Note. As of December 31, 2018 and 2019, the principal amount was US$175,000 (equivalent to RMB1,201,060) and US$175,000 (equivalent to RMB1,220,835), respectively, unamortized debt discount and issuance cost was US$7,212 (equivalent to RMB49,500) and US$5,101 (equivalent to RMB35,586), respectively, and net carrying amount was US$167,788 (equivalent to RMB1,151,560) and US$169,899 (equivalent to RMB1,185,249), respectively. The effective interest rate was 9.45% for the Note. For the year ended December 31, 2018 and 2019, the Company recognized interest expenses related to the Note of RMB43,090 and RMB111,032, respectively.

As of December 31, 2018, since the Company has met the EBITDA (as defined in the agreement) target, the fair value of the contingent put option upon the performance failure was zero.

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

Long term loans

A subsidiary of the Group entered into an agreement with SPD for a long-term line of credit of RMB20,000 with a monthly payment from August 2017 to May 2019 at an interest rate of 6.75%. During 2017, 2018 and 2019, RMB4,611, RMB11,065 and RMB4,324 were repaid, respectively. In September 2019, the subsidiary drew down RMB30,000 with an interest rate of 7.25% per annum, a maturing term of two years. As of December 31, 2018 and 2019, the subsidiary met the financial covenants. As of December 31, 2018, the outstanding balances of current portion and non-current portion of the facility were RMB4,324 and nil, respectively. As of December 31, 2019, the outstanding balances of current portion and non-current portion of the facility were nil and RMB30,000, respectively.

In November 2017, a subsidiary of the Group entered into borrowing agreement with National Trust Co., Ltd ("NTC") to finance its working capital. The facility amount was RMB150,000 with an interest rate of 3.38% per annum and a maturity term of two and a half years. A restricted cash deposits of RMB123,800 pledged by the subsidiary in Xiamen International Bank, which was a consignor of NTC in the borrowing agreement. As of December 31, 2017, the subsidiary received RMB120,000 from NTC for this borrowing. The remaining amount of the borrowing was received by the subsidiary in January 2018. In September 2018, the subsidiary repaid RMB150,000 and the cash deposits of RMB123,800 became unrestricted following the loan settlement.

As of December 31, 2019, the future principal payments for the Group's long-term borrowings, including long-term loans and the convertible note will be due according to the following payment schedule:

	Principal amounts
	RMB
2020	14,211
2021	1,236,624
Total	1,250,835

15. Accrued Expenses and Other Current Liabilities

		As of December 31,	
		2018	2019
		RMB	RMB
Interest payable	(i)	38,171	19,347
Payables to merchants	(ii)	28,480	590,517
Accrual for salary, bonus and employee benefits		33,549	31,141
Advertising fees payable		55,574	37,307
Accrued expenses		35,775	42,904
Deposits from merchants		17,522	41,079
Contingent consideration		3,654	10,253
Other tax payable		69,176	89,994
Others		23,535	33,152
Accrued Expenses and Other Current Liabilities		**305,436**	**895,694**

(i) The balance mainly includes the current portion of interest payable of convertible note (see Note 14).
(ii) The balance mainly consists of amounts collected on behalf of third-party merchants. A restricted cash deposit of RMB150,000 was pledged to the merchants as collateral.

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

16. Income Tax

a) *Income tax*

Cayman Islands

Under the current laws of the Cayman Islands, the Company is 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

Under the current Hong Kong Inland Revenue Ordinance, the Company's Hong Kong subsidiary is subject to Hong Kong profits tax at the rate of 16.5% on its taxable income generated from the operations in Hong Kong. A two-tiered profits tax rates regime was introduced since year 2018 where the first HK$2,000 of assessable profits earned by a company will be taxed at half of the current tax rate (8.25%) whilst the remaining profits will continue to be taxed at 16.5%. There is an anti-fragmentation measure where each group will have to nominate only one company in the group to benefit from the progressive rates. Payments of dividends by the Hong Kong subsidiary to the Company is not subject to withholding tax in Hong Kong.

PRC

The Group's PRC subsidiaries, VIEs and VIEs' subsidiaries are subject to the PRC Corporate Income Tax Law ("CIT Law") and are taxed at the statutory income tax rate of 25%.

Italy

Under the current laws of Italy, the Group's Italy subsidiary is subject to Italy profits tax at the rate of 22% and local tax at the rate of 2%.

The 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 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 the PRC should be considered a resident enterprise for PRC tax purposes.

The components of income before income taxes are as follows:

	For the year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Cayman Islands	(14,109)	(42,287)	(75,926)
Hong Kong	14,951	59,675	68,578
PRC, excluding Hong Kong	103,864	178,551	179,803
Italy	(956)	229	20,012
Others	(1,866)	106	630
	101,884	**196,274**	**193,097**

The EIT Law and its relevant regulations impose a withholding tax at 10%, unless reduced by a tax treaty or agreement, for dividends distributed by a PRC-resident enterprise to its immediate holding company outside the PRC for earnings generated beginning January 1, 2008. Undistributed earnings generated prior to January 1, 2008 are exempt from withholding tax. As of December 31, 2019, the Company has not provided deferred tax liability on undistributed earnings of RMB317,127 generated by its PRC consolidated entities, as the Company plans to reinvest these earnings indefinitely in the PRC. The unrecognized deferred tax liability related to these earnings was RMB31,713.

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The current and deferred portions of income tax (benefits) expenses included in the consolidated statements of comprehensive income, which were attributable to the Group, are as follows:

	For the Year Ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Current tax expenses	12,456	48,019	87,197
Deferred tax benefits	(43,981)	(7,291)	(55,771)
Income tax benefits (expenses)	**(31,525)**	**40,728**	**31,426**

Reconciliation of the differences 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:

	For the Year Ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Statutory income tax rate	25%	25%	25%
Increase (decrease) in effective income tax rate resulting from			
Entities not subject to income tax	3.46%	5.39%	9.83%
Tax rate differential	(1.17)%	(2.60)%	(2.83)%
Share-based compensation	11.31%	3.01%	1.11%
Non-deductive expense without tax invoice	13.02%	0.76%	2.08%
R&D surplus deduction	—	(7.78)%	(5.41)%
Others	1.89%	(5.50)%	(5.12)%
Change in valuation allowance	(84.45)%	2.47%	(8.38)%
Effective income tax rate	**(30.94)%**	**20.75%**	**16.28%**

b) ***Deferred tax assets and liability***

	As of December 31,	
	2018	2019
	RMB	RMB
Deferred tax assets		
Inventory write-down	3,648	6,914
Net operating loss carry forwards	61,086	88,481
Advertisement expenses	1,135	4,933
Deferred revenue	5,196	4,126
Allowance for doubtful accounts	—	2,183
Lease liability	—	39,431
Less: Valuation allowance	(19,851)	—
Total deferred tax assets	**51,214**	**146,068**
Deferred tax liabilities		
Intangible assets	2,024	1,715
Right of use assets	—	39,431
Total deferred tax liabilities	**2,024**	**41,146**
Net deferred tax assets	**51,214**	**106,637**
Net deferred tax liabilities	**2,024**	**1,715**

In assessing the recoverability of its deferred tax assets, the Group considers whether some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Group considers the cumulative earnings and projected future taxable income in making this assessment. Recovery of substantially all of the Group's deferred tax assets is dependent upon the generation of future income, exclusive of reversing taxable temporary differences.

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

As of December 31, 2018, the valuation allowance of RMB19,851 was provided for the Company and some subsidiaries. For those entities, management believes that it is more likely than not that the accumulated net operating losses of those entities will not be utilized in the foreseeable future.

As of December 31, 2019, the Group had net operating loss carry forwards of approximately RMB2,680 attributable to the Hong Kong subsidiary, RMB350,848 attributable to the PRC subsidiaries, VIEs and VIEs' subsidiaries and RMB1,731 attributable to other subsidiaries. The loss carried forward by Hong Kong and other subsidiaries can be carried forward to net against future taxable income without a time limit; while the loss carried forward by the PRC companies will expire during the period from year 2020 to year 2024.

The changes in valuation allowance for the years ended December 31, 2017, 2018 and 2019 are as follows:

	For the Year Ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Balance at the beginning of the year	101,036	14,999	19,851
Additions	2,842	10,875	—
Reversals	(88,879)	(6,023)	(19,851)
Balance at the end of the year	**14,999**	**19,851**	—

According to the PRC Tax Administration and Collection Law, the statute of limitation is three years if the underpayment of taxes is due to computational errors made by the taxpayer or the withholding agent. The statute of limitation is extended to five years under special circumstances where the underpayment of taxes is more than RMB100 thousands. In the case of transfer pricing issues, the statute of limitation is 10 years. There is no statute of limitation in the case of tax evasion. The income tax returns of the Company's PRC subsidiaries, consolidated VIEs, and the subsidiaries of the VIEs for the years from 2014 to 2019 are open to examination by the PRC tax authorities.

17. Redeemable Convertible Preferred Shares

Redeemable convertible preferred shares consist of the following:

	Series A-1 Preferred Shares	Series A-2 Preferred Shares	Series B Preferred Shares	Series C Preferred Shares	Series D Preferred Shares	Series E Preferred Shares	Total
Balance as of January 1, 2017	**134,719**	**152,097**	**293,455**	**197,987**	**438,683**	**532,511**	**1,749,452**
Redemption value accretion	26,356	29,619	60,289	40,164	57,988	(11,737)	**202,679**
Foreign currency translation adjustment	(7,651)	(8,632)	(16,763)	(11,297)	(24,341)	(28,178)	**(96,862)**
Conversion of preferred shares to ordinary shares	(153,424)	(173,084)	(336,981)	(226,854)	(472,330)	(492,596)	**(1,855,269)**
Balance as of December 31, 2017, 2018 and 2019	—	—	—	—	—	—	—

On September 23, 2011, the Company entered into a shares purchase agreement with certain investors, pursuant to which 1,250,000 Redeemable Convertible Series A-1 Preferred Shares ("Series A-1 Preferred Shares") and 1,250,000 Redeemable Convertible Series A-2 Preferred Shares ("Series A-2 Preferred Shares") were issued on September 23, 2011, and 178,572 Series A-2 Preferred Shares were issued on February 7, 2012 for an aggregated consideration of US$2,000 (equivalent of RMB13,153).

On September 23, 2011, the Company also issued certain Convertible Promissory Notes ("Convertible Promissory Notes") amounting to US$3,333 (equivalent of RMB20,973), which were subsequently converted into Redeemable Convertible Series B Preferred Shares upon the issuance of the Redeemable Convertible Series B Preferred Shares in March 2012.

On February 28, 2012, the Company entered into a shares purchase agreement with certain investors, pursuant to which a total of 2,380,952 Redeemable Convertible Series B Preferred Shares ("Series B Preferred Shares") were issued partly for an aggregated cash consideration of US$6,666 (equivalent of RMB41,946) and partly through the conversion of the Convertible Promissory Notes between March 4, 2012 to March 29, 2012.

On July 9, 2013, the Company entered into a shares purchase agreement with certain investors and pursuant to the agreement, on July 11, 2013, the Company issued 1,571,973 Redeemable Convertible Series C Preferred Shares ("Series C Preferred Shares") for an aggregated consideration of US$11,404 (equivalent of RMB70,462).

On July 2, 2014, the Company entered into a shares purchase agreement with certain investors and pursuant to the agreement, on July 11, 2014, the Company issued 3,178,652 Redeemable Convertible Series D Preferred Shares ("Series D Preferred Shares", together with Series C Preferred Shares, Series B Preferred Shares, Series A-1 Preferred Shares and Series A-2 Preferred Shares, "Preferred Shares") for an aggregated consideration of US$35,000 (equivalent of RMB215,863).

On July 7, 2015, the Company entered into a shares purchase agreement with certain investors and Pingan eCommerce Limited Partnership ("Ping An") and pursuant to the agreement, the Company issued 2,925,658 Redeemable Convertible Series E Preferred Shares ("Series E Preferred Shares") for an aggregated consideration of US$55,000 (equivalent of RMB342,880).

The Group had classified the Preferred Shares as mezzanine equity in the consolidated balance sheets since they were contingently redeemable at the option of the holders after a specified time period. The Group had determined that conversion and redemption features embedded in the Preferred Shares were not required to be bifurcated and accounted for as a derivative, as the economic characteristics and risks of the embedded conversion and redemption features were clearly and closely related to that of the Preferred Shares. The Preferred Shares were not readily convertible into cash as there is not a market mechanism in place for trading of the Company's shares.

The Group had determined that there was no beneficial conversion feature attributable to any of the Preferred Shares because the initial effective conversion prices of these Preferred Shares were higher than the fair value of the Company's ordinary shares at the relevant commitment dates.

In addition, the carrying values of the Preferred Shares were accreted from the share issuance dates to the redemption value on the earliest redemption dates. The accretions were recorded against retained earnings, or in the absence of retained earnings, by charges against additional paid-in capital. Once additional paid-in capital had been exhausted, additional charges were recorded by increasing the accumulated deficit.

The rights, preferences and privileges of the Preferred Shares were as follows:

Redemption Rights

At any time commencing on a date specified in the agreement of the Preferred Shares (the "Redemption Start Date"), holders of more than 50% of the then outstanding Series A-1, A-2, B, D and E Preferred Shares and 75% of the Series C Preferred Shares may request a redemption of the Preferred Shares of such series. In addition, prior to the Redemption Start Date but following the occurrence of certain early redemption events, holders of more than 50% of the Series D Preferred Shares or Ping An may request a redemption. On receipt of a redemption request from the holders, the Company shall redeem all or part, as requested, of the outstanding Preferred Shares of such series.

The Redemption Start Date was originally July 2, 2016 for Series A-1 Preferred Shares, Series A-2 Preferred Shares, Series B Preferred Shares, Series C Preferred Shares and Series D Preferred Shares, which was subsequently modified on July 8, 2015 to July 8, 2017.The Redemption Start Date was July 8, 2017 for Series E Preferred Shares. In April 2017, the Redemption Start Date for all of the Preferred Shares was extended to May 10, 2018.

If any holder of any series of Preferred Shares exercises its redemption right, any holder of other series of Preferred Shares shall have the right to exercise the redemption of its series at the same time.

The price at which each Preferred Share shall be redeemed shall equal to the higher of (i) and (ii) below:

i. The original Preferred Shares issue price for such series plus R% interest per annum (calculated from the issuance dates of the respective series of Preferred Shares), and declared but unpaid dividends, where R is 8 for Series C, Series B, Series A-1 and Series A-2 Preferred Shares and 15 for Series D and Series E Preferred Shares.

ii. The fair market value of the relevant series of Preferred Shares on the date of redemption.

The Group accretes changes in the redemption value over the period from the date of issuance to the earliest redemption date of the Preferred Shares using effective interest method. Changes in the redemption value are considered to be changes in accounting estimates.

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Conversion Rights

Each Preferred Share is convertible, at the option of the holder, at any time after the date of issuance of such Preferred Shares according to a conversion ratio, subject to adjustments for dilution, including but not limited to stock splits, stock dividends and capitalization and certain other events. Each Preferred Share is convertible into a number of ordinary shares determined by dividing the applicable original issuance price by the conversion price. The conversion price of each Preferred Share is the same as its original issuance price and no adjustments to conversion price have occurred. At December 31, 2015 and 2016, each Preferred Share is convertible into one ordinary share.

Each Preferred Share shall automatically be converted into ordinary shares, at the then applicable preferred share conversion price upon (i) closing of a Qualified Initial Public Offering ("Qualified IPO") or (ii) the written approval of the holders of a majority of each series of

Preferred Shares (calculated and voting separately in their respective single class on an as-converted basis), and particularly for the Series C Preferred Shares, approval by the holders of more than 75% of the Series C Preferred Shares.

Prior to the Series E Preferred Shares issuance on July 8, 2015, a "Qualified IPO" was defined as an initial public offering with net offering proceeds no less than US$61,500 and implied market capitalization of the Company of no less than US$410,000 prior to such initial public offering. Upon the issuance of the Series E Preferred Shares, the net offering proceeds and market capitalization criteria for a "Qualified IPO" was increased to US$130,000 and US$550,000 respectively.

Voting Rights

Each Preferred Share shall be entitled to that number of votes corresponding to the number of ordinary shares on an as-converted basis. Preferred Shares shall vote separately as a class with respect to certain specified matters. Otherwise, the holders of Preferred Shares and ordinary shares shall vote together as a single class.

Dividend Rights

Series A-1 Preferred Shares and Series A-2 Preferred Shares were originally entitled to receive a like amount of dividends before any dividend is paid on ordinary shares. After a modification on the rights of the preferred shares effective from February 28, 2012, Preferred Shares holders are entitled to receive dividends if declared by the Board of Directors, in an amount equal to 10% of the original preferred share issue price of the respective series of Preferred Shares per annum accruing cumulative from the issuance date of the respective Preferred Shares.

The remaining undistributed earnings of the Company after full payment of the above amounts on the Preferred Shares, shall be distributed on a pro rata basis to the holders of ordinary shares and Preferred Shares on an as-converted basis.

Liquidation Preferences

In the event of any liquidation including deemed liquidation, dissolution or winding up of the Company, holders of the Preferred Shares shall be entitled to receive a per share amount equal to 150% of the original preferred share issue price of the respective series of Preferred Shares, as adjusted for share dividends, share splits, combinations, recapitalizations or similar events, plus all accrued and declared but unpaid dividends thereon, in the sequence of Series E Preferred Shares, Series D Preferred Shares, Series C Preferred Shares, Series B Preferred Shares and Series A-1 and Series A-2 Preferred Shares. After such liquidation amounts have been paid in full, any remaining funds or assets of the Company legally available for distribution to shareholders shall be distributed on a pro rata, pari passu basis among the holders of the Preferred Shares, on an as-converted basis, together with the holders of the ordinary shares. The modifications of the rights, preferences and privileges of the Preferred Shares are not considered substantial, and are thus accounted for as a modification rather than an extinguishment of the Preferred Shares. Where there is a transfer of value between ordinary shareholders and Preferred Shares holders as a result of such modifications, the transfer of value is accounted for as deemed dividends, recorded as additions/reductions in accumulated deficit and reductions/additions in the Preferred Shares carrying amounts.

All of the preference shares were converted to ordinary shares immediately upon the completion of the company's initial public offering on September 22, 2017. Prior to their automatic conversion to ordinary shares upon the Company's initial public offering on September 22, 2017, the preferred shares were entitled to certain preferences with respect to conversion, redemption, dividends and liquidation. The holders of preferred shares were entitled to vote together with the holders of ordinary shares on an as-if-converted basis, except for certain specified matters that preferred shares would be voted separately as a class.

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18. Redeemable Non-controlling Interest

	For the Year Ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Balance as of January 1	5,082	5,582	7,587
Gain (loss)	(298)	2,001	1,120
Accretion of redeemable non-controlling interest	798	—	629
Foreign currency translation adjustment, net of nil income taxes	—	4	1
Balance as of December 31	**5,582**	**7,587**	**9,337**

In October 2016, a third party investor acquired 15% of the equity interest of the Company's wholly owned PRC subsidiary at a consideration of RMB5,000. The newly issued shares could be redeemed by the non-controlling shareholder from the redemption start date (i.e. three years from the closing of the financing), the redemption value is equal to RMB5,000 plus 10% of interest and 15% of the net profit attributable to the PRC subsidiary if any for the period beginning from October 1, 2016 to the date of redemption. The redeemable non-controlling interest was recorded outside of permanent equity on the consolidated balance sheets and initially recorded at the carrying value of RMB5,000. The redeemable non-controlling interest is carried at the expected redemption value. As of December 31, 2019, the redeemable non-controlling interest was currently redeemable at the option of the non-controlling shareholder.

19. Ordinary Shares

On September 22, 2017, the Group completed its initial public offering of 4,250,000 Class A ordinary shares, at a public offering price of US$26 per share. The net proceeds received were US$100,844 (or RMB664,464).

Concurrently upon the completion of the Company's IPO, the Company issued 769,231 and 384,615 Class A ordinary shares to Gold Ease Global Limited and YTL Cayman Limited, respectively, in a private placement at a price of US$26 per share. Proceeds from such issuance of ordinary shares were USD30,000 (or RMB197,697).

Following the completion of the Group's IPO, the Company's authorized share capital was reclassified and re-designated into Class A ordinary shares and Class B ordinary shares, with each Class A ordinary share being entitled to one vote and each Class B ordinary share being entitled to twenty votes on all matters that are subject to shareholder vote. Each Class B ordinary share is convertible into one Class A ordinary share at any time. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Both Class A ordinary shares and Class B ordinary shares are entitled to the same dividend right. The holders of the Group's ordinary shares are entitled to such dividends as may be declared by the board of directors subject to the Companies Law.

As of December 31, 2018 and 2019, all Class B ordinary shares were held by the Chairman and CEO of the Group.

20. Share Repurchase Program

In November 2017, the Board of Directors of the Company approved a share repurchase program whereby the Company is authorized to repurchase its own Class A ordinary shares in the form of American Depositary Shares with an aggregate value of up to US$20,000 over the following 12 months. The share repurchases may be made on the open market at prevailing market prices and/or in negotiated transactions off the market from time to time as market conditions warrant in accordance with applicable laws and regulation.

During the year ended December 31, 2017, the Company repurchased 359,595 shares for US$6,459 (RMB42,606) on the open market, at a weighted average price of US$17.96 per share. During the year ended December 31, 2018, the Company repurchased 157,859 shares for US$4,149 (RMB28,412) on the open market, at a weighted average price of US$26.28 per share. The Company accounts for repurchased ordinary shares under the cost method and includes such cost as a component of the shareholders' equity.

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21. Share-based Compensation

Stock Option Plan

In 2017, the Company adopted a 2017 Employee Stock Incentive Plan ("2017 Plan"), which has replaced all of the 2014 Plan in its entirety. The awards granted and outstanding under the 2014 Plan has survived the termination of the 2014 Plan and remains effective and binding under the 2014 Plan. The maximum aggregate number of ordinary shares which may be issued pursuant to all awards under the 2017 Plan is 1,307,672 Class A ordinary shares. Stock options granted to an employee under the 2017 Plan will vest upon the employee renders service to the Company in accordance with a stipulated service schedule starting from the employee's date of employment. Employees are generally subject to a four-year service schedule, under which an employee earns an entitlement to vest in 25% of his option grants at the end of each year of completed service. The following table sets forth the stock options activity for the year ended December 31, 2019:

	Number of shares	Weighted average exercise price US$	Weighted average remaining contractual term	Aggregate intrinsic value US$
Outstanding as of January 1, 2019	**1,235,873**	**0.001**		
Granted	147,820	0.001		
Forfeited	(206,805)	0.001		
Outstanding as of December 31, 2019	**1,176,888**	**0.001**	**6.87**	**13,863**
Vested and expected to vest as of December 31, 2019	**1,135,355**	**0.001**	**6.81**	**13,373**
Exercisable as of December 31, 2019	**972,290**	**0.001**	**6.49**	**11,453**

Options granted to employees were measured at fair value on the dates of grant using the Binomial Option Pricing Model with the following assumptions:

	2017	2018	2019
Expected volatility	47.40%~50.00%	46.8%~49.6%	48.70%~52.67%
Risk-free interest rate (per annum)	2.37%~2.40%	2.69%~2.87%	1.58%~2.41%
Exercise multiple	2.2~2.8	2.2~2.8	2.2
Expected dividend yield	0%	0%	0%
Expected term (in years)	10	10	10
Fair value of the underlying shares on the date of option grants (per share)	US$14.379~21.573	US$16.919~20.979	US$11.779~17.519

The expected volatility was estimated based on the historical volatility of the Company and comparable peer public companies with a time horizon close to the expected term of the Company's options. The risk-free interest rate was estimated based on the yield to maturity of U.S. treasury bonds denominated in USD for a term consistent with the expected term of the Company's options in effect at the option valuation date. The expected exercise multiple was estimated as the average ratio of the stock price to the exercise price of when employees would decide to voluntarily exercise their vested options. As the Company did not have sufficient information of past employee exercise history, it was estimated by referencing to a widely-accepted academic research publication. Expected dividend yield is zero as the Company has never declared or paid any cash dividends on its shares, and the Company does not anticipate any dividend payments in the foreseeable future. Expected term is the contract life of the option.

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The fair value of options granted to employees for the years ended December 31, 2017, 2018 and 2019 amounted to RMB72,137, RMB29,974 and RMB14,734 respectively. For the options granted to the employees before the Group's IPO, the exercisability was dependent upon the Company's IPO, and it was not probable that this performance condition could be achieved until the IPO was effective. Compensation expense of RMB31,200 relating to those options was recorded immediately on September 21, 2017. The options granted to the employees after the Group's IPO are subject to service conditions, for the years ended December 31, 2017, 2018 and 2019.The Company recognized RMB46,077, RMB23,675 and RMB8,803 as share based compensation expenses relating to the stock option plan.

	For the years ended December 31,		
	2017	2018	2019
Fulfillment expenses	5,079	1,059	283
Marketing expenses	23,807	11,729	4,627
Technology and content development expenses	3,971	2,984	424
General and administrative expenses	13,220	7,903	3,469
Total share-based compensation expense	46,077	23,675	8,803

As of December 31, 2019, RMB14,329 of total unrecognized compensation expense related to non-vested share options is expected to be recognized over a weighted average period of approximately 2.84 years.

22. Revenue

The following table presents revenue disaggregation by types of products:

	For the Year Ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Merchandise sales			
Watches	1,122,756	1,772,466	1,218,573
Bags	837,516	797,700	1,518,841
Clothing, Footwear and Accessories	833,102	1,412,024	2,444,133
Jewelleries	703,216	856,110	1,043,535
Other products	184,205	406,146	384,792
Total merchandise sales	3,680,795	5,244,446	6,609,874
Marketplace and other services:			
Marketplace services	42,114	86,720	182,895
Other services	17,546	56,411	52,811
Total marketplace and other services:	59,660	143,131	235,706
Total revenues	**3,740,455**	**5,387,577**	**6,845,580**

The following table summarizes the Group's revenues from the following geographic areas:

	For the Year Ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
PRC, excluding Hong Kong	3,435,661	4,816,463	5,880,969
Hong Kong	286,807	554,376	952,508
Others	17,987	16,738	12,103
Total revenues	**3,740,455**	**5,387,577**	**6,845,580**

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23. Segment information

The following table summarizes the Group's long-lived assets (including property and equipment, net, intangible assets, net, goodwill, operating lease right-of-use assets and other non-current assets) from the following geographic areas:

	As of December 31,	
	2018	2019
	RMB	RMB
PRC, excluding Hong Kong	63,086	245,874
Hong Kong	37,542	41,233
Others	7,780	6,786
Total long-lived assets	**108,408**	**293,893**

24. Net income (loss) per Share

The following table sets forth the basic and diluted net income (loss) per share computation and provides a reconciliation of the numerator and denominator for the periods presented:

	For the Year Ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Numerator:			
Net income attributable to Secoo Holding Limited	134,056	151,833	155,052
Accretion to redeemable non-controlling interest redemption value	(798)	—	(629)
Accretion to preferred share redemption value	(202,679)	—	—
Numerator for basic and diluted net income (loss) per share calculation	**(69,421)**	**151,833**	**154,423**
Denominator:			
Weighted average number of ordinary shares	12,500,821	25,235,404	25,122,199
Denominator for basic net income (loss) per share calculation	**12,500,821**	**25,235,404**	**25,122,199**
Adjustment for diluted stock options	**—**	**947,518**	**1,098,905**
Denominator for diluted net income (loss) per share calculation	**12,500,821**	**26,182,922**	**26,221,104**
Net income (loss) per ordinary share			
— Basic	(5.55)	6.02	6.15
— Diluted	(5.55)	5.80	5.89

The potentially dilutive securities that have not been included in the calculation of diluted net income (loss) per share as their inclusion would be anti-dilutive are as follows:

	For the Year Ended December 31,		
	2017	2018	2019
Restricted shares and stock options	1,094,413	—	—
Convertible note and warrant	—	6,980,769	6,980,769

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

25. Lease

The Group has operating leases mainly for offices, offline experience centers, customer service centers and logistics centers. For the year ended December 31, 2019, operating lease costs and short-term lease costs were RMB42,315 and RMB17,629, respectively. There were no leasing costs other than the operating lease costs and short-term lease costs for the year ended December 31, 2019.

A summary of supplemental information related to operating leases as of December 31, 2019 is as follows:

	As of December 31, 2019 RMB
Operating lease ROU assets	159,321
Operating lease liabilities-current	38,608
Operating lease liabilities-non-current	113,782
Total operating lease liabilities	152,390
Weighted average remaining lease term	3.81
Weighted average discount rate	11.6%

	For the year ended December 31, 2019 RMB
Operating cash flows for operating leases	64,739
ROU assets obtained in exchange for new operating lease liabilities	138,049

As of December 31, 2019, the Company had RMB2,841 of short term lease commitments under non-cancellable operating leases.

A summary of maturity of operating lease liabilities under the Group's non-cancellable operating leases as of December 31, 2019 is as follows:

	As of December 31, 2019 RMB
2020	52,946
2021	50,394
2022	38,261
2023	34,564
2024	7,987
Total lease payments	184,152
Less: interest	(31,762)
Present value of operating lease liabilities	152,390

As of December 31, 2019, the Group has no significant lease contract that has been entered into but not yet commenced.

Rental expenses were RMB34,090 and RMB39,581 for the years ended December 31, 2017 and 2018, respectively. As of December 31, 2018, the future minimum lease payments under the Group's non-cancelable operating lease agreements based on ASC840 are as follows:

	As of December 31, 2018 RMB
2019	33,740
2020	19,554
2021	12,507
2022	2,624
2023	402
2024 and thereafter	—
Total	68,827

SECOO HOLDING LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

26. Related Party Transactions

(a) Amount due from related parties

During the year ended December 31, 2017, the Group paid RMB287 on behalf of Jiangxi Tiangong Hi Tech Co., Ltd. ("Jiangxi Tiangong"), a related party that is under the control of Mr. Richard Rixue Li, the Group's chairman and chief exercise officer. The Group has amount due from Jiangxi Tiangong of RMB35 and RMB30 as of December 31, 2018 and 2019, respectively.

During the year ended December 31, 2018, the Group paid RMB2,100 on behalf of Guangyao, a related party that is under the control of Mr. Richard Rixue Li, the Group's chairman and chief exercise officer, which was repaid during the year ended December 31, 2019.

(b) Amount due to related parties

During the year ended December 31, 2015, the Group borrowed RMB18,000 from Mr. Richard Rixue Li, the Group's chairman and chief exercise officer, to fund working capital, among which RMB1,025, RMB493 and RMB313, were repaid during the years ended December 31, 2017, 2018 and 2019, respectively. The Group has an amount due to Mr. Richard Rixue Li for RMB801 and RMB488 as of December 31, 2018 and 2019, respectively. The amounts were unsecured, non-interest bearing and have no defined repayment term.

During the year ended December 31, 2018, the Group borrowed RMB4,480 from Mr. Rimei Li, CEO of the Group's subsidiary, to fund working capital. RMB4,069 and RMB411 were repaid during the years ended December 31, 2018 and 2019, respectively. The Group has an amount due to Mr. Rimei Li for RMB411 and nil as of December 31, 2018 and 2019, respectively.

27. Commitments and Contingencies

The Company leases offices, offline experience centers, customer service centers and logistics centers for operation under operating leases. Future minimum lease payments under non-cancellable operating leases with initial terms in excess of one year included in is Note 25.

Except for those disclosed above, the Group did not have any significant capital or other commitments or guarantees as of 2019.

SECOO HOLDING LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

28. Subsequent Events

In June 2020, the Company has entered into a share purchase agreement with Qudian Inc. ("Qudian"), a leading technology platform empowering the enhancement of online consumer credit experience in China, pursuant to which Qudian has agreed to purchase a total of up to 10,204,082 newly issued Class A ordinary shares of the Company for an aggregate purchase price of up to USD100,000. Qudian is listed in New York Stock Exchange under the symbol of "QD". The transaction is subject to customary closing conditions and is expected to be consummated in two separate closing. Qudian has agreed not to sell, transfer or dispose of any shares acquired in the transaction for twelve months after the first closing, subject to certain limited exceptions. On June 4, 2020, Qudian paid USD50,000 in cash to the Company and the Company issued 5,102,041 Class A ordinary shares to Qudian.

On April 30, 2020, the Company announced that its Board of Directors has approved a share repurchase program whereby the Company is authorized to repurchase its own Class A ordinary shares in the form of American Depositary Shares with an aggregate value of up to US$20 million during the next twelve-month period, starting from April 30, 2020.

From late January 2020, the COVID-19 was rapidly evolving in China and globally. Since then, the business and transportation disruptions in China have caused adverse impacts to the Group's operations and led to incremental costs, in particular, relating to the Group's retail business. Consequently, the COVID-19 outbreak will likely adversely affect the Group's business operations and its financial condition and operation results for the first quarter of 2020, including but not limited to material negative impact to the Group's total revenues and results of operations. However, given the uncertainty around the extent and timing of the potential future spread or mitigation of the COVID-19 and around the imposition or relaxation of protective measures, the Group cannot reasonably estimate the impact to its future results of operations, cash flows, or financial condition for the remainder of fiscal year 2020.

29. Parent Company Only Condensed Financial Information

The following condensed parent company financial information of Secoo Holding Limited has been prepared using the same accounting policies as set out in the accompanying consolidated financial statements. As of December 31, 2019, there were no material contingencies, significant provisions of long term obligations, mandatory dividend or redemption requirements of redeemable stocks or guarantees of Secoo Holding Limited, except for those which have been separately disclosed in the consolidated financial statements.

SECOO HOLDING LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

(a) *Condensed Balance Sheets*

	As of December 31,	
	2018	2019
	RMB	RMB
Assets		
Current assets		
Cash	162,529	92
Investment securities	26,032	—
Prepayments and other current assets	10,552	2,998
Total current assets	**199,113**	**3,090**
Non-current assets		
Investments in subsidiaries	2,474,833	2,896,655
Other non-current assets	3,246	2,383
Total non-current assets	**2,478,079**	**2,899,038**
Total assets	**2,677,192**	**2,902,128**
LIABILITIES		
Current liabilities		
Accrued expenses and other current liabilities	44,267	24,235
Total current liabilities	**44,267**	**24,235**
Non-current liabilities		
Long-term borrowings	1,151,560	1,185,249
Long-term liabilities	—	68,180
Total non-current liabilities	**1,151,560**	**1,253,429**
Total liabilities	**1,195,827**	**1,277,664**
Shareholders' Equity		
Class A ordinary shares (US$0.001 par value, 150,000,000 shares authorized including Class A shares and Class B shares, 19,068,224 shares issued, 18,550,770 shares outstanding as of December 31, 2018 and 2019)	126	126
Class B ordinary shares (US$0.001 par value, 150,000,000 shares authorized including Class A shares and Class B shares, 6,571,429 shares issued and outstanding as of December 31, 2018 and 2019; each Class B ordinary share is convertible into one Class A ordinary share)	41	41
Treasury shares (517,454 Class A ordinary shares as of December 31, 2018 and 2019, at cost)	(71,018)	(71,018)
Additional paid-in capital	2,839,342	2,848,145
Accumulated losses	(1,280,753)	(1,126,330)
Accumulated other comprehensive loss	(6,373)	(26,500)
Total shareholders' equity	**1,481,365**	**1,624,464**
Total liabilities and shareholders' equity	**2,677,192**	**2,902,128**

SECOO HOLDING LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(All amounts in thousands, except for share and per share data)

(b) *Condensed Statements of Results of Operations*

	For the Year Ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Operating expenses	**(14,423)**	**(6,566)**	**(8,010)**
Loss from operations	**(14,423)**	**(6,566)**	**(8,010)**
Other income (expenses):			
Interest income	313	—	18,154
Interest expenses	—	(38,737)	(111,033)
Change in fair value of financial instruments	—	1,891	23,226
Others	—	1,125	1,737
Share of income from subsidiaries	147,368	194,120	230,349
Income before income tax	**133,258**	**151,833**	**154,423**
Income tax expenses	—	—	—
Net income	**133,258**	**151,833**	**154,423**
Accretion to preferred share redemption value	(202,679)	—	—
Net income (loss) attributable to ordinary shareholders of Secoo Holding Limited	**(69,421)**	**151,833**	**154,423**

(c) *Condensed Statements of Cash Flows*

	For the Year Ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Net cash used in operating activities	(15,827)	(16,081)	(44,418)
Net cash used in investing activities	(685,267)	(1,108,577)	(118,794)
Net cash provided by financing activities	821,484	1,163,304	—
Effect of exchange rate changes on cash	(3,923)	7,325	775
Net increase/(decrease) in cash	**116,467**	**45,971**	**(162,437)**
Cash at the beginning of the year	**91**	**116,558**	**162,529**
Cash at the end of the year	**116,558**	**162,529**	**92**

Exhibit 2.5

Description of rights of each class of securities
registered under Section 12 of the Securities Exchange Act of 1934 (the "Exchange Act")

Class A ordinary shares, par value US$0.001 per share, of Secoo Holding Limited ("we," "our," "our company," or "us") are registered under Section 12(b) of the Exchange Act, and our American depositary shares ("ADSs"), two ADSs representing one Class A ordinary shares, are listed and traded on the Nasdaq Global Market. This exhibit contains a description of the rights of (i) the holders of Class A ordinary shares and (ii) the holders of ADSs. Class A ordinary shares underlying the ADSs are held by Deutsche Bank Trust Company Americas, as depositary, and holders of ADSs will not be treated as holders of the Class A ordinary shares.

Description of Class A Ordinary Shares

The following is a summary of material provisions of our currently effective amended and restated memorandum and articles of association (the "Memorandum and Articles of Association"), as well as the Companies Law (as amended) of the Cayman Islands (the "Companies Law") insofar as they relate to the material terms of our ordinary shares. Notwithstanding this, because it is a summary, it may not contain all the information that you may otherwise deem important. For more complete information, you should read our Memorandum and Articles of Association, which has been filed with the SEC as an exhibit to our Registration Statement on Form F-1 (File No. 333- 220174).

Type and Class of Securities (Item 9.A.5 of Form 20-F)

Each Class A ordinary share has US$0.001 par value. The number of Class A ordinary shares that have been issued as of the last day of the financial year ended December 31, 2019 is provided on the cover of the annual report on Form 20-F filed on June 11, 2020 (the "2019 Form 20-F"). Our Class A ordinary shares may be held in either certificated or uncertificated form.

Preemptive Rights (Item 9.A.3 of Form 20-F)

Our shareholders do not have preemptive rights.

Limitations or Qualifications (Item 9.A.6 of Form 20-F)

We have a dual-class voting structure such that our ordinary shares consist of Class A ordinary shares and Class B ordinary shares. Each Class A ordinary share shall entitle the holder thereof to one vote on all matters subject to the vote at general meetings of our company, and each Class B ordinary share shall entitle the holder thereof to twenty (20) votes on all matters subject to the vote at general meetings of our company. Due to the super voting power of Class B ordinary share holder, the voting power of the Class A ordinary shares may be materially limited.

Rights of Other Types of Securities (Item 9.A.7 of Form 20-F)

Not applicable.

Rights of Class A Ordinary Shares (Item 10.B.3 of Form 20-F)

Voting Rights. Our Class A ordinary shares and Class B ordinary shares vote together as a single class on all matters submitted to a vote of our shareholders, except as may otherwise be required by law or provided for in our current memorandum and articles of association. In respect of matters requiring shareholders' vote, each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to twenty votes. At any shareholders' meeting, a resolution put to the vote of the meeting shall be decided on a poll.

An ordinary resolution to be passed at a meeting by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast at a meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes attaching to the ordinary shares cast at a meeting. Both ordinary resolutions and special resolutions may also be passed by a unanimous written resolution signed by all the shareholders of our company, as permitted by the Companies Law (2020 Revision) of the Cayman Islands (the "Companies Law") and our current memorandum and articles of association. A special resolution will be required for important matters such as a change of name or making changes to our current memorandum and articles of association. Holders of the ordinary shares may, among other things, divide or combine their shares by ordinary resolution.

Liquidation. On a return of capital on winding up or otherwise (other than on conversion, redemption or purchase of ordinary shares), assets available for distribution among the holders of ordinary shares shall be distributed among the holders of the ordinary shares on a pro rata basis. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders proportionately.

Calls on Ordinary Shares and Forfeiture of Ordinary Shares. Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their ordinary shares in a notice served to such shareholders at least 14 calendar days prior to the specified time and place of payment. The ordinary shares that have been called upon and remain unpaid are subject to forfeiture.

Redemption, Repurchase and Surrender of Ordinary Shares. We may issue shares on terms that such shares are subject to redemption, at our option or at the option of the holders thereof, on such terms and in such manner as may be determined, before the issue of such shares, by our board of directors or by our shareholders by special resolution. Our company may also repurchase any of our shares provided that the manner and terms of such purchase have been approved by our board of directors or by ordinary resolution of our shareholders, or are otherwise authorized by our current memorandum and articles of association. Under the Companies Law, the redemption or repurchase of any share may be paid out of our company's profits or out of the proceeds of a fresh issue of shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account and capital redemption reserve) if the company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Companies Law no such share may be redeemed or repurchased (a) unless it is fully paid up, (b) if such redemption or repurchase would result in there being no shares outstanding, or (c) if the company has commenced liquidation. In addition, our company may accept the surrender of any fully paid share for no consideration.

Variations of Rights of Shares. If at any time the share capital is divided into different classes of shares, the rights attached to any class of shares may, unless otherwise provided by the terms of issue of the shares of that class, be materially adversely varied with the written consent of the holders of three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. The rights conferred upon the holders of the shares of any class issued shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with such existing class of shares.

Changes in Capital. Our shareholders may from time to time by ordinary resolution:

- increase our share capital by new shares of such amount as our shareholders think expedient;
- consolidate and divide all or any of our share capital into shares of a larger amount than our existing Shares;
- subdivide our shares, or any of them, into shares of an amount smaller than that fixed by our current memorandum and articles of association, provided that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in case of the share from which the reduced Share is derived; and
- cancel any shares that, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled.

Our shareholders may, by special resolution, amongst other things, reduce our share capital and any capital redemption reserve in any manner authorized by law.

Issuance of Additional Shares. Our current memorandum and articles of association authorizes our board of directors to issue additional ordinary shares from time to time as our board of directors shall determine, to the extent there are available authorized but unissued shares.

Our current memorandum and articles of association authorizes our board of directors to establish from time to time one or more series of redeemable preferred shares and to determine, with respect to any series of redeemable preferred shares, the terms and rights of that series, including:

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

Requirements to Change the Rights of Holders of Class A Ordinary Shares (Item 10.B.4 of Form 20-F)

Variations of Rights of Shares

If at any time the share capital is divided into different classes of shares, the rights attached to any class of shares may, unless otherwise provided by the terms of issue of the shares of that class, be materially adversely varied with the written consent of the holders of three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. The rights conferred upon the holders of the shares of any class issued shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking pari passu with such existing class of shares.

Limitations on the Rights to Own Class A Ordinary Shares (Item 10.B.6 of Form 20-F)

There are no limitations imposed by our memorandum and articles of association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares.

Provisions Affecting Any Change of Control (Item 10.B.7 of Form 20-F)

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

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

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

Ownership Threshold (Item 10.B.8 of Form 20-F)

There are no provisions in our memorandum and articles of association governing the ownership threshold above which shareholder ownership must be disclosed.

Differences Between the Law of Different Jurisdictions (Item 10.B.9 of Form 20-F)

The Companies Law is derived, to a large extent, from the older Companies Acts of England but does not follow recent United Kingdom statutory enactments, and accordingly there are significant differences between the Companies Law and the current Companies Act of England. In addition, the Companies Law differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Law applicable to us and the laws applicable to companies incorporated in the United States and their shareholders.

Mergers and Similar Arrangements.

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company and (b) a "consolidation" means the combination of two or more constituent companies into a combined company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of the shareholders of each constituent company, and (b) such other authorization, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies together with a declaration as to the solvency of the consolidated or surviving company, a declaration as to the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

In addition, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

- the statutory provisions as to the required majority vote have been met;
- the shareholders have been fairly represented at the meeting in question and the statutory majority are acting bona fide without coercion of the minority to promote interests adverse to those of the class;
- the arrangement is such that may be reasonably approved by an intelligent and honest man of that class acting in respect of his interest; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

When a takeover offer is made and accepted by holders of 90.0% of the shares affected within four months, the offeror may, within a two-month period commencing on the expiration of such four month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed in the case of an offer which has been so approved unless there is evidence of fraud, bad faith or collusion.

Shareholders' Suits.

In principle, we will normally be the proper plaintiff and as a general rule a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, the Cayman Islands courts can be expected (and have had occasion) to follow and apply the common law principles (namely the rule in *Foss v. Harbottle* and the exceptions thereto) so that a minority shareholder may be permitted to commence a representative action against, or derivative actions in the name of, our company to challenge:

- an act which is ultra vires the company or illegal and is therefore incapable of ratification by the shareholders,
- an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, or
- an act which requires a resolution with a qualified (or special) majority (i.e. more than a simple majority) which has not been obtained.

Indemnification of Directors and Executive Officers and Limitation of Liability.

Cayman Islands law does not limit the extent to which a company's memorandum and articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our memorandum and articles of association permit indemnification of officers and directors for losses, damages, costs and expenses incurred in their capacities as such unless such losses or damages arise from dishonesty, willful default or fraud of such directors or officers. This standard of conduct is generally the same as permitted under the Delaware General Corporation Law for a Delaware corporation.

In addition, we have entered into indemnification agreements with our directors and executive officers that provide such persons with additional indemnification beyond that provided in our memorandum and articles of association.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us under the foregoing provisions, we have been informed that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Directors' Fiduciary Duties.

Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director acts in a manner he reasonably believes to be in the best interests of the corporation. He must not use his corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, the director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation.

As a matter of Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company and therefore it is considered that he owes the following duties to the company — a duty to act bona fide in the best interests of the company, a duty not to make a personal profit based on his position as director (unless the company permits him to do so), a duty not to put himself in a position where the interests of the company conflict with his personal interest or his duty to a third party and a duty to exercise powers for the purpose for which such powers were intended. A director of a Cayman Islands company owes to the company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands.

Shareholder Action by Written Consent.

Under the Delaware General Corporation Law, a corporation may eliminate the right of shareholders to act by written consent by amendment to its certificate of incorporation. Cayman Islands law and our articles of association provide that shareholders may approve corporate matters by way of a unanimous written resolution signed by or on behalf of each shareholder who would have been entitled to vote on such matter at a general meeting without a meeting being held.

Shareholder Proposals.

Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

Cayman Islands law provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in articles of association. Our articles of association allow one or more shareholders holding in aggregate, at the date of such requisition, shares representing not less than one-third of all votes attaching to all of our shares in issue and entitled to vote to requisition a shareholder's meeting, in which case our directors are obliged to call such meeting and to put the resolutions so requisitioned to a vote at such meeting. Other than this right to requisition a shareholders' meeting, our articles of association do not provide our shareholders other right to put proposal before a meeting. As an exempted Cayman Islands company, we are not obliged by law to call shareholders' annual general meetings.

Cumulative Voting.

Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. There are no prohibitions in relation to cumulative voting under the laws of the Cayman Islands but our articles of association do not provide for cumulative voting. As a result, our shareholders are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

Removal of Directors.

Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under our articles of association, directors may be removed with or without cause, by an ordinary resolution of our shareholders.

Transactions with Interested Shareholders.

The Delaware General Corporation Law contains a business combination statute applicable to Delaware corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target's outstanding voting share within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware corporation to negotiate the terms of any acquisition transaction with the target's board of directors.

Cayman Islands law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that such transactions must be entered into bona fide in the best interests of the company and for a proper purpose and not with the effect of constituting a fraud on the minority shareholders.

Dissolution; Winding Up.

Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board.

Under Cayman Islands law, a company may be wound up by either an order of the courts of the Cayman Islands or by a special resolution of its members or, if the company is unable to pay its debts as they fall due, by an ordinary resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so. Under the Companies Law and our articles of association, our company may be dissolved, liquidated or wound up by a special resolution of our shareholders, or by an ordinary resolution on the basis that our company is unable to pay its debts as they fall due.

Variation of Rights of Shares.

Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under Cayman Islands law and our articles of association, if our share capital is divided into more than one class of shares, we may materially adversely vary the rights attached to any class with the written consent of the holders of three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class.

Amendment of Governing Documents.

Under the Delaware General Corporation Law, a corporation's governing documents may be amended with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. As permitted by Cayman Islands law, our memorandum and articles of association may only be amended with a special resolution of our shareholders.

Changes in Capital (Item 10.B.10 of Form 20-F)

Our shareholders may from time to time by ordinary resolution:

- increase our share capital by such sum, to be divided into shares of such classes and amount, as the resolution shall prescribe;

- consolidate and divide all or any of our share capital into shares of a larger amount than our existing shares;

- subdivide our existing shares, or any of them, into shares of an amount smaller than that fixed by the memorandum, provided that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in case of the share from which the reduced share is derived; or

- cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of our share capital by the amount of the shares so cancelled.

We may by special resolution, reduce our share capital and any capital redemption reserve in any manner permitted by law.

Debt Securities (Item 12.A of Form 20-F)

Not applicable.

Warrants and Rights (Item 12.B of Form 20-F)

Not applicable.

Other Securities (Item 12.C of Form 20-F)

Not applicable.

Description of American Depositary Shares (Items 12.D.1 and 12.D.2 of Form 20-F)

Deutsche Bank Trust Company Americas, as depositary, registers and delivers the ADSs. Each two ADS represents ownership of one Class A ordinary shares, deposited with Deutsche Bank AG, Hong Kong Branch, as custodian for the depositary. Each ADS also represents ownership of any other securities, cash or other property which may be held by the depositary. The depositary's corporate trust office at which the ADSs will be administered is located at 60 Wall Street, New York, NY 10005, USA. The principal executive office of the depositary is located at 60 Wall Street, New York, NY 10005, USA.

The Direct Registration System, or DRS, is a system administered by The Depository Trust Company, or DTC, pursuant to which the depositary may register the ownership of uncertificated ADSs, which ownership shall be evidenced by periodic statements issued by the depositary to the ADS holders entitled thereto.

We do not treat ADS holders as our shareholders and accordingly, you, as an ADS holder, do not have shareholder rights. Cayman Islands law governs shareholder rights. The depositary is the holder of the Class A ordinary shares underlying your ADSs. As a holder of ADSs, you have ADS holder rights. A deposit agreement among us, the depositary and you, as an ADS holder, and the beneficial owners of ADSs sets out ADS holder rights as well as the rights and obligations of the depositary. The laws of the State of New York govern the deposit agreement and the ADSs.

The following is a summary of the material provisions of the deposit agreement. For more complete information, you should read the entire deposit agreement and the form of American Depositary Receipt. The deposit agreement has been filed with the SEC as an exhibit to a Registration Statement on Form F-1 (File No. 333-220174) for our company.

Holding the ADSs

How will you hold your ADSs?

You may hold ADSs either (1) directly (a) by having an American Depositary Receipt, or ADR, which is a certificate evidencing a specific number of ADSs, registered in your name, or (b) by holding ADSs in DRS, or (2) indirectly through your broker or other financial institution. If you hold ADSs directly, you are an ADS holder. This description assumes you hold your ADSs directly. ADSs will be issued through DRS, unless you specifically request certificated ADRs. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADS holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

Dividends and Other Distributions

How will you receive dividends and other distributions on the shares?

The depositary has agreed to pay to you the cash dividends or other distributions it or the custodian receives on Class A ordinary shares or other deposited securities, after deducting its fees and expenses. You will receive these distributions in proportion to the number of Class A ordinary shares your ADSs represent as of the record date (which will be as close as practicable to the record date for our Class A ordinary shares) set by the depositary with respect to the ADSs.

- *Cash.* The depositary will convert or cause to be converted any cash dividend or other cash distribution we pay on the Class A ordinary shares or any net proceeds from the sale of any Class A ordinary shares, rights, securities or other entitlements under the terms of the deposit agreement into U.S. dollars if it can do so on a practicable basis, and can transfer the U.S. dollars to the United States and will distribute promptly the amount thus received. If the depositary shall determine in its judgment that such conversions or transfers are not possible or lawful or if any government approval or license is needed and cannot be obtained at a reasonable cost within a reasonable period or otherwise sought, the deposit agreement allows the depositary to distribute the foreign currency only to those ADS holders to whom it is possible to do so. It will hold or cause the custodian to hold the foreign currency it cannot convert for the account of the ADS holders who have not been paid and such funds will be held or the respective accounts of the ADS holders. It will not invest the foreign currency and it will not be liable for any interest for the respective accounts of the ADS holders.

  Before making a distribution, any taxes or other governmental charges, together with fees and expenses of the depositary, that must be paid, will be deducted. It will distribute only whole U.S. dollars and cents and will round fractional cents to the nearest whole cent. If the exchange rates fluctuate during a time when the depositary cannot convert the foreign currency, you may lose some or all of the value of the distribution.

- *Shares.* For any Class A ordinary shares we distribute as a dividend or free distribution, either (1) the depositary will distribute additional ADSs representing such Class A ordinary shares or (2) existing ADSs as of the applicable record date will represent rights and interests in the additional Class A ordinary shares distributed, to the extent reasonably practicable and permissible under law, in either case, net of applicable fees, charges and expenses incurred by the depositary and taxes and/or other governmental charges. The depositary will only distribute whole ADSs. It will try to sell Class A ordinary shares which would require it to deliver a fractional ADS and distribute the net proceeds in the same way as it does with cash. The depositary may sell a portion of the distributed Class A ordinary shares sufficient to pay its fees and expenses, and any taxes and governmental charges, in connection with that distribution.

- *Elective Distributions in Cash or Shares.* If we offer holders of our Class A ordinary shares the option to receive dividends in either cash or shares, the depositary, after consultation with us and having received timely notice as described in the deposit agreement of such elective distribution by us, has discretion to determine to what extent such elective distribution will be made available to you as a holder of the ADSs. We must timely first instruct the depositary to make such elective distribution available to you and furnish it with satisfactory evidence that it is legal to do so. The depositary could decide it is not legal or reasonably practicable to make such elective distribution available to you. In such case, the depositary shall, on the basis of the same determination as is made in respect of the Class A ordinary shares for which no election is made, distribute either cash in the same way as it does in a cash distribution, or additional ADSs representing Class A ordinary shares in the same way as it does in a share distribution. The depositary is not obligated to make available to you a method to receive the elective dividend in shares rather than in ADSs. There can be no assurance that you will be given the opportunity to receive elective distributions on the same terms and conditions as the holders of Class A ordinary shares.

- *Rights to Purchase Additional Shares.* If we offer holders of our Class A ordinary shares any rights to subscribe for additional shares, the depositary shall having received timely notice as described in the deposit agreement of such distribution by us, consult with us, and we must determine whether it is lawful and reasonably practicable to make these rights available to you. We must first instruct the depositary to make such rights available to you and furnish the depositary with satisfactory evidence that it is legal to do so. If the depositary decides it is not legal or reasonably practicable to make the rights available but that it is lawful and reasonably practicable to sell the rights, the depositary will endeavor to sell the rights and in a riskless principal capacity or otherwise, at such place and upon such terms (including public or private sale) as it may deem proper distribute the net proceeds in the same way as it does with cash. The depositary will allow rights that are not distributed or sold to lapse. In that case, you will receive no value for them.

  If the depositary makes rights available to you, it will establish procedures to distribute such rights and enable you to exercise the rights upon your payment of applicable fees, charges and expenses incurred by the depositary and taxes and/or other governmental charges. The Depositary shall not be obliged to make available to you a method to exercise such rights to subscribe for Class A ordinary shares (rather than ADSs).

U.S. securities laws may restrict transfers and cancellation of the ADSs represented by shares purchased upon exercise of rights. For example, you may not be able to trade these ADSs freely in the United States. In this case, the depositary may deliver restricted depositary shares that have the same terms as the ADSs described in this section except for changes needed to put the necessary restrictions in place.

There can be no assurance that you will be given the opportunity to exercise rights on the same terms and conditions as the holders of Class A ordinary shares or be able to exercise such rights.

- *Other Distributions.* Subject to receipt of timely notice, as described in the deposit agreement, from us with the request to make any such distribution available to you, and provided the depositary has determined such distribution is lawful and reasonably practicable and feasible and in accordance with the terms of the deposit agreement, the depositary will distribute to you anything else we distribute on deposited securities by any means it may deem practicable, upon your payment of applicable fees, charges and expenses incurred by the depositary and taxes and/or other governmental charges. If any of the conditions above are not met, the depositary will endeavor to sell, or cause to be sold, what we distributed and distribute the net proceeds in the same way as it does with cash; or, if it is unable to sell such property, the depositary may dispose of such property in any way it deems reasonably practicable under the circumstances for nominal or no consideration, such that you may have no rights to or arising from such property.

  The depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADS holders. We have no obligation to register ADSs, shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ADSs, shares, rights or anything else to ADS holders. This means that you may not receive the distributions we make on our shares or any value for them if we and/or the depositary determines that it is illegal or not practicable for us or the depositary to make them available to you.

Deposit, Withdrawal and Cancellation

How are ADSs issued?

The depositary will deliver ADSs if you or your broker deposit Class A ordinary shares or evidence of rights to receive Class A ordinary shares with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will register the appropriate number of ADSs in the names you request and will deliver the ADSs to or upon the order of the person or persons entitled thereto.

The depositary shall not knowingly accept for deposit under the deposit agreement any ordinary shares or other deposited securities required to be registered under the provisions of the Securities Act, unless a registration statement is in effect as to such securities.

How do ADS holders cancel an American Depositary Share?

You may turn in your ADSs at the depositary's corporate trust office or by providing appropriate instructions to your broker. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will deliver the Class A ordinary shares and any other deposited securities underlying the ADSs to you or a person you designate at the office of the custodian. Or, at your request, risk and expense, the depositary will deliver the deposited securities at its corporate trust office, to the extent permitted by law.

How do ADS holders interchange between certificated ADSs and uncertificated ADSs?

You may surrender your ADR to the depositary for the purpose of exchanging your ADR for uncertificated ADSs. The depositary will cancel that ADR and will send you a statement confirming that you are the owner of uncertificated ADSs. Alternatively, upon receipt by the depositary of a proper instruction from a holder of uncertificated ADSs requesting the exchange of uncertificated ADSs for certificated ADSs, the depositary will execute and deliver to you an ADR evidencing those ADSs.

Voting Rights

How do you vote?

You may instruct the depositary to vote the Class A ordinary shares or other deposited securities underlying your ADSs at any meeting at which you are entitled to vote pursuant to any applicable law, the provisions of our memorandum and articles of association, and the provisions of or governing the deposited securities. Otherwise, you could exercise your right to vote directly if you withdraw the Class A ordinary shares. However, you may not know about the meeting sufficiently enough in advance to withdraw the Class A ordinary shares.

If we ask for your instructions and upon timely notice from us by regular, ordinary mail delivery, or by electronic transmission, as described in the deposit agreement, the depositary will notify you of the upcoming meeting at which you are entitled to vote pursuant to any applicable law, the provisions of our memorandum and articles of association, and the provisions of or governing the deposited securities, and arrange to deliver our voting materials to you. The materials will include or reproduce (a) such notice of meeting or solicitation of consents or proxies; (b) a statement that the ADS holders at the close of business on the ADS record date will be entitled, subject to any applicable law, the provisions of our memorandum and articles of association, and the provisions of or governing the deposited securities, to instruct the depositary as to the exercise of the voting rights, if any, pertaining to the Class A ordinary shares or other deposited securities represented by such holder's ADSs; and (c) a brief statement as to the manner in which such instructions may be given or deemed given in accordance with the second to last sentence of this paragraph if no instruction is received, to the depositary to give a discretionary proxy to a person designated by us. Voting instructions may be given only in respect of a number of ADSs representing an integral number of Class A ordinary shares or other deposited securities. For instructions to be valid, the depositary must receive them in writing on or before the date specified. The depositary will try, as far as practical, subject to applicable law and the provisions of our memorandum and articles of association, to vote or to have its agents vote the Class A ordinary shares or other deposited securities (in person or by proxy) as you instruct. The depositary will only vote or attempt to vote as you instruct. If we timely requested the depositary to solicit your instructions but no instructions are received by the depositary from an owner with respect to any of the deposited securities represented by the ADSs of that owner on or before the date established by the depositary for such purpose, the depositary shall deem that owner to have instructed the depositary to give a discretionary proxy to a person designated by us with respect to such deposited securities, and the depositary shall give a discretionary proxy to a person designated by us to vote such deposited securities. However, no such instruction shall be deemed given and no such discretionary proxy shall be given with respect to any matter if we inform the depositary we do not wish such proxy given, substantial opposition exists or the matter materially and adversely affects the rights of holders of the Class A ordinary shares.

We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote the Class A ordinary shares underlying your ADSs. In addition, there can be no assurance that ADS holders and beneficial owners generally, or any holder or beneficial owner in particular, will be given the opportunity to vote or cause the custodian to vote on the same terms and conditions as the holders of our Class A ordinary shares.

The depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to exercise your right to vote and you may have no recourse if the Class A ordinary shares underlying your ADSs are not voted as you requested.

In order to give you a reasonable opportunity to instruct the depositary as to the exercise of voting rights relating to deposited securities, if we request the depositary to act, we will give the depositary notice of any such meeting and details concerning the matters to be voted at least 30 business days in advance of the meeting date.

Compliance with Regulations

Information Requests

Each ADS holder and beneficial owner shall (a) provide such information as we or the depositary may request pursuant to law, including, without limitation, relevant Cayman Islands law, any applicable law of the United States of America, our memorandum and articles of association, any resolutions of our Board of Directors adopted pursuant to such memorandum and articles of association, the requirements of any markets or exchanges upon which the Class A ordinary shares, ADSs or ADRs are listed or traded, or to any requirements of any electronic book-entry system by which the ADSs or ADRs may be transferred, regarding the capacity in which they own or owned ADRs, the identity of any other persons then or previously interested in such ADRs and the nature of such interest, and any other applicable matters, and (b) be bound by and subject to applicable provisions of the laws of the Cayman Islands, our memorandum and articles of association, and the requirements of any markets or exchanges upon which the ADSs, ADRs or Class A ordinary shares are listed or traded, or pursuant to any requirements of any electronic book-entry system by which the ADSs, ADRs or Class A ordinary shares may be transferred, to the same extent as if such ADS holder or beneficial owner held Class A ordinary shares directly, in each case irrespective of whether or not they are ADS holders or beneficial owners at the time such request is made.

Disclosure of Interests

Each ADS holder and beneficial owner shall comply with our requests pursuant to Cayman Islands law, the rules and requirements of the New York Stock Exchange and any other stock exchange on which the Class A ordinary shares are, or will be, registered, traded or listed or our memorandum and articles of association, which requests are made to provide information, inter alia, as to the capacity in which such ADS holder or beneficial owner owns ADS and regarding the identity of any other person interested in such ADS and the nature of such interest and various other matters, whether or not they are ADS holders or beneficial owners at the time of such requests.

Fees and Expenses

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

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

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

- Fees for the transfer and registration of Class A ordinary shares charged by the registrar and transfer agent for the Class A ordinary shares in the Cayman Islands (i.e., upon deposit and withdrawal of Class A ordinary shares).

- Expenses incurred for converting foreign currency into U.S. dollars.

- Expenses for cable, telex and fax transmissions and for delivery of securities.

- Taxes and duties upon the transfer of securities, including any applicable stamp duties, any stock transfer charges or withholding taxes (i.e., when Class A ordinary shares are deposited or withdrawn from deposit).

- Fees and expenses incurred in connection with the delivery or servicing of Class A ordinary shares on deposit.

- Fees and expenses incurred in connection with complying with exchange control regulations and other regulatory requirements applicable to Class A ordinary shares, deposited securities, ADSs and ADRs.

- Any applicable fees and penalties thereon.

The depositary fees payable upon the issuance and cancellation of ADSs are typically paid to the depositary bank by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depositary bank and by the brokers (on behalf of their clients) delivering the ADSs to the depositary bank for cancellation. The brokers in turn charge these fees to their clients. Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary services fee are charged by the depositary bank to the holders of record of ADSs as of the applicable ADS record date.

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

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

The depositary has agreed to pay certain amounts to us in exchange for its appointment as depositary. We may use these funds towards our expenses relating to the establishment and maintenance of the ADR program, including investor relations expenses, or otherwise as we see fit. The depositary may pay us a fixed amount, it may pay us a portion of the fees collected by the depositary from holders of ADSs, and it may pay specific expenses incurred by us in connection with the ADR program. Neither the depositary nor we may be able to determine the aggregate amount to be paid to us because (i) the number of ADSs that will be issued and outstanding and the level of dividend and/or servicing fees to be charged may vary, and (ii) our expenses related to the program may not be known at this time.

Payment of Taxes

You will be responsible for any taxes or other governmental charges payable, or which become payable, on your ADSs or on the deposited securities represented by any of your ADSs. The depositary may refuse to register or transfer your ADSs or allow you to withdraw the deposited securities represented by your ADSs until such taxes or other charges are paid. It may apply payments owed to you or sell deposited securities represented by your ADSs to pay any taxes owed and you will remain liable for any deficiency. If the depositary sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to you any net proceeds, or send to you any property, remaining after it has paid the taxes. You agree to indemnify us, the depositary, the custodian and each of our and their respective agents, directors, employees and affiliates for, and hold each of them harmless from, any claims with respect to taxes (including applicable interest and penalties thereon) arising from any refund of taxes, reduced rate of withholding at source or other tax benefit obtained for you. Your obligations under this paragraph shall survive any transfer of ADRs, any surrender of ADRs and withdrawal of deposited securities or the termination of the deposit agreement.

Reclassifications, Recapitalizations and Mergers

If we:	Then:
Change the nominal or par value of our Class A ordinary shares	The cash, shares or other securities received by the depositary will become deposited securities.
Reclassify, split up or consolidate any of the deposited securities	Each ADS will automatically represent its equal share of the new deposited securities.
Distribute securities on the Class A ordinary shares that are not distributed to you, or recapitalize, reorganize, merge, liquidate, sell all or substantially all of our assets, or take any similar action	The depositary may distribute some or all of the cash, shares or other securities it received. It may also deliver new ADSs or ask you to surrender your outstanding ADRs in exchange for new ADRs identifying the new deposited securities.

Amendment and Termination

How may the deposit agreement be amended?

We may agree with the depositary to amend the deposit agreement and the form of ADR without your consent for any reason. If an amendment adds or increases fees or charges, except for taxes and other governmental charges or expenses of the depositary for registration fees, facsimile costs, delivery charges or similar items, including expenses incurred in connection with foreign exchange control regulations and other charges specifically payable by ADS holders under the deposit agreement, or materially prejudices a substantial existing right of ADS holders, it will not become effective for outstanding ADSs until 30 days after the depositary notifies ADS holders of the amendment. At the time an amendment becomes effective, you are considered, by continuing to hold your ADSs, to agree to the amendment and to be bound by the ADRs and the deposit agreement as amended. If any new laws are adopted which would require the deposit agreement to be amended in order to comply therewith, we and the depositary may amend the deposit agreement in accordance with such laws and such amendment may become effective before notice thereof is given to ADS holders.

How may the deposit agreement be terminated?

The depositary will terminate the deposit agreement if we ask it to do so, in which case the depositary will give notice to you at least 90 days prior to termination. The depositary may also terminate the deposit agreement if the depositary has told us that it would like to resign, or if we have removed the depositary, and in either case we have not appointed a new depositary within 90 days. In either such case, the depositary must notify you at least 30 days before termination.

After termination, the depositary and its agents will do the following under the deposit agreement but nothing else: collect distributions on the deposited securities, sell rights and other property and deliver Class A ordinary shares and other deposited securities upon cancellation of ADSs after payment of any fees, charges, taxes or other governmental charges. Six months or more after the date of termination, the depositary may sell any remaining deposited securities by public or private sale. After that, the depositary will hold the money it received on the sale, as well as any other cash it is holding under the deposit agreement, for the pro rata benefit of the ADS holders that have not surrendered their ADSs. It will not invest the money and has no liability for interest. After such sale, the depositary's only obligations will be to account for the money and other cash. After termination, we shall be discharged from all obligations under the deposit agreement except for our obligations to the depositary thereunder.

Books of Depositary

The depositary will maintain ADS holder records at its depositary office. You may inspect such records at such office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the Company, the ADRs and the deposit agreement.

The depositary will maintain facilities in the Borough of Manhattan, The City of New York to record and process the issuance, cancellation, combination, split-up and transfer of ADRs.

These facilities may be closed at any time or from time to time when such action is deemed necessary or advisable by the depositary in connection with the performance of its duties under the deposit agreement or at our reasonable written request.

Limitations on Obligations and Liability

Limits on our obligations and the Obligations of the Depositary and the Custodian; Limits on Liability to Holders of ADSs

The deposit agreement expressly limits our obligations and the obligations of the depositary and the custodian. It also limits our liability and the liability of the depositary. The depositary and the custodian:

- are only obligated to take the actions specifically set forth in the deposit agreement without gross negligence or willful misconduct;
- are not liable if any of us or our respective controlling persons or agents are prevented or forbidden from, or subjected to any civil or criminal penalty or restraint on account of, or delayed in, doing or performing any act or thing required by the terms of the deposit agreement and any ADR, by reason of any provision of any present or future law or regulation of the United States or any state thereof, the Cayman Islands or any other country, or of any other governmental authority or regulatory authority or stock exchange, or on account of the possible criminal or civil penalties or restraint, or by reason of any provision, present or future, of our memorandum and articles of association or any provision of or governing any deposited securities, or by reason of any act of God or war or other circumstances beyond its control (including, without limitation, nationalization, expropriation, currency restrictions, work stoppage, strikes, civil unrest, revolutions, rebellions, explosions and computer failure);
- are not liable by reason of any exercise of, or failure to exercise, any discretion provided for in the deposit agreement or in our memorandum and articles of association or provisions of or governing deposited securities;
- are not liable for any action or inaction of the depositary, the custodian or us or their or our respective controlling persons or agents in reliance upon the advice of or information from legal counsel, any person presenting Class A ordinary shares for deposit or any other person believed by it in good faith to be competent to give such advice or information;
- are not liable for the inability of any holder of ADSs to benefit from any distribution on deposited securities that is not made available to holders of ADSs under the terms of the deposit agreement;
- are not liable for any special, consequential, indirect or punitive damages for any breach of the terms of the deposit agreement, or otherwise;

- may rely upon any documents we believe in good faith to be genuine and to have been signed or presented by the proper party;

- disclaim any liability for any action or inaction or inaction of any of us or our respective controlling persons or agents in reliance upon the advice of or information from legal counsel, accountants, any person presenting Class A ordinary shares for deposit, holders and beneficial owners (or authorized representatives) of ADSs, or any person believed in good faith to be competent to give such advice or information; and

- disclaim any liability for inability of any holder to benefit from any distribution, offering, right or other benefit made available to holders of deposited securities but not made available to holders of ADS.

The depositary and any of its agents also disclaim any liability (i) for any failure to carry out any instructions to vote, the manner in which any vote is cast or the effect of any vote or failure to determine that any distribution or action may be lawful or reasonably practicable or for allowing any rights to lapse in accordance with the provisions of the deposit agreement, (ii) the failure or timeliness of any notice from us, the content of any information submitted to it by us for distribution to you or for any inaccuracy of any translation thereof, (iii) any investment risk associated with the acquisition of an interest in the deposited securities, the validity or worth of the deposited securities, the credit-worthiness of any third party, (iv) for any tax consequences that may result from ownership of ADSs, Class A ordinary shares or deposited securities, or (v) for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the depositary or in connection with any matter arising wholly after the removal or resignation of the depositary, provided that in connection with the issue out of which such potential liability arises the depositary performed its obligations without gross negligence or willful misconduct while it acted as depositary.

In addition, the deposit agreement provides that each party to the deposit agreement (including each holder, beneficial owner and holder of interests in the ADRs) irrevocably waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in any lawsuit or proceeding against the depositary or our company related to our shares, the ADSs or the deposit agreement.

In the deposit agreement, we and the depositary agree to indemnify each other under certain circumstances.

Requirements for Depositary Actions

Before the depositary will issue, deliver or register a transfer of an ADS, split-up, subdivide or combine ADSs, make a distribution on an ADS, or permit withdrawal of Class A ordinary shares, the depositary may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any Class A ordinary shares or other deposited securities and payment of the applicable fees, expenses and charges of the depositary;

- satisfactory proof of the identity and genuineness of any signature or any other matters contemplated in the deposit agreement; and

- compliance with (A) any laws or governmental regulations relating to the execution and delivery of ADRs or ADSs or to the withdrawal or delivery of deposited securities and (B) such reasonable regulations and procedures as the depositary may establish, from time to time, consistent with the deposit agreement and applicable laws, including presentation of transfer documents.

The depositary may refuse to issue and deliver ADSs or register transfers of ADSs generally when the register of the depositary or our transfer books are closed or at any time if the depositary or we determine that it is necessary or advisable to do so.

Your Right to Receive the Shares Underlying your ADSs

You have the right to cancel your ADSs and withdraw the underlying Class A ordinary shares at any time except:

- when temporary delays arise because: (1) the depositary has closed its transfer books or we have closed our transfer books; (2) the transfer of Class A ordinary shares is blocked to permit voting at a shareholders' meeting; or (3) we are paying a dividend on our Class A ordinary shares;

- when you owe money to pay fees, taxes and similar charges;

- when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADSs or to the withdrawal of ordinary shares or other deposited securities, or

- other circumstances specifically contemplated by Section I.A.(l) of the General Instructions to Form F-6 (as such General Instructions may be amended from time to time); or

- for any other reason if the depositary or we determine, in good faith, that it is necessary or advisable to prohibit withdrawals.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

Direct Registration System

In the deposit agreement, all parties to the deposit agreement acknowledge that the DRS and Profile Modification System, or Profile, will apply to uncertificated ADSs upon acceptance thereof to DRS by DTC. DRS is the system administered by DTC pursuant to which the depositary may register the ownership of uncertificated ADSs, which ownership shall be evidenced by periodic statements issued by the depositary to the ADS holders entitled thereto. Profile is a required feature of DRS which allows a DTC participant, claiming to act on behalf of an ADS holder, to direct the depositary to register a transfer of those ADSs to DTC or its nominee and to deliver those ADSs to the DTC account of that DTC participant without receipt by the depositary of prior authorization from the ADS holder to register such transfer.

In connection with and in accordance with the arrangements and procedures relating to DRS/Profile, the parties to the deposit agreement understand that the depositary will not verify, determine or otherwise ascertain that the DTC participant claiming to be acting on behalf of an ADS holder in requesting registration of transfer and delivery described in the paragraph above has the actual authority to act on behalf of the ADS holder (notwithstanding any requirements under the Uniform Commercial Code).

SHARE PURCHASE AGREEMENT

THIS SHARE PURCHASE AGREEMENT (as maybe amended, supplemented, modified or varied from time to time in accordance with the terms hereof, the "Agreement"), is entered into on June 3, 2020, by and between:

(1) Secoo Holding Limited, an exempted company incorporated with limited liability under the Laws of the Cayman Islands (the "Company"), and

(2) Qu Plus Plus Limited, a BVI business company incorporated with limited liability under the Laws of the British Virgin Islands (the "Purchaser").

Each of the forgoing parties is referred to herein individually as a "Party" and collectively as the "Parties."

RECITALS

WHEREAS, the Company desires to issue and sell to the Purchaser, and the Purchaser desires to purchase certain number of Class A Ordinary Shares to be newly issued by the Company, pursuant to the terms and subject to the conditions of this Agreement;

WHEREAS, the Company and the Purchaser desire to enter into this Agreement on the terms and conditions hereof; and

WHEREAS, at the First Closing, (i) the Company, the Purchaser and Mr. Rixue Li (the "Founder") will enter into an investor rights agreement (the "Investor Rights Agreement") in the form attached hereto as Exhibit D; and (ii) certain Affiliates of the Purchaser and the Company, respectively, will enter into a business cooperation agreement (the "Business Cooperation Agreement") in the form attached hereto as Exhibit E.

NOW, THEREFORE, in consideration of the foregoing and the mutual representations, warranties, covenants and agreements set forth herein, as well as other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereto, intending to be legally bound, agree as follows:

ARTICLE 1
DEFINITIONS

Unless otherwise defined in this Agreement, capitalized terms used in this Agreement shall have the meanings set forth in Exhibit A attached hereto.

ARTICLE 2
PURCHASE AND SALE OF SHARES; THE CLOSING

Section 2.01. Issuance and Sale of Class A Ordinary Shares at the First Closing. Subject to the terms and conditions of this Agreement, at the First Closing, the Purchaser agrees to subscribe for and purchase from the Company, and the Company agrees to issue, sell and deliver to the Purchaser 5,102,041 Class A Ordinary Shares (the "First Tranche Shares"), free and clear of all Liens, for an aggregate purchase price of US$50,000,001.8 (the "First Tranche Purchase Price"), reflecting a per share purchase price of US$9.80 (the "Per Share Purchase Price").

Section 2.02. First Closing.

(a) Time and Place. Subject to satisfaction or, to the extent permissible, waiver by the Party or Parties entitled to the benefit of the conditions set forth in Section 2.03 (other than conditions that by their nature are to be satisfied at the First Closing, but subject to the satisfaction or, to the extent permissible, waiver of those conditions at the First Closing by the applicable Parties), the closing of the issuance and purchase of the First Tranche Shares (the "First Closing") shall take place remotely via the exchange of documents and signatures on the third (3rd) Business Day after the date hereof, or any other date as may be agreed by the Purchaser and the Company in writing (the date on which the First Closing occurs, the "First Closing Date").

(b) Delivery by the Company. At the First Closing, the Company shall deliver, or cause to be delivered, to the Purchaser (i) (x) a copy of the duly executed share certificate issued in the name of the Purchaser representing the First Tranche Shares and (y) a certified true copy of the register of members of the Company showing the Purchaser as the legal and beneficial holder of the First Tranche Shares; (ii) an opinion, dated the First Closing Date, of Maples and Calder (Hong Kong) LLP, Cayman counsel to the Company, substantially in the form set forth in Exhibit C attached hereto; (iii) the Investor Rights Agreement duly executed by the Company and the Founder; and (iv) the Business Cooperation Agreement duly executed by the applicable Group Company. As soon as practicable after the First Closing and in no event later than five (5) Business Days after the First Closing Date, the Company shall deliver to the Purchaser the original share certificate in the name of the Purchaser, dated as of the First Closing Date and duly executed on behalf of the Company, representing the First Tranche Shares.

(c) Delivery and Payment by the Purchaser. At the First Closing, the Purchaser shall (i) pay, or cause to be paid, the First Tranche Purchase Price to the Company by wire transfer of immediately available U.S. dollar funds to a bank account of the Company designated in writing to the Purchaser on or about the date hereof by the Company (the "Company Bank Account"); and (ii) deliver, or cause to be delivered, the Investor Rights Agreement duly executed by the Investor and the Business Cooperation Agreement duly executed by the applicable Affiliate of the Investor.

Section 2.03. Conditions to First Closing.

(a) Conditions to Obligations of All Parties.

(i) No Governmental Authority shall have enacted, issued, promulgated, enforced or entered any Law or Governmental Order (in each case, whether temporary, preliminary or permanent) that is in effect and restrains, enjoins, prevents, prohibits or otherwise makes illegal the consummation of the transactions contemplated by this Agreement.

(ii) No action, suit, proceeding or investigation shall have been instituted or threatened by a Governmental Authority that seeks to restrain, enjoin, prevent, prohibit or otherwise make illegal the consummation of the transactions contemplated by this Agreement.

(iii) No stop order or suspension of trading shall have been imposed by Nasdaq, the SEC or any other Governmental Authority with respect to the public trading of the ADSs.

(b) Conditions to Obligations of the Company. The obligations of the Company to issue and sell the First Tranche Shares to the Purchaser as contemplated by this Agreement are subject to the satisfaction, on or before the First Closing, of each of the following conditions, any of which may be waived in writing by the Company in its sole discretion:

(i) The Purchaser Fundamental Warranties shall have been true and correct in all respects on and as of the First Closing Date as though such representations and warranties were made on and as of the First Closing Date (except for representations and warranties that expressly speak as of a specific date, in which case on and as of such specified date). Other representations and warranties of the Purchaser contained in Section 3.02 of this Agreement shall have been true and correct in all material respects (or, if qualified by materiality or Material Adverse Effect, true and correct in all respects) on and as of the First Closing Date as though such representations and warranties were made on and as of the First Closing Date (except for representations and warranties that expressly speak as of a specified date, in which case on and as of such specified date).

(ii) The Purchaser shall have performed and complied in all material respects with all agreements, covenants and obligations contained in this Agreement that are required to be performed or complied with on or before the First Closing.

(c) Conditions to Obligations of the Purchaser. The obligations of the Purchaser to subscribe for the First Tranche Shares and pay the First Tranche Purchase Price as contemplated by this Agreement are subject to the satisfaction, on or before the First Closing, of the following conditions, any of which may be waived in writing by the Purchaser in its sole discretion:

(i) (x) The Company Fundamental Warranties shall have been true and correct in all respects on and as of the First Closing Date as though such representations and warranties were made on and as of the First Closing Date (except for representations and warranties that expressly speak as of a specific date, in which case on and as of such specified date); and (y) other representations and warranties of the Company contained in Section 3.01 of this Agreement shall have been true and correct in all material respects (or, if qualified by materiality or Material Adverse Effect, true and correct in all respects) on and as of the First Closing Date as though such representations and warranties were made on and as of the First Closing Date (except for representations and warranties that expressly speak as of a specified date, in which case on and as of such specified date); disregarding, in each case of (x) and (y) and solely for purposes of this Section 2.03(c)(i), the effect of any disclosure contained in any Company SEC Documents filed or furnished after the date hereof.

(ii) The Company shall have performed and complied in all material respects with all agreements, covenants and obligations contained in this Agreement that are required to be performed or complied with on or before the First Closing.

(iii) There shall have been no Material Adverse Effect with respect to the Company from the date hereof to the First Closing Date.

(iv) All corporate and other actions required to be taken by the Company in connection with this Agreement shall have been completed.

(v) The ADSs (I) shall be designated for quotation or listed on the Nasdaq Global Market and (II) shall not have been suspended, as of the First Closing Date, by the SEC or the Nasdaq Global Market from trading on the Nasdaq Global Market nor shall suspension by the SEC or the Nasdaq Global Market have been threatened, as of the First Closing Date, either (A) in writing by the SEC or the Nasdaq Global Market or (B) by falling below the minimum listing maintenance requirements of the Nasdaq Global Market.

Section 2.04. Issuance and Sale of Class A Ordinary Shares at the Second Closing.

(a) Subject to satisfaction or, to the extent permissible, waiver by the Party or Parties entitled to the benefit of the conditions set forth in Section 2.06 (other than conditions that by their nature are to be satisfied at the Second Closing, but subject to the satisfaction or, to the extent permissible, waiver of those conditions at the Second Closing by the applicable Parties), at the Second Closing, the Purchaser agrees to subscribe for and purchase from the Company, and the Company agrees to issue, sell and deliver to the Purchaser 5,102,041 Class A Ordinary Shares, free and clear of all Liens, for an aggregate purchase price of US$50,000,001.8, reflecting a per share purchase price equal to the Per Share Purchase Price.

(b) If, as of June 30, 2020 or such later date as agreed to in writing by the Parties (the "Second Closing Deadline"), all of the conditions set forth in Section 2.06(a), Section 2.06(b), Section 2.06(c)(i), Section 2.06(c)(ii), Section 2.06(c)(iii), Section 2.06(c)(iv) and Section 2.06(c)(viii) are satisfied or waived by the Party or Parties entitled to the benefit of such conditions (other than conditions that by their nature are to be satisfied at the Second Closing, but subject to the satisfaction or, to the extent permissible, waiver of those conditions at the Second Closing by the applicable Parties) but any of the conditions set forth in Section 2.06(c)(v), Section 2.06(c)(vi), or Section 2.06(c)(vii) has not been satisfied or waived by the Purchaser, then the Purchaser shall have the right (but not the obligation) to subscribe for and purchase from the Company, at the Second Closing, a number of Class A Ordinary Shares as elected by the Purchaser at its sole discretion (provided that such number shall not be less than 1,224,490 and shall not exceed 5,102,041) by delivering a written notice setting forth the number of Class A Ordinary Shares it elects to purchase within five (5) Business Days following the Second Closing Deadline, and the Company shall issue, sell and deliver to the Purchaser such number of Class A Ordinary Shares, at an aggregate purchase price equal to such number of Class A Ordinary Shares multiplied by the Per Share Purchase Price.

(c) The number of Class A Ordinary Shares the Company shall issue pursuant to Section 2.04(a) or Section 2.04(b), as applicable, at the Second Closing is referred to as the "Second Tranche Shares", and together with the First Tranche Shares, the "Purchased Shares". The aggregate purchase price to be paid for the Second Tranche Shares pursuant to Section 2.04(a) or Section 2.04(b), as applicable, at the Second Closing is referred to as the "Second Tranche Purchase Price", and together with the First Tranche Purchase Price, the "Aggregate Purchase Price".

Section 2.05. Second Closing.

(a) Time and Place. The closing of the issuance and purchase of the Second Tranche Shares (the "Second Closing"), shall, unless the Parties otherwise agree in writing, take place remotely via the exchange of documents and signatures on (i) the Second Closing Deadline, if the Parties are proceeding to the Second Closing in accordance with Section 2.04(a), or (ii) the tenth (10th) Business Day following the Second Closing Deadline, if the Parties are proceeding to the Second Closing in accordance with Section 2.04(b) (the date on which the Second Closing occurs, the "Second Closing Date").

(b) Delivery by the Company. At the Second Closing, the Company shall deliver, or cause to be delivered, to the Purchaser (i) a copy of the duly executed share certificate issued in the name of the Purchaser representing the Second Tranche Shares and (ii) a certified true copy of the register of members of the Company showing the Purchaser as the legal and beneficial holder of the Second Tranche Shares. As soon as practicable after the Second Closing and in no event later than five (5) Business Days after the Second Closing Date, the Company shall deliver to the Purchaser the original share certificate in the name of the Purchaser, dated as of the Second Closing Date and duly executed on behalf of the Company, representing the Second Tranche Shares.

(c) Delivery and Payment by the Purchaser. At the Second Closing, the Purchaser shall pay, or cause to be paid, the Second Tranche Purchase Price to the Company by wire transfer of immediately available U.S. dollar funds to the Company Bank Account.

Section 2.06. Conditions to Second Closing.

(a) Conditions to Obligations of All Parties.

(i) The First Closing has occurred in accordance with the terms of this Agreement.

(ii) Each of the conditions set forth in Section 2.03(a) remains satisfied as of the Second Closing Date.

(b) Conditions to Obligations of the Company. The obligations of the Company to issue and sell the Second Tranche Shares to the Purchaser as contemplated by this Agreement are subject to the satisfaction, on or before the Second Closing, of each of the following conditions, any of which may be waived in writing by the Company in its sole discretion:

(i) The Purchaser Fundamental Warranties shall have been true and correct in all respects on and as of the Second Closing Date as though such representations and warranties were made on and as of the Second Closing Date (except for representations and warranties that expressly speak as of a specific date, in which case on and as of such specified date). Other representations and warranties of the Purchaser contained in Section 3.02 of this Agreement shall have been true and correct in all material respects (or, if qualified by materiality or Material Adverse Effect, true and correct in all respects) on and as of the Second Closing Date as though such representations and warranties were made on and as of the Second Closing Date (except for representations and warranties that expressly speak as of a specified date, in which case on and as of such specified date);

(ii) The Purchaser shall have performed and complied in all material respects with all agreements, covenants and obligations contained in this Agreement that are required to be performed or complied with on or before the Second Closing.

(c) Conditions to Obligations of the Purchaser. The obligations of the Purchaser to subscribe for the Second Tranche Shares and pay the Second Tranche Purchase Price as contemplated by this Agreement are subject to the satisfaction, on or before the Second Closing, of the following conditions, any of which may be waived in writing by the Purchaser in its sole discretion:

(i) (x) The Company Fundamental Warranties shall have been true and correct in all respects on and as of the Second Closing Date as though such representations and warranties were made on and as of the Second Closing Date (except for representations and warranties that expressly speak as of a specific date, in which case on and as of such specified date); and (y) other representations and warranties of the Company contained in Section 3.01 of this Agreement shall have been true and correct in all material respects (or, if qualified by materiality or Material Adverse Effect, true and correct in all respects) on and as of the Second Closing Date as though such representations and warranties were made on and as of the Second Closing Date (except for representations and warranties that expressly speak as of a specified date, in which case on and as of such specified date); disregarding, in each case of (x) and (y) and solely for purposes of this Section 2.06(c)(i), the effect of any disclosure contained in any Company SEC Documents filed or furnished after the date hereof.

(ii) The Company shall have performed and complied in all material respects with all agreements, covenants and obligations contained in this Agreement that are required to be performed or complied with on or before the Second Closing.

(iii) There shall have been no Material Adverse Effect with respect to the Company from the First Closing Date to the Second Closing Date.

(iv) The ADSs (I) shall be designated for quotation or listed on the Nasdaq Global Market and (II) shall not have been suspended, as of the date of the Second Closing Date, by the SEC or the Nasdaq Global Market from trading on the Nasdaq Global Market nor shall suspension by the SEC or the Nasdaq Global Market have been threatened, as of the date of the Second Closing Date, either (A) in writing by the SEC or the Nasdaq Global Market or (B) by falling below the minimum listing maintenance requirements of the Nasdaq Global Market.

(v) The Company shall have duly filed with the SEC the Company's annual report on Form 20-F for the year ended December 31, 2019 on or prior to June 15, 2020 (such annual report as first filed with the SEC on or prior to June 15, 2020 and disregarding any subsequent amendment, the "Company 2019 Annual Report").

(vi) The consolidated balance sheets of the Company as of December 31, 2019, the related consolidated statements of comprehensive income (loss), changes in shareholders' equity, and cash flows for the year ended December 31, 2019, and the related notes, as contained in the Company 2019 Annual Report (collectively, the "2019 Audited Financial Statements") have been audited by KPMG Huazhen LLP (the "Company Auditor"). The Company 2019 Annual Report shall include a report of independent registered public accounting firm issued by the Company Auditor, which shall set forth the unqualified opinion of the Company Auditor that the 2019 Audited Financial Statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019, and the results of its operations and its cash flows for the year ended December 31, 2019, in conformity with U.S. GAAP.

(vii) Each of the Key Metrics as reported in the Company 2019 Annual Report is not less than 95% of the amount reported for such Key Metric in the Company 2019 Preliminary Results Announcement.

(viii) The Company shall have delivered to the Purchaser a certified true copy of the register of directors of the Company, dated no later than the Second Closing Date, evidencing that the person designated by the Purchaser (the "Initial Investor Director") has been duly elected to the board of directors of the Company as a director, and the board of directors of the Company consists of seven (7) directors.

Section 2.07. Termination of Certain Provisions. Section 2.04, Section 2.05 and Section 2.06 shall immediately terminate and cease to have any force or effect at 11:59 p.m., Hong Kong time on the tenth (10th) Business Days following the Second Closing Deadline if the Second Closing has not occurred as of such date; provided, however, that no Party shall be relieved or released from any liabilities or damages arising out any breach of this Agreement prior to such termination.

Section 2.08. Restrictive Legend. Each certificate representing the First Tranche Shares and Second Tranche Shares shall be endorsed with the following legend:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (AS AMENDED, THE "SECURITIES ACT") OR UNDER THE SECURITIES LAWS OF ANY OTHER JURISDICTIONS. THESE SECURITIES MAY NOT BE TRANSFERRED, SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF (1) AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR (2) AN EXEMPTION OR QUALIFICATION UNDER APPLICABLE SECURITIES LAWS. ANY ATTEMPT TO TRANSFER, SELL, PLEDGE OR HYPOTHECATE THIS SECURITY IN VIOLATION OF THESE RESTRICTIONS SHALL BE VOID.

Notwithstanding the foregoing, the Purchaser shall be entitled to receive from the Company new certificates for the same number of First Tranche Shares and Second Tranche Shares not bearing such legend upon the request of the Purchaser at such time as such restrictions are no longer applicable.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES

Section 3.01. Representations and Warranties of the Company. In connection with the transactions provided for herein, the Company hereby represents and warrants to the Purchaser as of the date hereof, the First Closing Date, and the Second Closing Date that, except as disclosed in the Company SEC Documents as of the date hereof, the First Closing, or the Second Closing, as applicable (excluding any forward-looking disclosures set forth in any risk factor sections and any disclosure of non-specific risks faced by the Group Companies included in any forward-looking statement, disclaimer, risk factor disclosure or other similarly non-specific statements that are similarly cautionary, predictive or forward-looking in nature):

(a) Organization, Standing and Qualification. Each of the Group Companies is duly incorporated or organized, validly existing and in good standing (or equivalent status in the relevant jurisdiction) under the Laws of the jurisdiction of its incorporation or organization. Each of the Group Companies has all requisite capacity, power and authority to own and operate its properties and to carry on its business as now conducted in all material respects. To the knowledge of the Company, there are no facts or circumstances that would lead the Company to believe that any Group Company will be required to file for reorganization or liquidation under the bankruptcy or reorganization Laws of any jurisdiction, and no Group Company has the intention to so file.

(b) Due Authorization; Valid Agreement. The Company has all requisite legal power and authority to enter into, execute, deliver and perform its obligations under the Transaction Agreements to which it is a party and each other agreement, certificate, document and instrument to be executed by the Company pursuant to this Agreement and each other Transaction Agreement. The execution, delivery and performance by the Company of this Agreement and each other Transaction Agreement to which it is a party and the performance by the Company of its obligations hereunder and thereunder have been duly authorized by all necessary corporate action on the part of the Company. This Agreement has been, and each other Transaction Agreements to which it is a party will be duly executed and delivered by the Company and, assuming due authorization, execution and delivery by the Purchaser, constitutes (or, when executed and delivered in accordance herewith will constitute) a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as enforcement may be limited by general principles of equity, whether applied in a court of law or a court of equity, and by applicable bankruptcy, insolvency, liquidation, fraudulent transfer, reorganization, moratorium, merger, consolidation, rights of set off, possessory liens and other law affecting creditors' rights and remedies generally and except as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies.

(c) Capitalization.

(i) The authorized share capital is US$150,000 divided into 150,000,000 shares of a par value of US$0.001 each, comprising of (i) 112,000,000 Class A Ordinary Shares, (ii) 8,000,000 Class B Ordinary Shares and (iii) 30,000,000 shares of a par value of US$0.001 each of such class or classes (however designated) as the board of directors of the Company may determine in accordance with the Memorandum and Articles. As of the date hereof, there are 18,550,770 Class A Ordinary Shares issued and outstanding (excluding 517,454 treasury shares), and 6,571,429 Class B Ordinary Shares issued and outstanding. As of the date hereof, the maximum aggregate number of shares which may be issued pursuant to all awards under the ESOP is 1,307,672 Class A Ordinary Shares.

(ii) Except as provided in the 2018 Investor Rights Agreement (a true and complete copy of which has been provided to the Purchaser) or the Transaction Agreement, there are no outstanding (A) shares of capital stock or voting securities of the Company, (B) Equity Securities of the Company convertible into or exchangeable for shares of capital stock or voting securities of the Company or (C) preemptive or other outstanding rights, options, warrants, conversion rights, "phantom" stock rights, stock appreciation rights, redemption rights, repurchase rights, agreements, arrangements, calls, commitments or rights of any kind that obligate the Company to issue or sell any shares of capital stock or other Equity Securities of the Company or any securities or obligations convertible or exchangeable into or exercisable for, or giving any person a right to subscribe for or acquire, any Equity Securities of the Company, and no securities or obligations evidencing such rights are authorized, issued or outstanding.

(iii) Except as provided in the 2018 Investor Rights Agreement or the Transaction Agreement, there are no registration rights, rights of first offer, rights of first refusal, tag-along rights with respect to the Equity Securities of any Group Company that have been granted by any Group Company to any Person (other than to another Group Company). All issued and outstanding Class A Ordinary Shares and Class B Ordinary Shares have been duly authorized and validly issued and are fully paid and non-assessable, are free of preemptive rights, were issued in compliance with applicable U.S. and other applicable securities laws and were not issued in violation of any preemptive right, resale right, right of first refusal, or similar right and the ADSs have been duly listed and admitted and authorized for trading on the Nasdaq Global Market.

(iv) All outstanding shares of capital stock or other ownership interests of the "significant subsidiaries" ("Significant Subsidiaries") as defined in Article 1, Rule 1-02 of Regulation S-X under the Exchange Act are duly authorized, validly issued, fully paid and non-assessable and all such shares or other ownership interests in any Significant Subsidiary (except for directors' qualifying shares or other ownership interests required to be held by directors under applicable Laws, and except for any Significant Subsidiary which is a variable interest entity over which the Company or any of its Subsidiaries effects control pursuant to the Control Contracts) are owned, directly or indirectly, by the Company free and clear of any Lien.

(d) Valid Issuance. The Purchased Shares, when issued and paid in such amounts and at such times in accordance with the terms of this Agreement and registered in the register of members of the Company will be duly and validly issued, fully paid, non-assessable, and free from any Lien, and will rank *pari passu* with, and carry the same rights in all respects as, the other Class A Ordinary Shares then in issue.

(e) No Violation. The execution, delivery and performance by the Company or any of its Affiliates of this Agreement and other Transaction Agreements do not and will not (i) violate, conflict with or result in the breach of any provision of the Memorandum and Articles or the organizational documents of such applicable Affiliate, (ii) subject to the truth and accuracy of the representations and warranties of the Purchaser in Sections 3.02(f) and 3.02(g), conflict with or violate any applicable Law or Governmental Order or rules and regulations of the Nasdaq Global Market applicable to the Company or such applicable Affiliate or their respective assets, properties or businesses or (iii) conflict with, result in any breach of, constitute a default (or event which with the giving of notice or lapse of time, or both, would become a default) under, or give to others any rights of termination, amendment, acceleration, suspension, revocation or cancellation of, any contract, agreement, lease, license, permit or other instrument or arrangement to which the Company or such applicable Affiliate is a party or result in the creation of any Liens upon any of the properties or assets of the Company or such applicable Affiliate, other than, in the case of clauses (ii) and (iii) above, any such conflict, violation, default, termination, amendment, acceleration, suspension, revocation or cancellation that would not, individually or in the aggregate, materially and adversely affect (x) the business of the Group Companies as it is currently conducted, and (y) the ability of the Group Companies to perform their obligations under the Transaction Agreements.

(f) Consents and Approvals. None of the execution and delivery by the Company of this Agreement or any Transaction Agreement, nor the consummation by the Company of any of the transactions contemplated hereby or thereby, nor the performance by the Company of this Agreement or other Transaction Agreements in accordance with their respective terms requires any Consent, except for (x) waiver by Great World Lux Pte. Ltd. of its preemptive rights and consent right with respect to new registration rights granted by the Company to the Purchaser under the 2018 Investor Rights Agreement (the "CB Holder Waiver"), (y) consent by holders of a majority of registration securities (as defined under that certain amended and restated shareholders agreement dated July 8, 2015 entered into by and among the Company and the other parties thereto) outstanding as of the date hereof with respect to new registration rights granted by the Company to the Purchaser under the Investor Rights Agreement (the "Pre-IPO Registration Rights Holders Consent"), and (z) any filing or notification required to made with the SEC or the Nasdaq regarding the transactions contemplated under the Transaction Agreements. Each of the CB Holder Waiver and the Pre-IPO Registration Rights Holders Consent has been duly obtained in written form, is not conditioned or revocable, and remains valid and effective in all respects. True and complete copies of the CB Holder Waiver and the Pre-IPO Registration Rights Holders Consent have been provided to the Purchaser.

(g) Compliance with Laws. The Company and each of its Subsidiaries have conducted at any time during the three years prior to the date hereof, their businesses in compliance with all applicable Laws (including, without limitation, the Sarbanes-Oxley Act of 2002, as amended, the Anti-Corruption Laws and the applicable anti-money laundering Laws) and applicable stock exchange requirements, except where the failure to be in compliance, individually or in the aggregate, do not and would not materially and adversely affect the business of the Group Companies as it is currently conducted. The Company and each of its Subsidiaries have all permits, licenses, authorizations, consents, orders and approvals in material respects (collectively, "Permits") that are required in order to carry on their business as presently conducted. All such Permits are in full force and effect and, to the knowledge of the Company, no suspension or cancellation of any of them is threatened. The Company is in compliance with the applicable listing and corporate governance rules and regulations of the Nasdaq in all material respects. The Company and its Subsidiaries have taken no action designed to, or reasonably likely to have the effect of, delisting the ADSs from the Nasdaq. There are no proceedings pending or, to the Company's knowledge, threatened against the Company relating to the continued listing of the ADSs on the Nasdaq and the Company has not received any notification that the SEC or the Nasdaq is contemplating suspending or terminating such listing (or the applicable registration under the Exchange Act related thereto).

(h) Data Protection. The Group Companies have complied in all material respects with all Data Protection Obligations, including in its Processing of Personal Information, and, to the knowledge of the Company, there has not been any violation or breach of any Data Protection Obligations. There have been no instances of unauthorized access, loss, theft, use, modification, disclosure or other misuse of any Personal Information in the possession or control of the Group Companies.

(i) SEC Matters; Financial Statements; Internal Control.

(i) The Company has filed or furnished, as applicable, on a timely basis, all Company SEC Documents pursuant to the Exchange Act and the Securities Act. As of their respective effective dates (in the case of the Company SEC Documents that are registration statements filed pursuant to the requirements of the Securities Act) and as of their respective SEC filing dates (in the case of all other Company SEC Documents), or in each case, if amended prior to the date hereof, as of the date of the last such amendment: (A) each of the Company SEC Documents complied in all material respects with the applicable requirements of the Securities Act or the Exchange Act and the Sarbanes-Oxley Act of 2002, as amended, and any rules and regulations promulgated thereunder applicable to the Company SEC Documents (as the case may be) and (B) none of the Company SEC Documents contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(ii) The financial statements (including any related notes) contained in the Company SEC Documents, including, when filed, the 2019 Audited Financial Statements: (A) complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, (B) were prepared in accordance with U.S. GAAP applied on a consistent basis throughout the periods covered thereby (except (a) as may be otherwise indicated in such financial statements or the notes thereto, or (b) in the case of unaudited interim statements, to the extent they may exclude footnotes or may be condensed to summary statements), and (C) fairly present in all material respects the consolidated financial position of the Group Companies as of the respective dates thereof and the consolidated results of operations and cash flows of the Group Companies for the periods covered thereby (other than as may have corrected or clarified in a subsequent Company SEC Document filed prior to the date hereof). None of the Group Companies is a party to, nor has any commitment to become a party to, any joint venture, off-balance sheet partnership or any similar contract, agreement, arrangement or undertaking (including any contract, agreement, arrangement or undertaking relating to any transaction or relationship between or among one or more of the Group Companies, on the one hand, and any unconsolidated Affiliate, including any structured finance, special purpose or limited purpose entity or Person, on the other hand), or any "off-balance sheet arrangements" (as defined in Item 303(a) of Regulation S-K promulgated by the SEC), where the result, purpose or intended effect of such contract, agreement, arrangement or undertaking is to avoid disclosure of any material transaction involving, or material liabilities of, any of the Group Companies in such Group Company's published financial statements or other Company SEC Documents.

(iii) The Company has established and maintains a system of internal control over financial reporting (as defined in Rule 13a-15 or 15d-15, as applicable, under the Exchange Act) sufficient to provide reasonable assurance regarding the reliability of financial reporting, including policies and procedures that (A) mandate the maintenance of records that in reasonable detail accurately and fairly reflect the material transactions and dispositions of the assets of the Company, (B) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP applied on a consistent basis throughout the periods covered thereby, and that receipts and expenditures of the Company are being made only in accordance with appropriate authorizations of management and the board of directors of the Company and (C) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the assets of the Group Companies. There are no material weaknesses in the Company's internal controls. The Company's auditors and the audit committee of the board of directors of the Company have not been advised of any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls over financial reporting. Since the initial public offering of the Company, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting, except for the implementation of certain measures to address the material weakness in the Company's internal control over financial reporting that has been disclosed in the Company SEC Documents.

(iv) There are no outstanding or unresolved comments in any comment letters received from the SEC staff with respect to any Company SEC Document and none of the Company SEC Document is the subject of ongoing SEC review. There are no internal investigations, any SEC inquiries or investigations or other inquiries or investigations conducted by a Governmental Authority pending or, to the knowledge of the Company, threatened, in each case, regarding the Company or any of its officers or directors.

(j) Absence of Changes. Since December 31, 2019, the Company has operated in the ordinary course of business consistent with past practice in all material respects and, without limitation to the generality of the foregoing, there has not been:

(i) any material change in any method of accounting or accounting practice by the Company or any of its Subsidiaries;

(ii) any declaration, setting aside or payment of any dividend or other distribution with respect to any Equity Securities of the Group Companies (except for dividends or other distributions by any Subsidiary of the Company to the Company or to any of the Company's wholly owned Subsidiaries);

(iii) any issuances or sales of shares of capital stock or other securities or obligations convertible or exchangeable into or exercisable for, or giving any person a right to subscribe for or acquire, any securities of any Group Companies or any redemption, share splits, reclassifications, share dividends, share combinations or other recapitalizations of any such securities other than pursuant to the ESOP;

(iv) any amendment to the constitutional documents of any Group Companies;

(v) any redemption or repurchase of any Equity Securities of any Group Companies (except for redemptions or repurchases of any Equity Securities of the Company's wholly owned Subsidiaries by the Company or other wholly owned Subsidiaries of the Company and except for redemptions or repurchases of Class A Ordinary Shares in the form of ADSs with an aggregate value of up to US$20 million effected pursuant to the share repurchase program announced by the Company on April 30, 2020);

(vi) any entry into any contract, agreement, instrument or other document in respect of any of the foregoing; or

(vii) any Material Adverse Effect.

(k) No General Solicitation. Neither the Company, nor any of its Affiliates, nor any Person acting on its or their behalf, has engaged in any form of general solicitation or general advertising (within the meaning of Regulation D promulgated under the Securities Act) in connection with the offer or sale of the Purchased Shares.

(l) No Registration. Assuming the accuracy of the representations and warranties set forth in Sections 3.02(f) and 3.02(g) of this Agreement, it is not necessary in connection with the issuance and sale of the Purchased Shares to register the Purchased Shares under the Securities Act or to qualify or register the Purchased Shares under applicable U.S. state securities laws. No directed selling efforts (as defined in Rule 902 of Regulation S under the Securities Act) have been made by any of the Company, any of its Affiliates or any person acting on its behalf with respect to any Purchased Shares; and none of such Persons has taken any actions that would result in the sale of the Purchased Shares to the Purchaser under this Agreement requiring registration under the Securities Act; and the Company is a "foreign issuer" (as defined in Regulation S).

(m) No Brokers. No broker, investment banker, financial advisor or other Person is entitled to any broker's, finder's, financial advisor's or other similar fee or commission from the Company in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Company.

(n) No Undisclosed Liabilities. There are no material liabilities of the Group Companies of any kind, whether accrued, contingent, absolute, determined, determinable or otherwise, and there is no existing condition, situation or set of circumstances which could reasonably be expected to result in such a liability, other than: (i) liabilities reflected on, reserved against, or disclosed in the Company's unaudited consolidated balance sheet as of December 31, 2019 included in the Company 2019 Preliminary Results Announcement, (ii) liabilities incurred since December 31, 2019 in the ordinary course of business consistent with past practice, (iii) any other undisclosed liabilities that are not material to the Company on a consolidated basis, and (iv) any liabilities incurred under this Agreement. There are no unconsolidated Subsidiaries of the Company or any off-balance sheet arrangements of any type (including any off-balance sheet arrangement required to be disclosed pursuant to Item 303(a)(4) of Regulation S-K promulgated under the Securities Act) that have not been so described in the Company SEC Documents nor any obligations to enter into any such arrangements.

(o) Material Contracts. The Company has filed and made public as exhibits to the Company SEC Documents all contracts, agreements and instruments (including all amendments thereto) to which any Group Company is a party or by which it is bound and which are material to the business of the Group Companies as a whole (the "Material Contracts"), and since the filing of the most recent Company SEC Document filed prior to the date hereof, there has been no material change or amendment to any Material Contract. Each Material Contract is in full force and effect and, to the knowledge of the Company, enforceable against the counterparties of the applicable Group Company which is party thereto, except for the contracts and agreements that have already expired pursuant to the terms therein (which for the avoidance of doubt excludes those contracts or agreements that had been terminated by the other party thereto for cause). The Company and its Subsidiaries and, to the knowledge of the Company, each other party thereto, are not in material default under, or in material breach or violation of, any Material Contract.

(p) Convertible Note Documents. A true and complete copy of each Convertible Note Document (a) is a Company SEC Document as of the date hereof, or (y) has been provided to the Purchaser as of the date hereof. Each Convertible Note Document is in full force and effect and, to the knowledge of the Company, enforceable against the counterparties of the applicable Group Company which is party thereto. The Company and its Subsidiaries and, to the knowledge of the Company, each other party thereto, are not in material default under, or in material breach or violation of, any Convertible Note Document.

(q) Litigation. There are no pending or, to the knowledge of the Company, threatened actions, claims, demands, investigations, examinations, indictments, litigations, suits or other criminal, civil or administrative or investigative proceedings before or by any Governmental Authority or by any other Person against the Group Companies or any proceedings that (i) seek to restrain or enjoin the consummation of the transactions under this Agreement, or (ii) would reasonably be expected to, if ruled against the Group Companies, materially and adversely affect the business of the Group Companies as it is currently conducted.

(r) Ownership of Assets.

(i) The Group Companies have good and marketable title to, or in the case of leased property and assets, have valid leasehold interests in, all property and assets (whether real, personal, tangible or intangible) reflected on the Company's consolidated unaudited balance sheet as of December 31, 2019 or acquired thereafter, except for properties and assets sold since such date in the ordinary course of business consistent with past practice and except where the failure to have such good and marketable title or valid leasehold interests would not materially and adversely affect the business of the Group Companies as it is currently conducted. None of such property or assets is subject to any Lien, except for Liens: (i) disclosed in the Company SEC Documents or (ii) which would not materially and adversely affect the business of the Group Companies as it is currently conducted. To the knowledge of the Company, there are no developments affecting any such property or assets pending or threatened that would materially detract from the value, materially interfere with any present or intended use or materially and adversely affect the marketability of any such property or assets.

(ii) The property and assets owned or leased by the Group Companies, or that they otherwise have the right to use, constitute all of the property and assets used or held for use in connection with the businesses of the Group Companies and are adequate to conduct such businesses in substantially the same manner as currently conducted.

(s) Intellectual Properties. All Company Intellectual Property is either (a) owned by the Group Companies or (b) is used by the Group Companies pursuant to a valid license. The Company Intellectual Property collectively represents in all material respects Intellectual Property necessary and sufficient for the operation of the business of the Group Companies as currently conducted and as currently proposed to be conducted. All employees of a Group Company who are or were involved in the creation of any Intellectual Property for such Group Company have executed an employment agreement which include assignment of inventions provisions that vests in the Group Company exclusive ownership of all right, title and interest in and to such Intellectual Property, to the extent not already provided by Law. To the knowledge of the Company, there are no material infringements or other material violations of any Intellectual Property owned by the Group Companies by any third party. The Group Companies have taken all necessary actions to maintain and protect each item of Company Intellectual Property. The conduct of the business of the Group Companies does not infringe or otherwise violate any intellectual property or other proprietary rights of any other person in any material respects and there is no action or proceeding pending, or to the knowledge of the Company threatened alleging any such infringement or violation or challenging the Group Companies' rights in or to any Intellectual Property, except for any actions or proceedings that, if ruled against the Group Companies, would not reasonably be expected to materially and adversely affect the business of the Group Companies as it is currently conducted.

(t) Employment Matters.

(i) To the knowledge of the Company, each of the Company and its Subsidiaries complies with all applicable Laws relating to employment and employment practices (including terms and conditions of employment, termination of employment and social insurance programs) in all material respects. There is no material claim with respect to payment of wages, salary, overtime pay, withholding individual income taxes, social security fund or housing fund that has been asserted and is now pending or, to the knowledge of the Company, threatened before any Governmental Authority with respect to any Persons currently or formerly employed by the Company or any of its Significant Subsidiaries.

(ii) There has not been, and there is not now pending or, to the knowledge of the Company, threatened, any strike, union organization activity, slowdown or work stoppage against the Company or any of its Significant Subsidiaries. Neither the Company nor any of its Significant Subsidiaries is bound by or otherwise subject to any contract with any labor union or any collective bargaining agreements.

(iii) Each Employee Benefit Plan complies in all material respects with applicable Laws and has been implemented in accordance with its terms. All employer and employee contributions to each Employee Benefit Plan required by the terms of such Employee Benefit Plan or by the applicable Laws have been made, or, if applicable, accrued in accordance with normal accounting practices and in compliance in all material respects with its terms and the requirements of all applicable Laws. Each Employee Benefit Plan required to be registered has been registered and has been maintained in good standing with applicable Governmental Authorities. With respect to each Employee Benefit Plan, (i) no material actions, Liens, lawsuits, claims, proceedings, investigations or complaints are pending or, to the knowledge of the Company, threatened, and (ii) to the knowledge of the Company, no facts or circumstances exist that would reasonably be expected to give rise to any such actions, Liens, lawsuits, claims or complaints.

(u) Tax Matters.

(i) Each Group Company (i) has made or filed in the appropriate jurisdictions all material foreign, federal and state income and all other tax returns, filings, or declarations required to be filed, maintained or made in connection with the calculation, determination, assessment or collection of any and all federal, state, local, foreign and other taxes, levies, fees, imposts, duties, tariffs, custom duties, governmental fees and charges of whatever kind (including any interest, penalties or additions to the tax imposed in connection therewith or with respect thereto) (each a "Tax"), including all amended returns, filings, or declarations required as a result of examination adjustments made by any Governmental Authority responsible for the imposition of any Tax (collectively, the "Returns"), and such Returns are true, correct and complete in all material respects, and (ii) has timely paid all material Taxes when due (whether or not shown on any Return), except those being contested or will be contested in good faith. No Group Company has received notice regarding unpaid foreign, federal and state income in any amount or any Taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and the Company is not aware of any reasonable basis for such claim. No Returns filed or made by or on behalf of any Group Company with respect to material Taxes are currently being audited or otherwise challenged, and no Group Company has received notice of any such audit or challenge.

(ii) Each Group Company is in compliance in all material respects with all terms, conditions and formalities necessary for the continuance of any Tax exemption, Tax holiday, Tax credit, Tax incentive, Tax refund or other Tax reduction agreement or order available under any applicable Law. Each such Tax exemption, Tax holiday, Tax credit, Tax incentive, Tax refund or other Tax reduction agreement or order is expected to remain in full effect throughout the current effective period thereof after the Second Closing Date and, to the knowledge of the Company, is not subject to reduction, revocation, cancellation or any other changes (including retroactive changes) in the future, and no Group Company has received any notice to the contrary or is aware of any event that may result in repeal, cancellation, revocation, or return of such entitlements. Each Group Company is in compliance with all transfer pricing requirements in all jurisdictions in which they are required to comply with applicable transfer pricing regulations, and all the transactions between any Group Company and other related Persons (including any Group Company) have been effected on an arm's length basis. All exemptions, reductions and rebates of any Taxes granted to any Group Company by a Governmental Authority are in full force and effect and have not been terminated as evidenced with valid governmental approvals.

(iii) No Tax elections under the income tax laws of the United States have been made with respect to the Company or any of its Subsidiaries other than Secoo Inc. None of the Company or any of its Subsidiaries is, or is at risk of being or becoming, classified as a "passive foreign investment company" or a "controlled foreign corporation" for United States federal income tax purposes.

(v) Environment, Health and Safety. Each of the Group Companies (i) has at all times complied and are presently in compliance with all applicable Environmental Laws in all material respects; (ii) has not received any notice, demand, claim, letter or request for information, relating to any alleged violation of Environmental Law, or otherwise identifies an environmental concern, health and safety concern or any other concern relating to the security and protection of people, property, flora and fauna relating thereto; (iii) possesses all approvals, consents or authorizations required under Environmental Laws for its business as presently conducted and there are no circumstances that could reasonably be expected to result in any such approvals, consents or authorizations being revoked, terminated, revised, amended or not renewed in the ordinary course of its business. There has been no incident of any occupational disease incurred by any employees of any of the Group Companies due to harmful factors present in their working environment or the nature of their work, and there are no other circumstances or conditions.

(w) Transactions with Affiliates. All related party transactions required to be disclosed under applicable rules of Nasdaq or the applicable securities Laws have been accurately described in the Company SEC Documents as of the date hereof in all material respects. Any such related party transaction was entered into on terms and conditions no less favorable to the Group Companies than those applicable in comparable transactions between independent parties acting at arm's length. None of the officers or directors (or their respective Affiliates) of each Group Company and to the knowledge of the Company, none of the employees (or their respective Affiliates) of each Group Company is presently a party to any material transaction with any Group Company (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director or such employee or any entity in which any such Person has a substantial interest or is an officer, director, trustee or partner or any such Person's Affiliates.

(x) Variable Interest Entities. The Company Controls its variable interest entities, being Beijing Wo Mai Wo Pai Auction Co., Ltd. and Beijing Secoo Trading Limited, through a series of contractual arrangements (the "Control Contracts"), and there is no enforceable agreement or understanding to rescind, amend or change the nature of such captive structure or the terms of the Control Contracts. The Control Contracts are adequate to enable the financial statements of each variable interest entity to be consolidated with those of the Company in accordance with U.S. GAAP.

(y) Investment Company. The Company is not and, after giving effect to the offering and sale of the Purchased Shares, the consummation of the offering and the application of the proceeds hereof, will not be an "investment company," as such term is defined in the U.S. Investment Company Act of 1940, as amended.

(z) Disclosure of Information. All information which has been provided by or on behalf of the Company or its authorized representatives to the Purchaser in the course of the due diligence conducted by the Purchaser and the negotiation leading to this Agreement and the other Transaction Agreements is true, complete and accurate in all material respects.

(aa) No Additional Representations. The Company makes no representations or warranties as to any matter whatsoever except as expressly set forth in this Agreement or in any certificate delivered by the Company to the Purchaser in accordance with the terms thereof.

Section 3.02. Representations and Warranties of the Purchaser. In connection with the transactions provided for herein, the Purchaser hereby represents and warrants to the Company as of the date hereof, the First Closing Date and the Second Closing Date that:

(a) Due Formation. The Purchaser is duly incorporated, validly existing and in good standing under the Laws of the jurisdiction of its incorporation. The Purchaser has all requisite power and authority to carry on its business as it is currently being conducted.

(b) Due Authorization. The Purchaser has full power and authority to enter into, execute and deliver this Agreement and other Transaction Agreements to which it is to become a party and to perform its obligations hereunder and thereunder. The execution and delivery by the Purchaser of this Agreement and each other Transaction Agreement to which it is or is to become a party and the performance by the Purchaser of its obligations hereunder and thereunder have been duly authorized by all requisite actions on its part.

(c) Valid Agreement. This Agreement has been, and each other Transaction Agreement to which it is to become a party will be, duly executed and delivered by the Purchaser and, assuming the due authorization, execution and delivery by the other parties thereto, constitutes (or, when executed and delivered in accordance herewith will constitute), the legal, valid and binding obligation of the Purchaser, enforceable against the Purchaser in accordance with its terms, except as enforcement may be limited by general principles of equity, whether applied in a court of law or a court of equity, and by applicable bankruptcy, insolvency, liquidation, fraudulent transfer, reorganization, moratorium, merger, consolidation, rights of set off, possessory liens and other law affecting creditors' rights and remedies generally and except as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies.

(d) No Violation. The execution, delivery and performance by the Purchaser of this Agreement and other Transaction Agreements do not and will not (i) violate any provision of the organizational documents of the Purchaser or (ii) violate any applicable Laws or Governmental Order to which the Purchaser is subject, except in the case of clause (ii) for violations which would not, individually or in the aggregate, reasonably be expected to materially and adversely affect the ability of the Purchaser to perform its obligations hereunder.

(e) Consents and Approvals. None of the execution and delivery by the Purchaser of this Agreement or any Transaction Agreement, nor the consummation by the Purchaser of any of the transactions contemplated hereby or thereby, nor the performance by the Purchaser of this Agreement or other Transaction Agreements in accordance with their respective terms requires any Consent, except such Consent the lack of which would not, individually or in the aggregate, reasonably be expected to materially and adversely affect the ability of the Purchaser to perform its obligations hereunder and thereunder, and except for any filing or notification required to be made with the SEC regarding the transactions contemplated under this Agreement (including, without limitation, a report of beneficial ownership on Schedule 13D or any amendment to a report of beneficial ownership on Schedule 13D).

(f) Status and Investment Intent. The Purchaser has sufficient knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of its investment in the Purchased Shares. The Purchaser is capable of bearing the economic risks of such investment, including a complete loss of its investment. The Purchaser is acquiring the Purchased Shares that it is subscribing for and purchasing pursuant to this Agreement for investment for its own account for investment purposes only and not with the view to, or with any intention of, resale, distribution or other disposition thereof in a manner that would violate the registration requirements of the Securities Act. The Purchaser is not a "U.S. person" as defined in Rule 902 of Regulation S.

(g) Private Placement. The Purchaser is acquiring the Purchased Shares in an offshore transaction executed in reliance upon the exemption from registration provided by Regulation S under the Securities Act. The Purchaser acknowledges that the Purchased Shares are "restricted securities" that have not been registered under the Securities Act or any applicable Laws. It further acknowledges that, absent an effective registration under the Securities Act, the Purchased Shares may only be offered, sold or otherwise transferred (x) to the Company, (y) outside the United States in accordance with Rule 904 of Regulation S under the Securities Act or (z) pursuant to an exemption from registration under the Securities Act.

(h) No Broker. No broker, investment banker, financial advisor or other Person is entitled to any broker's, finder's, financial advisor's or other similar fee or commission from the Purchaser in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Purchaser.

(i) Sufficient Funds. The Purchaser has or will have at its disposal sufficient funding to pay the First Tranche Purchase Price at the First Closing and the Second Tranche Purchase Price at the Second Closing, and to consummate the transactions contemplated hereby in accordance with the terms hereof.

(j) No Additional Representations. The Purchaser makes no representations or warranties as to any matter whatsoever except as expressly set forth in this Agreement or in any certificate delivered by the Purchaser to the Company in accordance with the terms thereof.

ARTICLE 4
COVENANTS AND ADDITIONAL AGREEMENTS

Section 4.01. Conduct of Business of the Company. From the date hereof until the Second Closing Date, the Company shall (i) conduct its business and operations in the ordinary course of business consistent with past practice, and (ii) not take any action, or omit to take any action, that would reasonably be expected to make any of its representations and warranties in this Agreement untrue at, or as of any time before, the Second Closing Date. The Company agrees to promptly notify the Purchaser in writing of any event, condition or circumstance occurring prior to the Second Closing Date that would constitute a breach of any terms and conditions contained in this Agreement. Without limiting the generality of the foregoing, the Company agrees that from the date hereof until the Second Closing Date, it shall not, except with the prior written consent of the Purchaser, take any of the actions enumerated in Section 3.01(j)(i) through Section 3.01(j)(v) (or enter into any contract with respect to any such action), except, for the avoidance of doubt, as contemplated by this Agreement.

Section 4.02. Listing and Reporting Status. Unless otherwise agreed to in writing by the Purchaser, the Company shall use commercially reasonable efforts to continue the listing and trading of its ADSs on Nasdaq and, in accordance, therewith, will use its commercially reasonable efforts to comply in all respects with the Company's reporting, filing and other obligations under applicable Laws.

Section 4.03. Reservation of Shares. The Company shall ensure that it has sufficient number of duly authorized Class A Ordinary Shares at the First Closing and Second Closing to comply with its obligations to issue the Purchased Shares.

Section 4.04. Certain SEC Filings. The Company shall, as soon as practicable after the date hereof, and in any event no later than June 15, 2020, duly file with the SEC the Company 2019 Annual Report, and shall ensure that when filed with the SEC, (i) the Company 2019 Annual Report will (A) comply in all material respects with the applicable requirements of the Securities Act or the Exchange Act and the Sarbanes-Oxley Act of 2002, as amended, and any rules and regulations promulgated thereunder applicable to the Company 2019 Annual Report and (B) not contain any untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading with respect to the periods covered thereby, and (ii) the 2019 Audited Financial Statements will: (A) comply as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, (B) have been prepared in accordance with U.S. GAAP applied on a consistent basis throughout the periods covered thereby (except as may be otherwise indicated in such financial statements or the notes thereto) and (C) fairly present in all material respects the consolidated financial position of the Group Companies as of the respective dates thereof and the consolidated results of operations and cash flows of the Group Companies for the periods covered thereby.

Section 4.05. Board Restructuring. As soon as practicable after the date hereof, the Company will take and cause to be taken all necessary actions such that, no later than the Second Closing Date, the composition of the board of directors of the Company will satisfy the condition set forth in Section 2.06(c)(viii). Without limitation to the foregoing, the Company shall procure that, as soon as practicable and in any event no later than the Second Closing Date, an existing director of the Company shall resign from the board of directors of the Company, and the Initial Investor Director shall be appointed as a director of the Company to fill the vacancy resulting from the foregoing resignation. Upon the appointment of the Initial Investor Director, the Company shall enter into an indemnification agreement with the Initial Investor Director in substantially the same form as applicable to other members of the board of directors of the Company.

Section 4.06. Further Assurances. From the date hereof until the Second Closing, each Party shall use its reasonable best efforts to fulfill or obtain the fulfillment of the conditions precedent to the other Party's obligation to consummate the transactions contemplated hereby.

Section 4.07. No Integrated Offering. The Company shall not, and shall cause its Affiliates and any Person acting on its or their behalf not to, directly or indirectly, make any offers or sales of any security or solicit any offers to buy any security, under circumstances that would require registration of the issuance of any of the Purchased Shares under the Securities Act whether through integration with prior offerings or otherwise.

Section 4.08. Purchaser Lockup.

(a) The Purchaser hereby agrees that during the period specified in Section 4.08(b) (the "Lock-Up Period"), it will not directly or indirectly (provided that, notwithstanding anything herein to the contrary, nothing in this Agreement shall be deemed to prohibit, restrict or limit any issuance, transfer, sale, assignment or any other disposition of Equity Securities in Qudian Inc. or interests therein), transfer, offer, sell, assign, contract to sell, pledge, grant any option to purchase, sell any option or contract to purchase, purchase any option or contract to sell, grant any right or warrant to purchase, make any short sale, file or otherwise submit a registration statement with respect to, or otherwise dispose of (including entering into any swap or other arrangement that transfers to another, in whole or in part, directly or indirectly, any of the economic consequence of ownership interest), or publicly announce the intention to enter into any such transaction or to take any such other action with respect to, any Purchased Shares or any ADSs representing the Purchased Shares, or any options or warrants to purchase any Purchased Shares or such ADSs (collectively, the "Lockup Shares"), or exercise any right with respect to the registration of any Lockup Shares, or file, cause to be filed or cause to be confidentially submitted any registration statement in connection therewith, under the Securities Act. The foregoing restriction is expressly agreed to preclude the Purchaser, during the Lock-up Period, from engaging in any hedging or other transaction which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of the Lockup Shares even if such sale or disposition would be conducted by someone other than the Purchaser. Such prohibited hedging or other transactions would include without limitation any short sale or any purchase, sale or grant of any right (including without limitation any put or call option) with respect to any Lockup Shares or with respect to any security that includes, relates to, or derives any significant part of its value from the Lockup Shares.

(b) The Lock-Up Period shall commence on the First Closing Date and expire upon the first anniversary of the First Closing Date.

(c) Notwithstanding the foregoing, the Purchaser may (i) transfer the Lockup Shares as a *bona fide* gift or gifts, provided that the donee or donees thereof agree to be bound in writing by the restrictions set forth herein, (ii) transfer the Lockup Shares to any trust for the direct or indirect benefit of the Purchaser or any Affiliate of the Purchaser, provided that the trustee of the trust agrees to be bound in writing by the restrictions set forth herein, and provided further that any such transfer shall not involve a disposition for value, (iii) transfer the Lockup Shares to any Affiliate of the Purchaser, provided that the transferee thereof agrees to be bound in writing by the restrictions set forth herein, or (iv) pledge the Lockup Shares in connection with a *bona fide* margin account or other loan or financing arrangement secured by the Lockup Shares, or (v) with the prior written consent of the Company.

(d) The Purchaser also agrees and consents to the entry of stop transfer instructions with the Company's transfer agent and registrar and the depositary for the ADSs against any transfer of the Lockup Shares that is not permitted by this Section 4.08.

(e) Notwithstanding anything herein to the contrary, this Section 4.08 shall immediately terminate and cease to have any force or effect on the tenth (10^{th}) Business Day following the Second Closing Deadline if the Second Closing has not occurred as of such date due to any reason other than the Purchaser's material breach of any representations, warranties, covenants or other agreements hereunder that results in any of the conditions to Second Closing set forth in Section 2.06 not being satisfied.

Section 4.09. ADSs. Subject to Section 4.08, the Company shall use its reasonable efforts to cause the Company's depositary to deliver ADSs to the Purchaser from time to time upon the Purchaser's deposit of any Purchased Share with the Company's depositary or its designated custodian and the satisfaction of any other customary requirements and, in connection therewith, the Company shall cause new share certificate(s) to be issued and entries on the Company's register of members to be entered with respect to such shares in the name of the Company's depositary, without restrictive legends, for the purpose of such deposit. In connection with the Purchaser's deposit of any Purchased Shares and the issuance of ADSs representing such shares, (i) the Company shall bear fees and expenses, if any, related to the cancellation of any share certificates representing such shares and issuance of new share certificates, the deposit of such shares with the Company's depositary or its designated custodian and related update to the Company's register of members, the issuance of the ADSs representing such Purchased Shares, and if any legal opinion by the counsel to the Company is required in connection with the deposit of such shares, the issuance of such legal opinion, and (ii) the Purchaser shall bear any ADS issuance fees and other charges of the Company's depositary and its custodian.

Section 4.10. Use of Proceeds. The Company will use the proceeds received from the Purchaser in connection with the transactions contemplated by this Agreement for purposes as determined by the board of directors of the Company.

Section 4.11. Convertible Note and Warrant. Without the prior written consent of the Purchaser, the Company shall not (i) amend, waive or agree to the amendment or waiver of, any term of the Convertible Note (other than any such amendment solely to extend the maturity date of the Convertible Note), the Warrant, or the 2018 Investor Rights Agreement; or (ii) conduct or permit the occurrence of any transaction or event that will enable the Convertible Note to be convertible, in whole or in part, into Class A Ordinary Shares of the Company at a per share conversion price of less than US$18.00 or into ADSs at a per ADS conversion price of less than US$9.00.

ARTICLE 5
SURVIVAL OF REPRESENTATIONS AND WARRANTIES; INDEMNITY

Section 5.01. Survival of the Representations and Warranties. The Company Fundamental Warranties and Purchaser Fundamental Warranties shall survive until the latest date permitted by Law or indefinitely if such date is not provided. All other representations and warranties contained in Section 3.01 and Section 3.02 of this Agreement shall survive the First Closing until eighteen (18) months after the First Closing Date. Each covenant and other agreement hereunder shall survive in accordance with its terms. Notwithstanding anything to the contrary in the foregoing clauses, (i) any breach of representation or warranty in respect of which indemnity may be sought under this Agreement shall survive the time at which it would otherwise terminate pursuant to the preceding sentences, if a Claim Notice or an Indemnity Notice, as the case may be, shall have been given to the Party against whom such indemnity may be sought in accordance with this Agreement prior to such time and (ii) any breach of representation or warranty in respect of which indemnity may be sought that was caused as a result of fraud or intentional misrepresentation shall survive until the latest date permitted by Law or indefinitely, if such date is not provided.

Section 5.02. Indemnification.

(a) Indemnification by the Company. From and after the First Closing Date and subject to Section 5.04, the Company shall indemnify and hold the Purchaser, its Affiliates and their respective directors, officers, agents, successors and assigns (the "Purchaser Indemnitees") harmless from and against any losses, claims, damages, liabilities, judgments, fines, obligations, diminution in value, cost and expenses, including but not limited to any investigative, legal and other expenses (collectively, "Losses") incurred by any Purchaser Indemnitee as a result of or arising out of: (i) breach of any representation or warranty of the Company contained in Section 3.01; (ii) failure by the Company to consummate the Second Closing if the Purchaser has confirmed by notice to the Company that all the conditions set forth in Section 2.06 have been satisfied or, if any such condition is not satisfied and the Purchaser is entitled to waive such condition, the Purchaser has irrevocably waived such condition or, if applicable, has not waived such condition but has elected to proceed to the Second Closing under Section 2.04(b), and that the Purchaser is ready, willing and capable of proceeding to the Second Closing; or (iii) violation or nonperformance, partial or total, of any covenant or agreement of the Company contained in this Agreement.

(b) Indemnification by the Purchaser. From and after the First Closing Date and subject to Section 5.04, the Purchaser shall indemnify and hold the Company, its Affiliates (which shall not include any Purchaser Indemnitee) and their respective directors, officers, agents, successors and assigns (the "Company Indemnitees") harmless from and against any Losses incurred by any Company Indemnitee as a result of or arising out of: (i) breach of any representation or warranty of the Purchaser contained in Section 3.02; (ii) failure by the Purchaser to consummate the Second Closing if the Company has confirmed by notice to the Purchaser that all the conditions set forth in Section 2.06 have been satisfied or, if any such condition is not satisfied and the Company is entitled to waive such condition, the Company has irrevocably waived such condition and that the Company is ready, willing and capable of proceeding to the Second Closing; or (iii) violation or nonperformance, partial or total, of any covenant or agreement of the Purchaser contained in this Agreement.

(c) The amount of any and all Losses under this Article 5 shall be determined net of any insurance or other indemnification proceeds received by the Indemnified Party or its Affiliates in connection with the facts giving rise to the right of indemnification net of any cost of receiving insurance or other indemnification proceeds and any increased insurance costs resulting from such claim, including any retroactive or prospective premium adjustments associated with such coverage, as such amounts are determined in accordance with those policies and programs generally applicable from time to time, and only after first applying any available insurance to the portion of a Loss that is not indemnified hereunder.

Section 5.03. Procedures Relating to Indemnification.

(a) Any Person seeking indemnification under Section 5.02 (an "Indemnified Party") shall promptly give the Party from whom indemnification is being sought (an "Indemnifying Party") written notice (the "Indemnity Notice") of any matter which such Indemnified Party has determined has given or would reasonably be expected to give rise to a right of indemnification under this Agreement stating in reasonable detail the factual basis of the claim to the extent known by the Indemnified Party, and containing a reference to the provisions of this Agreement in respect of which such right of indemnification is claimed or arises; *provided* that the failure to provide the Indemnity Notice shall not release the Indemnifying Party from any of its obligations under this Article 5 except to the extent the Indemnifying Party is materially prejudiced by such failure. With respect to any recovery or indemnification sought by an Indemnified Party from the Indemnifying Party that does not involve a Third Party Claim, if the Indemnifying Party does not notify the Indemnified Party within thirty (30) days from its receipt of the Indemnity Notice from the Indemnified Party that the Indemnifying Party disputes such claim, the Indemnifying Party shall be deemed to have accepted and agreed with such claim. If the Indemnifying Party has disputed a claim for indemnification (including any Third Party Claim), the Indemnifying Party and the Indemnified Party shall proceed in good faith to negotiate a resolution to such dispute. If the Indemnifying Party and the Indemnified Party cannot resolve such dispute in thirty (30) days after delivery of the dispute notice by the Indemnifying Party, such dispute shall be resolved by arbitration pursuant to Section 6.12.

(b) If an Indemnified Party shall receive written notice (the "Claim Notice") of any claim or demand asserted by a third party (each, a "Third Party Claim") against it or which may give rise to a claim for Loss under this Article 5, within thirty (30) days of the receipt of the Claim Notice, the Indemnified Party shall give the Indemnifying Party notice of such Third Party Claim; *provided* that the failure to provide such notice shall not release the Indemnifying Party from any of its obligations under this Article 5 except to the extent that the Indemnifying Party is materially prejudiced by such failure. If the Indemnifying Party acknowledges in writing its obligation to indemnify the Indemnified Party hereunder against any Losses that may result from such Third Party Claim, then the Indemnifying Party shall be entitled to assume and control the defense of such Third Party Claim at its expense and through counsel of its choice if it gives notice of its intention to do so to the Indemnified Party within fifteen (15) days of the receipt of such notice from the Indemnified Party; *provided* that that if there exists or is reasonably likely to exist a conflict of interest that would make it inappropriate in the judgment of the Indemnified Party in its sole and absolute discretion for the same counsel to represent both the Indemnified Party and the Indemnifying Party, then the Indemnified Party shall be entitled to retain its own counsel in each jurisdiction for which the Indemnified Party determines counsel is required, at the Indemnifying Party's expense. In the event that the Indemnifying Party exercises the right to undertake any such defense against any such Third Party Claim as provided above, the Indemnified Party shall cooperate with the Indemnifying Party in such defense and make available to the Indemnifying Party, at the Indemnifying Party's expense, all witnesses, pertinent records, materials and information in the Indemnified Party's possession or under the Indemnified Party's control relating thereto as is reasonably required by the Indemnifying Party. Similarly, in the event the Indemnified Party is, directly or indirectly, conducting the defense against any such Third Party Claim, the Indemnifying Party shall cooperate with the Indemnified Party in such defense and make available to the Indemnified Party, at the Indemnifying Party's expense, all such witnesses, records, materials and information in the Indemnifying Party's possession or under the Indemnifying Party's control relating thereto as is reasonably required by the Indemnified Party. No such Third Party Claim may be settled by the Indemnifying Party without the prior written consent of the Indemnified Party.

Section 5.04. Limitation to Liability. Notwithstanding anything to the contrary in this Agreement, absent fraud, intentional misrepresentation or willful breach:

(a) In no event shall any Indemnified Party be entitled to indemnification for any Losses arising from a claim for indemnification pursuant to Section 5.02(a)(i) (other than Company Fundamental Warranties) or Section 5.02(b)(i) (other than Purchaser Fundamental Warranties) unless and until the aggregate amount of all Losses suffered or incurred by the Indemnified Party thereunder exceeds three percent (3%) of (x) if the Second Closing has occurred, the Aggregate Purchase Price, or (y) or if the Second Closing fails to occur, the First Tranche Purchase Price (the "Deductible"), in which case the Indemnifying Party shall be liable only for Losses in excess of the Deductible.

(b) The maximum aggregate liabilities of the Indemnifying Party in respect of Losses suffered by the Indemnified Parties pursuant to Section 5.02(a)(i) (other than Company Fundamental Warranties) or Section 5.02(b)(i) (other than Purchaser Fundamental Warranties) shall not in any event be greater than (x) if the Second Closing has occurred, the Aggregate Purchase Price, or (y) if the Second Closing fails to occur, the First Tranche Purchase Price.

(c) The maximum aggregate liabilities of the Indemnifying Party in respect of Losses suffered by the Indemnified Parties pursuant to Section 5.02(a)(ii) or Section 5.02(b)(ii) shall not in any event be greater than the First Tranche Purchase Price.

(d) Notwithstanding any other provision contained herein, from and after the First Closing, the right to indemnity pursuant to Article 5 shall be the sole and exclusive remedy of any of the Indemnified Party for any claims against the Indemnifying Party arising out of or resulting from this Agreement; *provided* that the Indemnified Party shall also be entitled to specific performance or other equitable remedies in any court of competent jurisdiction pursuant to Section 6.13 hereof.

(e) From and after the occurrence of the Second Closing pursuant to Section 2.04(b) or pursuant to Section 2.04(a) following irrevocable waiver by the Purchaser of any of the conditions set forth in Section 2.06(c)(v), Section 2.06(c)(vi) and Section 2.06(c)(vii), no Indemnified Party shall be entitled to indemnification for any Losses arising from any breach of this Agreement that has resulted in any of the conditions set forth in Section 2.06(c)(v), Section 2.06(c)(vi) and Section 2.06(c)(vii) not having been satisfied as of the Second Closing.

ARTICLE 6
MISCELLANEOUS

Section 6.01. Termination. Without prejudice to the Parties' rights to terminate Section 2.04, Section 2.05, Section 2.06, or Section 4.08 in accordance with the applicable provisions of this Agreement, this Agreement may be terminated at any time prior to the First Closing Date as follows:

(a) by the written consent of each Party;

(b) by the delivery of written notice to terminate by either the Company or the Purchaser if the First Closing shall not have occurred by the date that is the tenth (10^{th}) Business Day after the date hereof; provided, however, that such right to terminate this Agreement under this Section 6.01(b) shall not be available to any party whose failure to fulfill any obligation under this Agreement shall have been the principal cause of, or shall have resulted in, the failure of the First Closing to occur on or prior to such date; or

(c) by any Party in the event that any Governmental Authority shall have issued a Governmental Order restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement and such Governmental Order shall have become final and non-appealable.

Section 6.02. Effect of Termination. Upon any termination of this Agreement pursuant to Section 6.01, this Agreement will have no further force or effect, except for the provisions in this Article 6 which shall survive any termination under Section 6.01; provided that no Party shall be relieved or released from any liabilities or damages arising out of fraud or any breach of this Agreement prior to such termination.

Section 6.03. Public Disclosure. Without limiting any other provision of this Agreement, both the Purchaser and the Company shall consult and agree with each other on the terms and content of a press release of the Company with respect to the execution of this Agreement and the transactions contemplated hereby and no press release shall be issued by any Party hereto without the prior written consent of the other Party. Thereafter, neither the Company nor the Purchaser, nor any of their respective Affiliates, shall issue any press release or other public announcement or communication (to the extent not previously publicly disclosed or made in accordance with this Agreement) with respect to the transactions contemplated hereby without the prior written consent of the other Party (such consent not to be unreasonably withheld, conditioned or delayed), except to the extent a Party's counsel deems such disclosure necessary or desirable in order to comply with the Securities Act, the Exchange Act, or any other Law or the regulations or policies of any securities exchange or other similar regulatory body (in which case the disclosing party shall give the other parties notice as promptly as is reasonably practicable of any required disclosure to the extent permitted by applicable Laws), in which case such Party shall make reasonable efforts to limit such disclosure to the information such counsel advises is required to comply with such applicable Laws. Notwithstanding anything to the contrary in this Section 6.03, the Purchaser and the Company may make public statements in response to specific questions by the press, analysts, investors or those attending industry conferences or financial analyst conference calls, so long as any such statements are not materially inconsistent with previous press releases, public disclosures or public statements made by the Company or the Purchaser and do not reveal material, non-public information regarding the other Parties or the transactions contemplated by this Agreement.

Section 6.04. Confidentiality.

(a) Each Party shall keep confidential any non-public material or information with respect to the business, technology, financial conditions, and other aspects of the other Parties which it is aware of, or have access to, in signing or performing this Agreement (including written or non-written information, hereinafter the "Confidential Information"). Confidential Information shall not include any information that is (a) previously known on a non-confidential basis by the receiving Party, (b) in the public domain through no fault of such receiving Party, its Affiliates or its or its Affiliates' officers, directors or employees, (c) received from a party other than the Company or the Company's representatives or agents, so long as such party was not, to the knowledge of the receiving party, subject to a duty of confidentiality to the Company or (d) developed independently by the receiving Party without reference to confidential information of the disclosing Party. No Party shall disclose such Confidential Information to any third Party. Either Party may use the Confidential Information only for the purpose of, and to the extent necessary for performing this Agreement; and shall not use such Confidential Information for any other purposes. The Parties hereby agree, for the purpose of this Section 6.04, that the existence and terms and conditions of this Agreement shall be deemed as Confidential Information.

(b) Notwithstanding any other provisions in this Section 6.04, if any Party believes in good faith that any announcement or notice must be prepared or published pursuant to applicable Laws (including any rules or regulations of any securities exchange or valid legal process) or information is otherwise required to be disclosed to any Governmental Authority, such Party may, in accordance with its understanding of the applicable Laws, make the required disclosure in the manner it deems in compliance with the requirements of applicable Laws; provided that the Party who is required to make such disclosure shall, to the extent permitted by applicable Laws and so far as it is practicable, provide the other Parties with prompt notice of such requirement and cooperate with the other Parties at such other Parties' request and at the requesting Party's cost, to enable such other Parties to seek an appropriate protection order or remedy. In addition, each Party may disclose, after giving prior notice to the other Parties to the extent practicable under the circumstances and subject to any practicable arrangements to protect confidentiality, Confidential Information to the extent required under applicable Laws, judicial or regulatory process or in connection with any judicial process regarding any legal action, suit or proceeding arising out of or relating to this Agreement; provided that the Party who is required to make such disclosure shall, to the extent permitted by Law and so far as it is practicable, at the other Party's request and at the requesting Party's cost, cooperate with the other Party to enable such other Party to seek an appropriate protection order or remedy.

(c) Notwithstanding anything to the contrary provided in this Section 6.04, each Party may disclose the Confidential Information to its Affiliates and its and its Affiliates' officers, directors, employees, agents and representatives on a need-to-know basis in the performance of this Agreement; provided that such Party shall ensure such persons strictly abide by the confidentiality obligations hereunder.

(d) Without the prior written consent of the Purchaser, the Company shall not, and shall cause its Affiliates not to, (i) use in advertising, publicity or announcements the name of the Purchaser or any of its Affiliates, either alone or in combination with any company name, trade name, trademark, service mark, domain name, device, design, symbol or any abbreviation, contraction or simulation thereof owned by the Purchaser or any of its Affiliates, or (ii) represent, directly or indirectly, that any product or services provided by the Company or any of its Affiliates has been approved or endorsed by the Purchaser or any of its Affiliates.

Section 6.05. Successors and Assigns. Except as otherwise provided herein, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the Parties whose rights or obligations hereunder are affected by such terms and conditions. This Agreement, and the rights and obligations hereunder, shall not be assigned without the mutual written consents of the Parties; provided that the Purchaser may assign its rights and obligations to its Affiliate(s) without consent of the other Parties under this Agreement; provided further that the assignee shall execute and deliver such documents and take such other actions as may be necessary for such assignee to join in and be bound by the terms of this Agreement (if not already a Party hereto) upon and after such assignment.

Section 6.06. Waiver and Amendment. This Agreement may only be amended or modified by an instrument in writing signed by the Parties; provided that any Party may (a) extend the time for the performance of any of the obligations or other acts of another Party, (b) waive any inaccuracies in the representations and warranties of another Party contained herein or in any document delivered by another Party pursuant hereto or (c) waive compliance with any of the agreements of another Party or conditions to such Party's obligations contained herein. Any such extension or waiver shall be valid only if set forth in an instrument in writing signed by the Party to be bound thereby. Any waiver of any term or condition shall not be construed as a waiver of any subsequent breach or a subsequent waiver of the same term or condition, or a waiver of any other term or condition of this Agreement. The failure of any Party to assert any of its rights hereunder shall not constitute a waiver of any of such rights.

Section 6.07. Third Party Beneficiaries. This Agreement shall be binding upon and inure solely to the benefit of the Parties hereto and their respective successors and permitted assigns and, subject to the next sentence, nothing herein, express or implied, is intended to or shall confer upon any other person any legal or equitable right, benefit or remedy of any nature whatsoever, in each case whether arising under Contracts (Rights of Third Parties) Ordinance (Chapter 623 of the Laws of Hong Kong) or otherwise. Notwithstanding the foregoing, the Purchaser Indemnitees and Company Indemnitees are expressly made third party beneficiaries hereto for purposes of their rights under Article 5 and may enforce such rights.

Section 6.08. Entire Agreement. This Agreement and the other Transaction Agreements including the schedules and exhibits hereto and thereto constitutes the entire agreement of the Parties with respect to the subject matter hereof and supersede all prior agreements and undertakings, both written and oral, among the Parties with respect to the subject matter hereof and thereof.

Section 6.09. Notices. All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given or made (and shall be deemed to have been duly given or made upon receipt) by delivery in person, by an internationally recognized overnight courier service, by facsimile or registered or certified mail (postage prepaid, return receipt requested) or electronic mail to the respective Parties at the addresses specified on Exhibit B attached hereto (or at such other address for a Party as shall be specified in a notice given in accordance with this Section 6.09). Where a notice is sent by next-day or second-day courier service, service of the notice shall be deemed to be effected by properly addressing, pre-paying and sending by next-day or second-day service through an internationally-recognized courier a letter containing the notice, with a written confirmation of delivery, and to have been effected at the earlier of (i) delivery (or when delivery is refused) and (ii) expiration of two (2) Business Days after the letter containing the same is sent as aforesaid. Where a notice is sent by facsimile or electronic mail, service of the notice shall be deemed to have been effected on the day the same is sent (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party), if such day is a Business Day and if sent during normal business hours of the recipient, otherwise the next Business Day. Notwithstanding the foregoing, to the extent a "with a copy to" address is designated, notice must also be given to such address in the manner above for such notice, request, consent or other communication hereunder to be effective.

Section 6.10. Severability. In case any provision of this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected thereby. If, however, any provision of this Agreement shall be invalid, illegal, or unenforceable under any such applicable Law in any jurisdiction, it shall, as to such jurisdiction, be deemed modified to conform to the minimum requirements of such Law.

Section 6.11. Governing Law. This Agreement shall be governed by and construed exclusively in accordance with the Laws of Hong Kong, without giving effect to any choice of law or conflict of law provision or rule that would cause the application of the laws of any jurisdictions other than Hong Kong.

Section 6.12. Dispute Resolution.

(i) Any dispute, controversy or claim arising out of, in connection with or relating to this Agreement, including the interpretation, validity, invalidity, breach or termination hereof, shall be settled by arbitration.

(ii) The arbitration shall be conducted in Hong Kong at the Hong Kong International Arbitration Centre in accordance with the HKIAC Administered Arbitration Rules then in effect, which rules are deemed to be incorporated by reference into this subsection (ii). There shall be three (3) arbitrators. The Company shall have the right to appoint one arbitrator, the Purchaser shall have the right to appoint the second arbitrator, and the third arbitrator shall be appointed by the Hong Kong International Arbitration Centre. The arbitration shall be conducted in the English language.

(iii) Each Party shall cooperate with the other in making full disclosure of and providing complete access to all information and documents reasonably requested by the other that are relevant and material to the matters in dispute in connection with such arbitration proceedings, subject only to any doctrine of legal privilege or any confidentiality obligations binding on such Party.

(iv) The costs of arbitration shall be borne by the losing Party, unless otherwise determined by the arbitration tribunal.

(v) When any dispute occurs and when any dispute is under arbitration, except for the matters in dispute, the Parties shall continue to fulfill their respective obligations and shall be entitled to exercise their rights under this Agreement.

(vi) The award of the arbitration tribunal shall be final and binding upon the Parties absent manifest error, and the prevailing Party may apply to a court of competent jurisdiction for enforcement of such award.

(vii) The Parties understand and agree that this provision regarding arbitration shall not prevent any Party from pursuing preliminary equitable or injunctive relief in a judicial forum pending arbitration in order to compel another Party to comply with this provision, to preserve the status quo prior to the invocation of arbitration under this provision, or to prevent or halt actions that may result in irreparable harm. A request for such equitable or injunctive relief shall not waive this arbitration provision.

Section 6.13. Specific Performance. The Parties agree that irreparable damage would occur in the event any provision of this Agreement were not performed in accordance with the terms hereof and that the Parties shall be entitled to specific performance of the terms hereof, in addition to any other remedy at law or equity.

Section 6.14. Payment of Fees and Expenses. The expenses incurred in connection with the negotiation, preparation and execution of this Agreement and other Transaction Agreements and the transactions contemplated hereby and thereby, including fees and expenses of attorneys, accountants, consultants and financial advisors, shall be the responsibility of the Party incurring such expenses.

Section 6.15. Adjustment of Share Numbers. If there is a subdivision, split, stock dividend, combination, reclassification or similar event with respect to any Equity Securities of the Company (including any adjustment to the number of Class A Ordinary Shares represented by each ADS), then, in any such event, references to the numbers, types and unit prices of Equity Securities of the Company in this Agreement shall be equitably adjusted as appropriate.

Section 6.16. Interpretation. For all purposes of this Agreement, except as otherwise expressly provided, (a) the defined terms shall have the meanings assigned to them in its definition and include the plural as well as the singular, and pronouns of either gender or neuter shall include, as appropriate, the other pronoun forms; (b) all references in this Agreement to designated "Sections" and other subdivisions are to the designated Sections and other subdivisions of the body of this Agreement unless explicitly stated otherwise, and all references in this Agreement to designated exhibits are to the exhibits attached to this Agreement unless explicitly stated otherwise, (c) the words "herein," "hereof," and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Section or other subdivision, (d) the titles of the sections and subsections of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement, (e) any reference in this Agreement to any "Party" or any other Person shall be construed so as to include its successors in title, permitted assigns and permitted transferees, (f) any reference in this Agreement to any agreement or instrument is a reference to that agreement or instrument as amended or novated, (g) this Agreement is jointly prepared by the Parties and should not be interpreted against any Party by reason of authorship, (h) "include", "includes", and "including" are deemed to be followed by "without limitation" whether or not they are in fact followed by such words or words of similar import, (i) whenever this Agreement refers to a number of days, that number shall refer to calendar days unless Business Days are specified and whenever any action must be taken under this Agreement on or by a day that is not a Business Day, then that action may be validly taken on or by the next day that is a Business Day, (j) the phrase "delivered" shall mean that the information referred to has been physically or electronically delivered to the relevant parties, (k) references to "writing" or comparable expressions include a reference to facsimile transmission or comparable means of communication (including electronic mail), provided the sender complies with the provisions of Section 6.09, and (l) the word "or" shall be disjunctive but not exclusive.

Section 6.17. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Facsimile and e-mailed copies of signatures shall be deemed to be originals for purposes of the effectiveness of this Agreement.

[Signatures follow on next page]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed on the date first above written.

Secoo Holding Limited

By: /s/ Richard Rixue Li

Name: Richard Rixue Li
Title: Director and Chief Executive Officer

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed on the date first above written.

Qu Plus Plus Limited

By: /s/ Min Luo

Name: Min Luo
Title: Chairperson

EXHIBIT A

Definitions

"2018 Investor Rights Agreement"	means the investor rights agreement by and between the Company and Great World Lux Pte. Ltd dated as of August 8, 2018.
"ADSs"	means the American depositary shares of the Company, two American depositary shares representing one (1) Class A Ordinary Share.
"Affiliate"	means, with respect to a Person, any other Person that, directly or indirectly, Controls, is Controlled by or is under common Control with such Person. In the case of any individual, his or her spouse, child, brother, sister, parent, the relatives of such spouse, trustee of any trust in which such individual or any of his immediate family members is a beneficiary or a discretionary object, or any entity or company Controlled by any of the aforesaid Persons.
"Anti-Corruption Law"	means anti-bribery or anti-corruption related Laws that are applicable to business and transactions of the Group Companies and their respective Affiliates, including Laws relating to anti-corruption and anti-commercial bribery in the PRC, the amended U.S. Foreign Corrupt Practice Act of 1977, as well as applicable anti-bribery or anti-corruption Laws of other jurisdictions.
"beneficial ownership"	For purposes of this Agreement, a Person shall be deemed to have "beneficial ownership" of any securities in respect of which such Person or any such Person's Affiliates is considered to be a "beneficial owner" under Rule 13d-3 under the Exchange Act as in effect on the date hereof.
"Business Day"	means any day that is not a Saturday, Sunday, public holiday or other day on which commercial banks are required or authorized by Law to be closed in the Cayman Islands, British Virgin Islands, New York, Hong Kong, or the PRC.
"Class A Ordinary Shares"	means Class A Ordinary Shares, par value US$0.001 per share, of the Company.
"Class B Ordinary Shares"	means Class B Ordinary Shares, par value US$0.001 per share, of the Company.
"Company Fundamental Warranties"	means any representations and warranties of the Company contained in Section 3.01(a) to Section 3.01(f) and Section 3.01(m).
"Company Intellectual Property"	means all Intellectual Property that is used in connection with, and is material to the business of the Group Companies.
"Company SEC Documents"	means all registration statements, proxy statements and other statements, reports, schedules, forms and other documents required to be filed or furnished by the Company with the SEC pursuant to the Exchange Act and the Securities Act and available to the public at SEC's website, and all exhibits included therein and financial statements, notes and schedules thereto and documents incorporated by reference therein.

"Consent"	means any consent, approval, authorization, release, waiver, permit, grant, franchise, concession, license, exemption or order of, registration, certificate, declaration or filing with, or report or notice to, any Person, including any Governmental Authority.
"Control"	with respect to a Person, the power or authority, whether exercised or not, to direct the business, management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; provided that such power or authority shall conclusively be presumed to exist upon possession of beneficial ownership or power to direct the vote of more than fifty percent (50%) of the votes entitled to be cast at a meeting of the members or shareholders of such Person or power to control the composition of a majority of the board of directors of such Person. The terms "Controlled" and "Controlling" have meanings correlative to the foregoing.
"Convertible Note"	means the convertible note in the aggregate principal amount of US$175,000,000 issued by the Company to Great World Lux Pte. Ltd on August 8, 2018 pursuant to the Convertible Note and Warrant Subscription Agreement.
"Convertible Note and Warrant Subscription Agreement"	means the Convertible Note and Warrant Subscription Agreement, dated July 9, 2018, by and between the Company and Great World Lux Pte. Ltd, as maybe amended, supplemented, modified or varied from time to time.
"Convertible Note Documents"	means the "Transaction Agreements" defined under the Convertible Note and Warrant Subscription Agreement, as maybe amended, supplemented, modified or varied from time to time.
"Data Protection Obligations"	means any applicable Laws, contractual obligations, and written policies and terms of use relating to privacy, information security, network security, cybersecurity, data protection or the Processing of Personal Information, including those governing data breach notification, third-party data transfers, cross-border data transfers and data localization requirements.
"Employee Benefit Plan"	means any written plan, program, policy, contract or other arrangement providing for severance, termination pay, deferred compensation, performance awards, share or share-related awards, housing funds, insurance arrangements, fringe benefits, perquisites, superannuation funds retirement benefits, pension schemes or other employee benefits, that is maintained, contributed to or required to be contributed to by any Group Company for the benefit of any current or former employee, director, officer or independent contractor of any Group Company, or with respect to which any Group Company has or would reasonably expect to have any liability or obligation, other than, in each case, one that is sponsored and maintained by a Governmental Authority. For the avoidance of any doubt, the ESOP is an Employee Benefit Plan.

“Environment”	means land (including, without limitation, surface land, sub-surface strata and natural and man-made structures), water (including, without limitation, coastal and inland waters, surface waters, ground waters and water in drains and sewers), and air.
“Environmental Law”	means all applicable Laws in relation to (i) pollution or contamination of the Environment; (ii) the production, storage, use, transport, disposal, release or discharge of hazardous substances; (iii) the exposure of any person or other living organism to hazardous substances; or (iv) the creation of any noise, vibration or other material adverse impact on the Environment.
“Equity Securities”	means, with respect to any Person that is a legal entity, any and all shares of capital stock, membership interests, units, profits interests, ownership interests, equity interests, registered capital, and other equity securities of such Person, and any right, warrant, option, call, commitment, conversion privilege, preemptive right or other right to acquire any of the foregoing, or security convertible into, exchangeable or exercisable for any of the foregoing, any depository receipts or similar instruments issued in respect of ordinary shares and other equity securities of such Person, or any contract providing for the acquisition of any of the foregoing.
“ESOP”	means the 2017 Employee Stock Incentive Plan of the Company, as disclosed in the Company SEC Documents as of the date hereof.
“Exchange Act”	means the Securities Exchange Act of 1934, as amended, or any successor statute, and the rules and regulations promulgated thereunder.
“Governmental Authority”	means any international, domestic or foreign federal, state or local governmental, regulatory or administrative authority, department, court, agency or official, including any political subdivision thereof.
“Governmental Order”	means any applicable order, ruling, decision, verdict, decree, writ, subpoena, mandate, precept, command, directive, Consent, approval, award, judgment, injunction or other similar determination or finding by, before or under the supervision of any Governmental Authority.

"Group Company"	means each of the Company and its Subsidiaries.
"Intellectual Properties"	means any and all (i) patents, patent rights and applications therefor and reissues, reexaminations, continuations, continuations-in-part, divisions, and patent term extensions thereof, (ii) inventions (whether patentable or not), discoveries, improvements, concepts, innovations and industrial models, (iii) registered and unregistered copyrights, copyright registrations and applications, mask works and registrations and applications therefor, author's rights and works of authorship (including artwork, software, computer programs, source code, object code and executable code, firmware, development tools, files, records and data, and related documentation), (iv) URLs, web sites, web pages and any part thereof, (v) technical information, know-how, trade secrets, drawings, designs, design protocols, specifications, proprietary data, customer lists, databases, proprietary processes, technology, formulae, and algorithms and other intellectual property, (vi) trade names, trade dress, trademarks, domain names, service marks, logos, business names, and registrations and applications therefor, and (vii) the goodwill symbolized or represented by the foregoing.
"Key Metrics"	means "GMV" for the year ended December 31, 2019, "total registered customers" as of December 31, 2019, "total revenues" for the year ended December 31, 2019, "net income" for the year ended December 31, 2019, "inventories" as of December 31, 2019, and "net assets" as of December 31, 2019, each having the same meaning as given to such term in, or as such term was used in, the Company 2019 Preliminary Results Announcement, provided that in the case of "net assets", such term means the excess of "total assets" over "total liabilities", each having the same meaning as given to such term in, or as such term was used in, the Company 2019 Preliminary Results Announcement.
"Company 2019 Preliminary Results Announcement"	means the press release, dated April 30, 2020, titled "*Secoo Reports Unaudited Fourth Quarter and Full Year 2019 Results*" and included as Exhibit 99.1 to the Company's current report on Form 6-K furnished on April 30, 2020.
"knowledge of the Company"	means the actual knowledge of the senior management of the Company after due inquiry.
"Law"	means any transnational, domestic or foreign, state or local law (statutory, common or otherwise), constitution, treaty, convention, ordinance, code, rule, regulation, order, injunction, judgment, decree, ruling or other similar requirement enacted, adopted, promulgated or applied by a Governmental Authority, as amended unless expressly specified otherwise.

"Lien"	means any claim, charge, easement, encumbrance, lease, covenant, security interest, lien, option, pledge, rights of others, or restriction (whether on voting, sale, transfer, disposition or otherwise), whether imposed by contract, understanding, Law, equity or otherwise, except for restrictions arising under the Securities Act or created pursuant to the Transaction Agreements.
"Material Adverse Effect"	with respect to a Party means any event, fact, circumstance or occurrence that, individually or in the aggregate with any other events, facts, circumstances or occurrences, results in or would reasonably be expected to result in a material adverse change in or a material adverse effect on (i) the financial condition, business or operations of such Party and its Subsidiaries taken as a whole, or (ii) the ability of such Party to consummate the transactions contemplated by the Transaction Agreements and to timely perform its obligations hereunder and thereunder; provided that in determining whether a Material Adverse Effect has occurred under clause (i) above, there shall be excluded any events, facts, circumstances or occurrences relating to or arising in connection with (a) changes in generally accepted accounting principles that are generally applicable to comparable companies (to the extent not materially disproportionately affecting such Party and its Subsidiaries), (b) changes in general economic and market conditions and capital market conditions or changes affecting any of the industries in which such Party and its Subsidiaries operate generally (in each case to the extent not materially disproportionately affecting such Party and its Subsidiaries), (c) the announcement or disclosure of this Agreement or any other Transaction Agreement or the consummation of the transactions hereunder or thereunder, or any act or omission required or specifically permitted by this Agreement and/or any other Transaction Agreement; (d) any pandemic, earthquake, typhoon, tornado or other natural disaster or similar force majeure event, (e) in the case of the Company, any failure to meet any internal or public projections, forecasts, or guidance, or (f) in the case of the Company, any change in the Company's stock price or trading volume, in and of itself; provided further that the underlying causes giving rise to or contributing to any such change or failure under sub-clause (e) or (f) shall not be excluded in determining whether a Material Adverse Effect has occurred except to the extent such underlying causes are otherwise excluded pursuant to any of sub-clauses (a) through (d).
"Memorandum and Articles"	means the Memorandum and Articles of Association of the Company in effect from time to time.
"Person"	includes an individual, a partnership (including a limited liability partnership), a company, an association, a joint stock company, a limited liability company, a trust, a joint venture, a legal person, an unincorporated organization and a Governmental Authority.

"Personal Information"	means all information from or about an individual person that is used or could be used to identify, contact or precisely locate the individual.
"Process" or "Processing"	means the receipt, access, acquisition, collection, compilation, use or transfer for use in direct marketing, storage, processing, safeguarding, security, disposal, destruction, disclosure, transfer, or export of Personal Information.
"Purchaser Fundamental Warranties"	any representations and warranties of the Company contained in Section 3.02(a) to Section 3.02(e) and Section 3.02(h).
"SEC"	means the Securities and Exchange Commission of the United States of America or any other federal agency at the time administering the Securities Act.
"Securities Act"	means the Securities Act of 1933, as amended, or any successor statute, and the rules and regulations promulgated thereunder.
"Subsidiary"	of a Person means any other Person which is Controlled by such Person and, for the avoidance of doubt, the Subsidiaries of a Person shall include any variable interest entity over which such Person or any of its Subsidiaries effects control pursuant to contractual arrangements and which is consolidated with such Person in accordance with generally accepted accounting principles applicable to such Person and any Subsidiaries of such variable interest entity.
"Transaction Agreements"	means, collectively, this Agreement, the Investor Rights Agreement, the Business Cooperation Agreement and each of the other agreements and documents entered into or delivered by the Parties or their respective Affiliates in connection with the transactions contemplated by this Agreement.
"U.S. GAAP"	means generally accepted accounting principles in the United States of America.
"Warrant"	means the warrant to purchase American Depositary Shares in an aggregate exercise price of US$9,000,000, issued by the Company to Great World Lux Pte. Ltd on August 8, 2018 pursuant to the Convertible Note and Warrant Subscription Agreement.

Exhibit 4.21

INVESTOR RIGHTS AGREEMENT

THIS INVESTOR RIGHTS AGREEMENT (as maybe amended, supplemented, modified or varied from time to time in accordance with the terms hereof, the "Agreement"), is entered into on June 4, 2020, by and among:

(1) Secoo Holding Limited, an exempted company incorporated with limited liability under the Laws of the Cayman Islands (the "Company"),

(2) Qu Plus Plus Limited, a BVI business company incorporated with limited liability under the Laws of the British Virgin Islands (the "Investor"), and

(3) Rixue Li, the chairman of the board of directors and chief executive officer of the Company (the "Founder").

Each of the forgoing parties is referred to herein individually as a "Party" and collectively as the "Parties."

RECITALS

A. WHEREAS, the Company and the Investor have entered into that certain Share Purchase Agreement, dated as of June 3, 2020 (as maybe amended, supplemented, modified or varied from time to time in accordance with the terms therein, the "Purchase Agreement"), pursuant to which, among other things, the Investor has agreed to purchase from the Company up to 10,204,082 Class A Ordinary Shares, par value US$0.001 per share, of the Company.

B. WHEREAS, in connection with the transactions contemplated by the Purchase Agreement, the Parties desire to enter into this Agreement to govern certain of their rights, duties and obligations in relation to the transactions contemplated by the Purchase Agreement.

NOW THEREFORE, in consideration of the foregoing and the mutual covenants and agreements herein contained, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the Parties agree as follows:

AGREEMENT

ARTICLE 1

DEFINITIONS.

1.1. Definitions. The following terms shall have the following meanings:

"ADS" has the meaning as set forth in the Purchase Agreement.

"Affiliate" has the meaning as set forth in the Purchase Agreement.

"Agreement" has the meaning set forth in the Preamble.

"Aggregate Call Price" has the meaning set forth in Section 4.1(a).

"beneficial ownership" has the meaning as set forth in the Purchase Agreement. The terms "beneficial owner" and "beneficially own" have the correlative meanings.

"Board" means the board of directors of the Company.

"Business Day" means any day that is not a Saturday, Sunday, public holiday or other day on which commercial banks are required or authorized by Law to be closed in the British Virgin Islands, Cayman Islands, New York, Hong Kong, or the PRC.

"Call Notice" has the meaning set forth in Section 4.1(c).

"Call Option" has the meaning set forth in Section 4.1(a).

"Call Option Period" has the meaning set forth in Section 4.1(b)(i).

"Call Option Trigger Event" has the meaning set forth in Section 4.1(b)(ii).

"Call Price Per Share" has the meaning set forth in Section 4.1(b)(iii).

"Cause" means with respect to any removal of a director, removal of such director because of such director's (i) willful misconduct that is materially injurious to the Company or any of its Subsidiaries, or (ii) conviction for, or guilty plea to, a felony or a crime involving moral turpitude.

"CB Repayment Loan" has the meaning set forth in Section 3.4(f).

"Class A Ordinary Shares" has the meaning as set forth in the Purchase Agreement.

"Class B Ordinary Shares" has the meaning as set forth in the Purchase Agreement.

"Closing of Call Option" has the meaning set forth in Section 4.1(d).

"Company Securities" means (i) the ordinary shares of the Company, (ii) securities convertible or exercisable into, or exchangeable for, ordinary shares of the Company, (iii) any other equity or equity-linked security issued by the Company and (iv) options, warrants or other rights to acquire any of the foregoing; for the avoidance of doubt, "Company Securities" include the ADS.

"Company" has the meaning set forth in the Preamble.

"Control" has the meaning as set forth in the Purchase Agreement.

"Convertible Note" has the meaning as set forth in the Purchase Agreement.

"ESOP" has the meaning as set forth in the Purchase Agreement.

"Excess Amount" has the meaning set forth in Section 3.1(a).

"Exercise Period" has the meaning set forth in Section 3.2(a)(iii).

"Founder" has the meaning set forth in the Preamble.

"Founder Bank Account" has the meaning set forth in Section 4.1(d).

"Founder Tag-Along Base Amount" has the meaning set forth in Section 3.2(b).

On a "fully diluted basis" means, for the purpose of calculating share numbers of the Company, that the calculation is to be made assuming that all outstanding options, warrants and other Equity Securities directly or indirectly convertible into or exercisable or exchangeable for the ordinary shares in the share capital of the Company (whether or not by their terms then currently convertible, exercisable or exchangeable), and Equity Securities which have been reserved for issuance pursuant to the ESOP or granted as awards pursuant any share incentive plans adopted by the Company after the date hereof, have been so converted, exercised, exchanged or issued.

"Group Company" has the meaning as set forth in the Purchase Agreement.

"Investor Director" has the meaning set forth in Section 2.1(a).

"Investor" has the meaning set forth in the Preamble.

"Issuance Period" has the meaning set forth in Section 3.3(b).

"Issuance Securities" has the meaning set forth in Section 3.3(a).

"Law" has the meaning as set forth in the Purchase Agreement.

"Lien" has the meaning as set forth in the Purchase Agreement.

"Memorandum and Articles" means the Memorandum and Articles of Association of the Company in effect from time to time.

"Necessary Action" means, with respect to any Party and a specified result, all actions (to the extent such actions are permitted by law and within such Party's control) necessary or desirable to cause, or in furtherance of, such result, including (i) voting or providing a written consent or proxy, (ii) voting in favor of or against (as applicable) the adoption of shareholder resolutions and amendments to the charter documents of any Person, (iii) executing agreements and instruments, and (iv) making, or causing to be made, with governmental, administrative or regulatory authorities, all filings, registrations or similar actions that are required to achieve such result.

"Option Shares" has the meaning set forth in Section 4.1(a).

"Person" means an individual, corporation, partnership, limited liability company, trust, business trust, association, joint stock company, joint venture, sole proprietorship, unincorporated organization, governmental authority or any other form of entity not specifically listed herein.

"PRC" means the People's Republic of China and solely for the purpose of this Agreement, excluding Hong Kong, Macau and Taiwan.

"Preemptive Acceptance Period" has the meaning set forth in Section 3.3(a).

"Preemptive Offer Notice" has the meaning set forth in Section 3.3(a).

"Preemptive Offer" has the meaning set forth in Section 3.3(a).

"Private Debt Financing Notice" has the meaning set forth in Section 3.4(b).

"Private Debt Financing Offer Period" has the meaning set forth in Section 3.4(b)

"Pro Rata Share" has the meaning set forth in Section 3.3(a).

"Public Debt Financing Notice" has the meaning set forth in Section 3.4(d).

"Public Debt Financing Offer Period" has the meaning set forth in Section 3.4(d).

"Purchase Agreement" has the meaning set forth in the Recitals.

"Right of First Refusal" has the meaning set forth in Section 3.2(a).

"ROFO" has the meaning set forth in Section 3.4(d).

"ROFO Exercise Notice" has the meaning set forth in Section 3.4(d).

"ROFO Terms" has the meaning set forth in Section 3.4(d).

"Sale Notice" has the meaning set forth in Section 3.2(a).

"Second Closing" has the meaning as set forth in the Purchase Agreement.

"Second Closing Date" has the meaning as set forth in the Purchase Agreement.

"Second Closing Deadline" has the meaning as set forth in the Purchase Agreement.

"Second Closing Failure" means Sections 2.04, 2.05 and 2.06 of the Purchase Agreement having been duly terminated pursuant to Section 2.07 of the Purchase Agreement.

"Step-in Right" has the meaning set forth in Section 3.4(f).

"Subject Securities" has the meaning set forth in Section 3.2(a).

"Subsidiary" has the meaning as set forth in the Purchase Agreement.

"Tag-Along Right" has the meaning set forth in Section 3.2(a)(i).

"Tag-Along Sale" has the meaning set forth in Section 3.2(d).

"Threshold Amount" has the meaning set forth in Section 3.1(a).

"Threshold Amount Provisions" has the meaning set forth in Section 6.1.

"Transaction Agreements" has the meaning as set forth in the Purchase Agreement.

"Transfer" means to transfer, sell, assign, distribute, pledge, encumber, hypothecate, assign, exchange, or in any other way directly or indirectly dispose of, in whole or in part, either voluntarily or involuntarily, directly or indirectly through any intermediary, including by gift, by way of merger (forward or reverse), issuance of equity interests in a holding vehicle or similar transaction, by operation of law or otherwise, any security or any legal or beneficial interest therein, including the grant of an option, preemptive rights, participation rights, right of first refusal, right of first offer, or other right or interest that, when exercised or realized, would result in the transferor no longer having the economic consequences of ownership in, or the power to vote, such security or assets (or any portion thereof).

"Warrant" has the meaning as set forth in the Purchase Agreement.

ARTICLE 2

BOARD MATTERS.

2.1. Board Representation.

(a) The Company agrees to take all Necessary Action to ensure that the Board shall consist of seven (7) directors as of the Second Closing Date, which shall include four (4) independent directors and one (1) director appointed by the Investor (the "Investor Director").

(b) At all times after the Second Closing Date, the Investor shall have the right to appoint the Investor Director by written notice to the Board. The Company and the Board shall take all Necessary Action to cause the election or re-election of the Investor Director as director of the Board, and to vote against any proposal that would preclude the Investor Director duly designated by the Investor from being elected or re-elected. The Company further agrees not to seek, vote for or otherwise effect the removal (except for removal for Cause and such Cause is reasonably substantiated and demonstrated by the Company to the Investor) of the Investor Director without the prior written consent of the Investor.

2.2. Removal and Replacement; Vacancies. The Investor shall have the right to request (by written notice to the Board) the removal and/or replacement of the Investor Director, following which the Company and the Board shall take all Necessary Action to cause the removal of such incumbent Investor Director as a director of the Company and the appointment of any individual designated by the Investor as the Investor Director. If, following election to the Board, the Investor Director resigns, is removed in accordance with the Memorandum and Articles (subject always to Section 2.1(b)) or is unable to serve for any reason prior to the expiration of his or her term as a director, then the Investor shall have the right to designate a replacement, who shall then be elected as a director of the Company in accordance with Section 2.1.

2.3. Board Participation. The Investor Director shall be entitled to and shall have the same rights, capacities, entitlements, compensation, if any, indemnification and insurance in connection with his or her role as a director as other members of the Board. The Investor Director shall also be entitled to reimbursement and shall be reimbursed for all documented, out-of-pocket expenses properly incurred in connection with the performance of his or her services as a director of the Company, including without limitation out-of-pocket expenses incurred in attending meetings of the Board, to the same extent as other members of the Board. The Company shall, upon the appointment of the Investor Director, enter into an indemnification agreement in substantially the same form as applicable to other members of the Board with the Investor Director. In addition, the Investor Director shall be entitled to coverage and shall be insured under the Company's director's and officers' liability insurance effective upon his or her appointment to the Board, with the same coverage as, and containing the same terms and conditions as, those available to other members of the Board.

2.4. No Inconsistent Amendments. For so long as the Investor has the right to designate an Investor Director, the Company shall not amend or seek to amend the Memorandum and Articles in any manner (or take any other action) that would adversely affect in any material respect the Investor's rights under this ARTICLE 2 or the Company's ability to comply with its obligations under this ARTICLE 2. In addition, the Company and the Board shall ensure, to the extent lawful, at all times that the Memorandum and Articles and other by-laws and corporate governance policies and guidelines of the Company are not at any time inconsistent with this ARTICLE 2.

ARTICLE 3

CERTAIN COVENANTS AND AGREEMENTS.

3.1. Restrictions on Transfer.

(a) The Founder shall not, except in compliance with Section 3.1(b), Transfer any Company Securities if the Companies Securities proposed to be Transferred, when aggregated with all the Company Securities that, as of the time of the proposed Transfer, have been Transferred by the Founder after the date of this Agreement, exceed (on an as-converted and as-exercised basis) 1,314,285 Class A Ordinary Shares (the "Threshold Amount") (such excess, the "Excess Amount"). For the avoidance of doubt, for purposes of this Agreement, (x) a Transfer of any Company Securities by a Person Controlled by the Founder shall be deemed a Transfer of an equal number of Company Securities by the Founder, and (y) a Transfer or issuance of equity securities in any Person that is Controlled by the Founder and beneficially owns any Company Securities to any third party shall be deemed a Transfer by the Founder of (A) a proportional amount of Company Securities beneficially owned by such Person if such Person remains Controlled by the Founder after such Transfer or issuance, or (B) all of the Company Securities beneficially owned by such Person if otherwise.

(b) Notwithstanding anything to the contrary in Section 3.1(a), Section 3.1(a) shall not apply to any Transfer by the Founder of Company Securities (i) pursuant to an exercise by the Investor of the Call Option, (ii) to his spouse, children or trusts Controlled by him solely for tax or estate planning purposes; (iii) upon the death or incapacity of the Founder and pursuant to the terms of any trust or will of the Founder or by the Law of intestate succession; or (iv) to any Affiliate of the Founder that is directly or indirectly wholly-owned by the Founder, provided that in each case of (ii), (iii) and (iv), the transferee thereof agrees in writing to be bound by the restrictions and obligations applicable to the Founder set forth herein. Notwithstanding anything to the contrary in Section 3.1(a), after the Closing of Call Option, Section 3.1(a) shall cease to apply to any Transfer of Company Securities by the Founder upon the earlier of (x) the Investor having appointed a majority of the non-independent directors of the Company and (y) the close of business on the fifth (5^{th}) Business Day following the date on which the Company, the Board or its applicable committee (or their respective authorized representative) delivered a written notice to the Investor specifically requesting that the Investor designate a number of non-independent directors of the Company that, when aggregated with the existing non-independent directors of the Company already appointed by the Investor, would constitute a majority of the non-independent directors of the Company, if the Investor shall have failed to, within such five (5) Business Day period, respond to such notice by proposing candidates for such non-independent directors.

3.2. Right of First Refusal and Tag-Along Right.

(a) Without prejudice to Section 3.1, in the event the Founder intends to make any Transfer that is not permitted by Section 3.1, the Founder shall first deliver to the Company and Investor a written notice (a "Sale Notice"), which shall state the Founder's intention to Transfer Company Securities, the amount and type of Company Securities to be Transferred (the "Subject Securities"), the proposed purchase price per share of Subject Securities (including the cash value of any non-cash consideration) (unless the Subject Securities will be sold on public market to unspecified purchasers), the identity of the proposed purchaser(s) (unless the Subject Securities will be sold on public market to unspecified purchasers), the terms of payment of such purchase price and a summary of the other material terms of the proposed Transfer. The Investor shall have the right and option to purchase all or any portion of the Subject Securities (the "Right of First Refusal") as follows:

(i) If the Subject Securities will be sold in means other than on public market to unspecified purchasers, the Investor shall have the right and option, for a period of five (5) Business Days after delivery of the Sale Notice, to irrevocably elect to exercise its right (i) to purchase all or any portion of the Subject Securities (as elected by the Investor, provided that such amount shall in no event exceed the Excess Amount) at the same price per share to be paid and upon the same terms offered by the proposed purchaser, or (ii) to sell to the proposed purchaser, up to certain number of shares of Company Securities beneficially owned by it as set forth in Section 3.2(b) below, at the same price per share to be paid and upon the same terms offered by the proposed purchaser (the "Tag-Along Right"). The Investor's acceptance hereunder shall be made by delivering a written notice setting forth its irrevocable election to the Founder within such five (5) Business Days' period.

(ii) If the Subject Securities will be sold on public market to unspecified purchasers, the Investor shall have the right and option, on the same date of the Sale Notice, to irrevocably elect to exercise its right to purchase all or any portion of the Subject Securities (as elected by the Investor, provided that such amount shall in no event exceed the Excess Amount) at a price per share implied by the price per ADS equal to the closing price of the ADS on the Nasdaq on the trading day immediately preceding the date of the Sale Notice. The Investor's acceptance hereunder shall be made by delivering a written notice setting forth its irrevocable election to the Founder on the date on which the Sale Notice is delivered. The Investor shall not be entitled to exercise its Tag-Along Right with respect to the Subject Securities if the Subject Securities will be sold on public market to unspecified purchasers.

(iii) The five (5) Business Days' period and the date on which the Sale Notice is delivered in the event of a sale by the Founder on public market to unspecified purchasers, as applicable, shall be referred to as the "Exercise Period".

(b) The number of shares of Company Securities that the Investor has the right to sell pursuant to the exercise of Tag-Along Right shall be equal to the product of (x) a fraction, the numerator of which is the number of shares of Company Securities beneficially owned by the Investor as of the date of the Sale Notice and the denominator of which is the aggregate number of shares of Company Securities beneficially owned by the Investor and the Founder Tag-Along Base Amount as of the date of the Sale Notice and (y) the lower of the Excess Amount and the number of Subject Securities. The Tag-Along Right may be exercised in whole or in part at the option of the Investor; provided that notice of the Investor's intention to exercise its Tag-Along Right, in whole or in part, shall be evidenced by the written notice delivered in compliance with Section 3.2(a)(i). For purposes hereof, "Founder Tag-Along Base Amount" means the total number of Company Securities beneficially owned by the Founder, less, if any, the excess of the number of Subject Securities over the Excess Amount.

(c) If the Investor elects to exercise its Right of First Refusal pursuant to Section 3.2(a), the Investor and the Founder shall execute and deliver such customary documents and agreements reasonably necessary to consummate the sale to the Investor of such number of Subject Securities as elected by the Investor, and the closing of such sale shall, unless otherwise agreed to by the Founder and the Investor, occur no later than twenty (20) Business Days after the Investor having elected to exercise its Right of First Refusal.

(d) If the Investor elects to exercise its Tag-Along Right pursuant to Section 3.2(a), the Investor shall join the Founder in the sale of Company Securities to the proposed purchaser (a "Tag-Along Sale") and the number of shares of Subject Securities that the Founder shall be entitled to sell in such sale shall be reduced by the number of shares of Company Securities elected to be sold by the Investor pursuant to Section 3.2(b). In connection with any Tag-Along Sale, the Investor, the Founder and/or the Company shall take all Necessary Action to support the consummation of the Tag-Along Sale, and the Investor shall execute all documents, including a sale or purchase agreement, reasonably requested by the Company or the Founder containing the terms and conditions of the Tag-Along Sale; *provided* that (i) the Investor shall not be required to make any representations or warranties or undertake any indemnification obligations in any agreement relating to a Tag-Along Sale other than representations and warranties and indemnification obligations relating to the Investor and the ownership of its shares of Company Securities that are customary in similar transactions including representations and warranties relating to title, authorization and execution and delivery, (ii) the Investor shall receive the same form of consideration as the Founder, and if the Founder is given an option as to the form and amount of consideration to be received, the Investor shall be given the same option, and (iii) the Investor shall not be required to undertake any non-compete obligation.

(e) If, upon the expiration of the Exercise Period, the Investor has consented in writing to the proposed Transfer contemplated by the Sale Notice and has elected not to exercise its Right of First Refusal nor its Tag-Along Right, then, notwithstanding Section 3.1(a), the Founder may, within thirty (30) Business Days after delivery of such written consent from the Investor, conclude a Transfer of the Subject Securities, which Transfer shall be at a price not less than the price set forth in, and otherwise on the terms and conditions not less favorable to such proposed purchaser than those stated in, the Sale Notice. Any Subject Securities not Transferred within such thirty (30) Business Days' period in compliance with this Section 3.2(e) shall again be subject to the Right of First Refusal and Tag-Along Right of the Investor pursuant to this Section 3.2, and may not be Transferred unless the procedures set out in this Section 3.2 have again been fully complied with.

3.3. Preemptive Rights. The Company shall not issue any Company Securities, except in accordance with the following procedures:

(a) The Company shall deliver to the Investor a written notice (a "Preemptive Offer Notice") which shall (i) state the intention of the Company to issue Company Securities to one or more Persons, the amount and type of Company Securities to be issued (the "Issuance Securities"), the purchase price therefor and a summary of the other material terms of the proposed issuance and (ii) offer the Investor the option to acquire all or any portion of the Issuance Securities (the "Preemptive Offer"). The Investor shall have the right and option, for a period of fifteen (15) Business Days after delivery of the Preemptive Offer Notice (the "Preemptive Acceptance Period"), to elect to purchase its Pro Rata Share of all or any portion of the Issuance Securities at the purchase price and on the terms stated in the Preemptive Offer Notice. Such acceptance shall be made by the Investor by delivering a written notice to the Company within the Preemptive Acceptance Period specifying the number of shares of the Issuance Securities the Investor will purchase. The Investor's "Pro Rata Share" for purposes of this Section 3.3 is the ratio of (a) the number of ADSs and/or ordinary shares of the Company held by the Investor on the date of the Preemptive Offer Notice, to (ii) the total number of issued and outstanding shares in the capital of the Company on the date of the Preemptive Offer Notice.

(b) If valid acceptance shall not be received pursuant to Section 3.3(a) above with respect to all of the Issuance Securities offered pursuant to the Preemptive Offer Notice, then the Company may issue all or any portion of such Issuance Securities so offered and not so accepted, at a price not less than the price, and on terms not less favorable to the Company than those specified in the Preemptive Offer Notice at any time within sixty (60) days after the expiration of the Preemptive Acceptance Period (the "Issuance Period"); *provided* that, if such issuance is subject to regulatory approval, such sixty (60) days' period shall be extended until the tenth (10^{th}) Business Day after all such regulatory approvals having been obtained. In the event that all of the Issuance Securities are not so issued by the Company during the Issuance Period, the right of the Company to issue such unsold Issuance Securities shall expire and the obligations of this Section 3.3 shall be reinstated and such securities shall not be offered unless first reoffered to the Investor in accordance with this Section 3.3.

(c) If the Investor has elected to purchase less than all of the Issuance Securities pursuant to Section 3.3(a), the sale of Issuance Securities to the Investor subject to any Preemptive Offer Notice shall be consummated contemporaneously with the sale of the Issuance Securities that the Investor has not elected to purchase. The delivery of certificates or other instruments evidencing such Issuance Securities shall be made by the Company upon written request of the Investor or the purchaser thereof on such date against payment of the purchase price for such Issuance Securities.

(d) Notwithstanding anything to the contrary in this Section 3.3, the pre-emptive right hereunder shall not apply to any sale, offer or issuance of Company Securities: (i) to employees, officers or consultants pursuant to any ESOP or similar share-based incentive plan approved by the Board in accordance with the Memorandum and Articles, (ii) in connection with any exercise of conversion rights by any Person holding the Convertible Note or the Warrant, or any Company Securities issued in compliance with the procedures set forth in this Section 3.3, (iii) any Company Securities issued in connection with any share split, share dividend or any share subdivision or other similar event in which all shareholders of the Company are entitled to participate on a pro rata basis, or (iv) pursuant to a merger or acquisition transaction involving any Group Company duly approved in accordance with the Memorandum and Articles.

3.4. Debt Financing.

(a) Except with the Investor's prior written consent (which consent may be withheld or conditioned at the Investor's sole discretion), the Company may not, and shall ensure that no other Group Company will, obtain any debt financing except in accordance with this Section 3.4.

(b) If any Group Company intends to obtain any debt financing other than through the issuance of debt instruments in the public market, the Company shall first deliver to the Investor a written notice (a "Private Debt Financing Notice"), which shall state the applicable Group Company's intention to obtain private debt financing, the amount and type of such proposed debt financing, the identity of the proposed provider of such debt financing, and all material terms of such proposed debt financing. The Investor shall have the right and option, for a period of ten (10) Business Days after delivery of the Private Debt Financing Notice (the "Private Debt Financing Offer Period"), to irrevocably elect to exercise its right to provide debt financing to the applicable Group Company on such terms and conditions not less favorable to the applicable Group Company than those offered by the proposed provider of debt financing (in which case the Company shall, or shall procure the applicable Group Company to, promptly enter into such private debt financing with the Investor or its applicable Affiliate in lieu of the proposed provider of such debt financing).

(c) If, upon the expiration of the Private Debt Financing Offer Period, the Investor has not elected to exercise its right to provide private financing pursuant to Section 3.4(b), the applicable Group Company shall have sixty (60) days thereafter to conclude the proposed debt financing, which debt financing shall be on the terms and conditions as set forth in the Private Debt Financing Notice. If the definitive documents for such debt financing shall not have been entered into during such sixty (60) days' period, thereafter, such debt financing shall again be subject to the requirements set forth in Section 3.4(b), and the Company may not, and shall ensure that no other Group Company will, obtain any debt financing (other than debt financing obtained through the issuance of debt instruments in the public market, in which case the procedures set out in Sections 3.4(d) and 3.4(e) shall have been complied with) unless the procedures set out in Sections 3.4(b) and 3.4(c) have again been fully complied with.

(d) If any Group Company intends to obtain any debt financing through the issuance of debt instruments in the public market, the Company shall first deliver to the Investor a written notice (a "Public Debt Financing Notice") which shall state the applicable Group Company's intention to obtain such public debt financing and the amount of such proposed public debt financing. The Investor shall have the right and option, for a period of ten (10) Business Days after delivery of the Public Debt Financing Notice (the "Public Debt Financing Offer Period"), to irrevocably elect to exercise its right to provide debt financing to the applicable Group Company (the "ROFO") in such amount as specified in the Public Debt Financing Notice by delivery of a written notice to the applicable Group Company (the "ROFO Exercise Notice"), setting forth all material terms of such proposed debt financing (the "ROFO Terms"). The ROFO Exercise Notice shall be irrevocable and shall constitute a binding agreement by the Investor to provide debt financing at the ROFO Terms. The failure of the Investor to give a ROFO Exercise Notice within the Public Debt Financing Offer Period shall be deemed to be a waiver by the Investor of its ROFO; provided that the Investor may waive its ROFO prior to the expiration of the Public Debt Financing Offer Period by giving written notice to the Company.

(e) The applicable Group Company may, at its sole discretion, elect to accept the ROFO Terms within ten (10) Business Days after delivery of the ROFO Exercise Notice. If, upon the expiration of such ten (10) Business Days' period, the applicable Group Company has not elected to accept the ROFO Terms, the applicable Group Company shall have ninety (90) days thereafter to conclude the public debt financing on terms and conditions that are, in the aggregate, not materially less favorable to the Company than the ROFO Terms. If the public debt offering fails to be concluded during such ninety (90) days' period, such public debt offering shall again be subject to the requirements set forth in Section 3.4(d), and the Company may not, and shall ensure that no other Group Company will, obtain any debt financing through the issuance of debt instruments on the public market unless the procedures set out in Sections 3.4(d) and 3.4(e) have again been fully complied with.

(f) The requirements of this Section 3.4 shall not apply to any CB Repayment Loan. For purposes hereof, "CB Repayment Loan" means a loan that satisfies each of the following requirements: (i) the annual interest of such loan does not exceed 8% (compounded annually); (ii) the aggregate principal amount of such loan does not exceed the then aggregate outstanding amount (including principal and any accrued but unpaid interest) under the Convertible Note; (iii) the maturity date of such loan is no later than two (2) years following initial utilization; (iv) all of the net proceeds received by the Company from such loan will be promptly applied towards the repayment of the outstanding amount under the Convertible Note; and (v) the definitive documents for such loan (as may be amended, modified and varied from time to time) shall provide that the Investor and any of its Affiliates shall have the right (but not the obligation) to, (x) following any amount having become past due thereunder, repay the entire then-outstanding amount under the loan in full, and (y) following any other default thereunder, cure such default (in each case of (x) and (y), on behalf of the Company) (the "Step-in Right"), and that, unless the lender of such loan has notified the Investor in writing that the Step-in Right has become exercisable and the Investor and its Affiliates have not validly exercised the Step-in Right within thirty (30) days after receipt of such notice, the lender may not: (A) take possession or cause the disposal of any Company Securities or any of the Group Companies' assets, (B) exercise any right with respect to the operations, management, financials, personnel or any other material aspect of any Group Company, (C) seek or initiate any litigation, arbitration, bankruptcy proceeding, injection, asset preservation or other interim measure, or any other legal proceedings, against any Group Company, or (D) transfer or assign such loan or any rights therein, or permit any Person other than the Investor to repay any amount of such loan on behalf of any Group Company or cure any other default thereunder. Prior to entering into any CB Repayment Loan, the Company shall notify the Investor in writing of the proposed key terms and conditions of the CB Repayment Loan (including those with respect to the requirements set forth above) reasonably in advance and shall provide the Investor with drafts of the definitive documents for the CB Repayment Loan for review and comments (which comments the Company will reasonably consider). The Company shall keep the Investor promptly informed of any event or circumstance that has resulted in, or is reasonably expected to result in, the Step-in Right becoming exercisable, and may not amend, modify, vary or waive any provision of the CB Repayment Loan if such amendment, modification, variation or waiver would result in such loan ceasing to qualify as a CB Repayment Loan as provided herein.

ARTICLE 4

CALL OPTION

4.1. Call Option.

(a) The Founder hereby irrevocably grants to the Investor the right and option (the "Call Option"), exercisable once at any time during the Call Option Period, to acquire from the Founder, for an aggregate purchase price of US$50,000,000 (the "Aggregate Call Price"), a number of Class A Ordinary Shares beneficially owned by the Founder equal to the Aggregate Call Price divided by the Call Price Per Share (rounded up to the nearest whole number) (the "Option Shares").

(b) For purposes hereof,

(i) "Call Option Period" means the period commencing on (and including) the date of the Call Option Trigger Event, and ending on (and including) the date of termination of this Section 4.1 in accordance with Section 6.1.

(ii) "Call Option Trigger Event" means the first of the following to occur:

(1) any portion of the aggregate amount (including principal and any accrued but unpaid interest) outstanding under the Convertible Note shall have been converted into Class A Ordinary Shares at a conversion price of less than US$18.00 per Class A Ordinary Share, or converted into ADSs at a conversion price of less than US$9.00 per ADS, or converted into any Company Security other than Class A Ordinary Shares or ADSs;

(2) as of the maturity date of the Convertible Note (taking into account any extension permitted by Section 4.11 of the Purchase Agreement), less than all of the aggregate amount (including principal and any accrued but unpaid interest) outstanding under the Convertible Note shall have been converted into Class A Ordinary Shares or ADSs, and with respect to the portion of the aggregate amount outstanding under the Convertible Note not so converted, the Company shall have not repaid such portion in full with the Company's own cash funds or by cash proceeds from a CB Repayment Loan; or

(3) the Investor or any of its Affiliate shall have validly exercised the Step-in Right with respect to a CB Repayment Loan.

(iii) "Call Price Per Share" means the higher of (i) US$26.00 per Class A Ordinary Share (corresponding to US$13.00 per ADS), and (ii) 120% of the price per Class A Ordinary Share implied by the price per ADS equal to the volume weighted average price of an ADS listed on Nasdaq during the period consisting of consecutive thirty (30) trading days immediately prior to the date of the Call Notice.

(c) The Investor may exercise the Call Option once by delivering to the Founder at any time during the Call Option Period a written notice of exercise in substantially the form attached hereto as Exhibit A (the "Call Notice").

(d) Upon exercise of the Call Option, the closing of the sale and purchase of the Option Shares (the "Closing of Call Option") shall take place via the remote exchange of electronic documents and signatures as soon as reasonably practicable and in any event within ten (10) Business Days after the date of the Call Notice; provided, however, that if the Closing of Call Option is subject to any regulatory approval (including antitrust clearance) or requires any third-party consent or waiver, such ten (10) Business Days' period shall be extended for a period of time as reasonably necessary to obtain such regulatory approval or third-party consent or waiver. At the Closing of Call Option, (i) the Founder shall sell (or cause his applicable holding vehicle to sell) to the Investor, and the Investor shall purchase from the Founder (or his applicable holding vehicle), the Option Shares with full legal and beneficial title, free from all Liens; (ii) the Founder shall deliver to the Investor one or more instruments of transfer, duly executed by the Founder, evidencing the transfer of the Option Shares and shall cause the registered office provider of the Company to provide a certified true copy of the updated register of members of the Company evidencing such transfer; and (iii) the Investor shall pay, or cause to be paid, the Aggregate Call Price to the Founder by wire transfer of immediately available U.S. dollar funds to a bank account outside the PRC and held in the name of the Founder (the "Founder Bank Account") (and the Founder shall designate the Founder Bank Account in writing to the Investor no later than five (5) Business Days after the date of the Call Notice).

(e) Immediately prior to the Closing of Call Option, the Founder shall cause all of the Class B Ordinary Shares then beneficially owned by him and/or his Affiliates (including the Option Shares) to be converted into Class A Ordinary Shares.

(f) The Founder hereby grants an irrevocable power of attorney and proxy to the Investor, effective upon the Investor having delivered the Call Notice in accordance with Section 4.1(c), with the full power to execute, acknowledge, verify, swear to, deliver, record and file, in the Founder's name, place and stead, all instruments, documents and certificates, and to take all such other actions, as may be necessary or desirable to effectuate the terms of this Section 4.1. Each of the proxy and power of attorney granted hereunder is given in consideration of the agreements and covenants of this Agreement in connection with the transactions contemplated hereby and, as such, each is coupled with an interest and shall be irrevocable. If requested by the Investor, the Founder shall execute and deliver to the Investor within ten (10) days after the receipt of a request therefor, such further designations or such other instruments as reasonably necessary for the purposes of effecting this Section 4.1.

4.2. Representations and Warranties of the Founder. The Founder hereby represents and warrants to the Investor, as of the date hereof, the date of the Call Notice and the date of the Closing of Call Option (except for representations and warranties that expressly speak as of a specific date, in which case as of such specified date) that:

(a) The Founder is, as of the date hereof, of sound mind, has the legal capacity to enter into this Agreement, has entered into this Agreement on his own will, and understands the nature of the obligations to be assumed by him under this Agreement. The Founder has the requisite power and authority to perform his obligations under this Agreement. This Agreement has been duly executed and delivered by the Founder, and, assuming due authorization, execution and delivery by the Investor, constitutes legal, valid and binding obligations of the Founder, enforceable against him in accordance with their respective terms.

(b) The execution, delivery and performance by the Founder of this Agreement and the transactions contemplated hereby (a) do not violate, conflict with or result in any breach or default of (or with due notice or lapse of time or both would result in any breach, default or contravention of), or the creation of any Lien under, any contract, agreement, undertaking, indenture, deed, trust, or other agreement to which the Founder is a party or by which he or any of the Company Securities beneficially owned by him is bound, or any Laws applicable to the Founder, and (b) do not violate any judgment, injunction, writ, award, decree or order of any governmental authority against, or binding upon, the Founder.

(c) No consent, approval, authorization, order, registration or qualification of or with any governmental authority or any other Person is required in connection with the execution, delivery or performance by, or enforcement against, the Founder of this Agreement or the transactions contemplated by this Agreement, other than regulatory approvals (including antitrust clearance) or third-party consents or waivers that may be required for the Closing of Call Option.

(d) The lawful spouse of the Founder has duly executed and delivered to the Investor a spousal consent letter in the form of Exhibit B attached hereto, and such spousal consent letter remains in full effect.

(e) As of the date hereof, the Founder beneficially owns, through Siku Holding Limited, and has good and valid title to, free and clear of any Liens, 6,571,429 Class B Ordinary Shares, which have been validly issued and are fully paid and non-assessable. Siku Holding Limited is 99% beneficially owned by the Founder and 1% beneficially owned by the spouse of the Founder. Immediately prior to the Closing of Call Option, the Founder (or his permitted transferees under Section 3.1(b)) shall have, and upon the update of the register of members of the Company at the Closing of Call Option, the Investor will have, good and valid title to the Option Shares, free and clear of any Liens.

(f) No broker, finder or investment banker is entitled to receive from any Group Company or the Investor any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement or any other Transaction Agreement based upon arrangements made by or on behalf of the Founder.

4.3. Certain Covenants.

(a) Upon the Investor's request, the Founder and the Company shall reasonably assist and cooperate with the Investor in connection with any regulatory approval (including antitrust clearance) or third-party consent or waiver that is reasonably necessary for the Closing of Call Option, including promptly providing all such documents, reports, financial information, and other information relating to the Founder, the Company, and their respective Affiliates, and giving all notices, as reasonably requested by the Investor.

(b) The Company shall use its reasonable efforts to cause the Company's depositary to deliver ADSs to the Investor from time to time upon the Investor's deposit of any Option Shares with the Company's depositary or its designated custodian and the satisfaction of any other customary requirements and, in connection therewith, the Company shall cause new share certificate(s) to be issued and entries on the Company's register of members to be entered with respect to such shares in the name of the Company's depositary, without restrictive legends, for the purpose of such deposit. In connection with the Investor's deposit of any Option Shares and the issuance of ADSs representing such shares, (i) the Company shall bear fees and expenses, if any, related to the cancellation of any share certificates representing such shares and issuance of new share certificates, the updating of the Company's register of members of any deposit of such shares with the Depositary or its designated custodian, and if any legal opinion by the counsel to the Company is required in connection with the deposit of such shares, the issuance of such legal opinion, and (ii) the Investor shall bear any ADS issuance fees and other charges of the Depositary and its custodian.

(c) Without the prior written consent of the Investor (which consent may be withheld, conditioned or delayed at its sole discretion), (i) the Company shall not authorize or issue, or permit the conversion of any Company Securities into, any Class B Ordinary Shares or other Company Securities carrying more votes per Company Security than the number of votes per share for the Class A Ordinary Shares; and (ii) except pursuant to Section 4.1(e) or as the result of a Transfer permitted by Section 3.1, the Founder shall not convert, or take any action that will or is reasonably expected to result in the conversion of, any Class B Ordinary Shares beneficially owned by him to Class A Ordinary Shares or any other class of Company Securities that will result in the Founder holding less than the Option Shares.

ARTICLE 5

REGISTRATION RIGHTS

5.1. Registration Rights. The Company hereby irrevocably grants to the Investor such rights and makes such covenants and undertakings as set forth in Schedule A hereto, which Schedule A is hereby incorporated in and made a part of this Agreement as if set forth in full herein.

5.2. Certain Agreements. The Investor agrees to not exercise the registration rights set forth in Schedule A at any time prior to the first (1st) anniversary of the date of this Agreement subject to the following exceptions:

(a) if the Second Closing has occurred pursuant to Section 2.04(b) of the Purchase Agreement, the Investor may exercise any of the rights set forth in Schedule A (other than the registration rights set forth in Section 2.1 and Section 2.3 of Schedule A) at any time thereafter;

(b) if there is a Second Closing Failure due to any of the conditions set forth in Section 2.06 of the Purchase Agreement not having been timely satisfied, the Investor may exercise any of the rights set forth in Schedule A (other than the registration rights set forth in Section 2.1 and Section 2.3 of Schedule A) at any time thereafter; and

(c) if there is a Second Closing Failure and the Investor has confirmed by notice to the Company that (x) all the conditions set forth in Section 2.06 of the Purchase Agreement have been satisfied or, if any such condition is not satisfied and the Investor is entitled to waive such condition, the Investor has irrevocably waived such condition or, if applicable, has not waived such condition but has elected to proceed to the Second Closing under Section 2.04(b) of the Purchase Agreement, and (y) the Investor is ready, willing and capable of proceeding to the Second Closing, the Investor may exercise any of the rights set forth in Schedule A at any time thereafter.

ARTICLE 6

TERMINATION

6.1. Termination of Certain Provisions.

(a) The provisions of ARTICLE 2, ARTICLE 3 and ARTICLE 4 of this Agreement (the "Threshold Amount Provisions") shall automatically terminate:

(i) if the Second Closing has occurred pursuant to Section 2.04(a) of the Purchase Agreement, upon the Investor and its Affiliates ceasing to beneficially own, in the aggregate, a number of ordinary shares of the Company and/or ADSs that is less than twenty percent (20%) of the total number of issued and outstanding shares in the capital of the Company as of such time calculated on a fully diluted basis;

(ii) if the Second Closing has occurred pursuant to Section 2.04(b) of the Purchase Agreement, upon the Investor and its Affiliates ceasing to beneficially own, in the aggregate, a number of ordinary shares of the Company and/or ADSs that is less than twenty percent (20%) of the total number of issued and outstanding shares in the capital of the Company (but excluding, for such purpose, any shares issued after the date hereof pursuant to the conversion of the Convertible Note (or any portion thereof), the exercise of the Warrant (or any portion thereof), the ESOP or any similar share-based incentive plan as may be adopted by the Company) as of such time;

(iii) if there is a Second Closing Failure and the Investor has confirmed by notice to the Company that (x) all the conditions set forth in Section 2.06 of the Purchase Agreement have been satisfied or, if any such condition is not satisfied and the Investor is entitled to waive such condition, the Investor has irrevocably waived such condition or, if applicable, has not waived such condition but has elected to proceed to the Second Closing under Section 2.04(b) of the Purchase Agreement, and (y) the Investor is ready, willing and capable of proceeding to the Second Closing, upon the Investor and its Affiliates ceasing to beneficially own, in the aggregate, a number of ordinary shares of the Company and/or ADSs that is less than ten percent (10%) of the total number of issued and outstanding shares in the capital of the Company as of such time calculated on a fully diluted basis;

(iv) except as specifically provided in Section 6.1(a)(iii), upon a Second Closing Failure.

(b) Upon the termination of the Threshold Amount Provisions pursuant to this Section 6.1, the Threshold Amount Provisions will have no further force or effect, provided that such termination shall not affect the continued validity of any other provision of this Agreement, and no such termination shall relieve any Person of liability for breach prior to such termination.

6.2. Termination of Agreement. Except as expressly provided otherwise in Section 6.1, this Agreement may only be terminated by mutual written consent of the Parties. Upon any termination of this Agreement pursuant to this Section 6.2, this Agreement will have no further force or effect, except for the provisions in this Section 6.2 and ARTICLE 7 which shall survive any termination. No termination under this Agreement shall relieve any Person of liability for breach prior to termination.

ARTICLE 7

MISCELLANEOUS.

7.1. Authority; Effect. Each Party represents and warrants to and agrees with the other Parties that the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized on behalf of such Party and do not violate any agreement or other instrument applicable to such Party or by which its or his assets are bound. This Agreement does not, and shall not be construed to, give rise to the creation of a partnership among any of the Parties, or to constitute any of such Parties members of a joint venture or other association.

7.2. Descriptive Heading. The descriptive headings of this Agreement are for convenience of reference only, are not to be considered a part hereof and shall not be construed to define or limit any of the terms or provisions hereof.

7.3. Successors and Assigns. Except as otherwise provided herein, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the Parties whose rights or obligations hereunder are affected by such terms and conditions. This Agreement, and the rights and obligations hereunder, shall not be assigned without the mutual written consents of the Parties; *provided* that the Investor may assign its rights and obligations to its Affiliate(s) without consent of the other Parties under this Agreement; *provided* further that the assignee shall execute and deliver such documents and take such other actions as may be necessary for such assignee to join in and be bound by the terms of this Agreement (if not already a Party hereto) upon and after such assignment.

7.4. Amendments and Waivers. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), only if such amendment or waiver is in writing and signed, in the case of an amendment, by Parties or, in the case of a waiver, by the Party against whom the waiver is to be effective.

7.5. No Third-Party Beneficiaries. Except as explicitly specified in this Agreement, nothing in this Agreement, expressed or implied, is intended to confer on any Person other than the Parties any rights, remedies, obligations or liabilities under or by reason of this Agreement, and no Person that is not a Party to this Agreement (including any partner, member, stockholder, director, officer, employee or other beneficial owner of any Party, in its or his own capacity as such or in bringing a derivative action on behalf of a Party) shall have any standing as a third-party beneficiary with respect to this Agreement or the transactions contemplated by this Agreement, whether arising from Contracts (Rights of Third Parties) Ordinance (Chapter 623 of the Laws of Hong Kong) or otherwise.

7.6. Entire Agreement. This Agreement and the other Transaction Agreements constitute the full and entire understanding and agreement among the Parties with regard to the subjects hereof and thereof.

7.7. Notices. All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given or made (and shall be deemed to have been duly given or made upon receipt) by delivery in person, by an internationally recognized overnight courier service, by facsimile or registered or certified mail (postage prepaid, return receipt requested) or electronic mail to the respective Parties at the addresses specified on Schedule B attached hereto (or at such other address for a Party as shall be specified in a notice given in accordance with this Section 7.7). Where a notice is sent by next-day or second-day courier service, service of the notice shall be deemed to be effected by properly addressing, pre-paying and sending by next-day or second-day service through an internationally-recognized courier a letter containing the notice, with a written confirmation of delivery, and to have been effected at the earlier of (i) delivery (or when delivery is refused) and (ii) expiration of two (2) Business Days after the letter containing the same is sent as aforesaid. Where a notice is sent by facsimile or electronic mail, service of the notice shall be deemed to have been effected on the day the same is sent (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party), if such day is a Business Day and if sent during normal business hours of the recipient, otherwise the next Business Day. Notwithstanding the foregoing, to the extent a “with a copy to” address is designated, notice must also be given to such address in the manner above for such notice, request, consent or other communication hereunder to be effective.

7.8. Governing Law. This Agreement shall be governed by and construed exclusively in accordance with the Laws of Hong Kong, without giving effect to any choice of law or conflict of law provision or rule (whether of Hong Kong or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than Hong Kong.

7.9. Dispute Resolution.

(a) Any dispute, controversy or claim arising out of, in connection with or relating to this Agreement, including the interpretation, validity, invalidity, breach or termination hereof, shall be settled by arbitration.

(b) The arbitration shall be conducted in Hong Kong at the Hong Kong International Arbitration Centre in accordance with the HKIAC Administered Arbitration Rules then in effect, which rules are deemed to be incorporated by reference into this subsection (ii). There shall be three (3) arbitrators. The Company shall have the right to appoint one arbitrator, the Purchaser shall have the right to appoint the second arbitrator, and the third arbitrator shall be appointed by the Hong Kong International Arbitration Centre. The arbitration shall be conducted in the English language.

(c) Each Party shall cooperate with the other in making full disclosure of and providing complete access to all information and documents reasonably requested by the other that are relevant and material to the matters in dispute in connection with such arbitration proceedings, subject only to any doctrine of legal privilege or any confidentiality obligations binding on such Party.

(d) The costs of arbitration shall be borne by the losing Party, unless otherwise determined by the arbitration tribunal.

(e) When any dispute occurs and when any dispute is under arbitration, except for the matters in dispute, the Parties shall continue to fulfill their respective obligations and shall be entitled to exercise their rights under this Agreement.

(f) The award of the arbitration tribunal shall be final and binding upon the Parties absent manifest error, and the prevailing Party may apply to a court of competent jurisdiction for enforcement of such award.

(g) The Parties understand and agree that this provision regarding arbitration shall not prevent any Party from pursuing preliminary equitable or injunctive relief in a judicial forum pending arbitration in order to compel another Party to comply with this provision, to preserve the status quo prior to the invocation of arbitration under this provision, or to prevent or halt actions that may result in irreparable harm. A request for such equitable or injunctive relief shall not waive this arbitration provision.

7.10. Specific Performance. The Parties agree that irreparable damage would occur in the event any provision of this Agreement were not performed in accordance with the terms hereof and that the Parties shall be entitled to specific performance of the terms hereof, in addition to any other remedy at law or equity.

7.11. Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to any Party under this Agreement shall impair any such right, power, or remedy of such Party, nor shall it be construed to be a waiver of or acquiescence to any breach or default, or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default. All remedies, either under this Agreement or by law or otherwise afforded to any holder, shall be cumulative and not alternative.

7.12. Adjustment of Share Numbers. If there is a subdivision, split, stock dividend, combination, reclassification or similar event with respect to any Company Securities (including any adjustment to the number of Class A Ordinary Shares represented by each ADS), then, in any such event, references to the numbers, types and unit prices of Company Securities in this Agreement shall be equitably adjusted as appropriate.

7.13. Severability. In case any provision of this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected thereby. If, however, any provision of this Agreement shall be invalid, illegal, or unenforceable under any such applicable Law in any jurisdiction, it shall, as to such jurisdiction, be deemed modified to conform to the minimum requirements of such Law.

7.14. Counterparts. This Agreement may be executed in any number of counterparts and signatures may be delivered by facsimile or in electronic format, all of which together shall constitute one instrument.

[Signatures follow on next page]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as a deed as of the date first written above.

EXECUTED as a **DEED**
By the authorised signatory of **SECOO HOLDING LIMITED**

/s/ Richard Rixue Li
Name: Richard Rixue Li
Title: Director and Chief Executive Officer

[SIGNATURE PAGE TO INVESTOR RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as a deed as of the date first written above.

EXECUTED as a **DEED**
By the authorised signatory of **QU PLUS PLUS LIMITED**

/s/ Min Luo
Name: Min Luo
Title: Chairperson

[SIGNATURE PAGE TO INVESTOR RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as a deed as of the date first written above.

L.S

SIGNED, SEALED and DELIVERED)
as a **DEED**)
By **RIXUE LI**)
in the presence of Jingbo Ma) /s/ Richar Rixue Li

Witness signature: /s/ Jingbo Ma
Witness name: Jingbo Ma

[SIGNATURE PAGE TO INVESTOR RIGHTS AGREEMENT]

SCHEDULE A

Registration Rights

REGISTRATION RIGHTS

This schedule (this "Schedule") is attached to the investor rights agreement, dated June 4, 2020, by and between Secoo Holding Limited, Qu Plus Plus Limited, and Rixue Li (as maybe amended, supplemented, modified or varied from time to time, the "Agreement"). Capitalized terms used but not defined in this Schedule shall have their respective meanings as set forth in the Agreement.

1. DEFINITIONS AND REFERENCES

1.1 Certain Definitions. As used in this Schedule, and unless the context requires a different meaning, the following terms shall have the following respective meanings:

"2015 Shareholders Agreement" shall mean that certain amended and restated shareholders' agreement, dated July 8, 2015, entered into by and between the Company and certain shareholders.

"2018 IRA" shall mean that certain investor rights agreement by and between the Company and Great World Lux Pte. Ltd dated as of August 8, 2018.

"Commission" or "SEC" shall mean the United States Securities and Exchange Commission or any successor agency.

"Company Indemnified Parties" shall have the meaning set forth in Section 2.6(b) of this Schedule.

"Exchange Act" shall have the meaning as set forth in the Purchase Agreement.

"Existing Holder" shall have the same meaning as the term "Holder" in the 2015 Shareholders Agreement.

"Form F-3" shall mean Form F-3 promulgated by the Commission under the Securities Act or any successor registration form under the Securities Act subsequently adopted by the SEC which permits inclusion or incorporation of substantial information by reference to other documents filed by the Company with the Commission. In addition, "Form F-3" shall be deemed to refer to Form S-3 or any comparable form under the U.S. securities laws in the condition that the Company is not at that time eligible to use Form F-3.

"Holders" shall mean the holders of Registrable Securities, and their permitted transferees.

"Holder Indemnified Parties" shall have the meaning set forth in Section 2.6(a) of this Schedule.

"L Catterton" shall mean Great World Lux Pte. Ltd to the extent it holds any Registrable Securities.

"Purchased Shares" shall have the meaning as set forth in the Purchase Agreement.

"register," "registered" and "registration" shall mean a registration effected by filing a registration statement which is in a form which complies with, and is declared effective by the SEC (as defined below) in accordance with, the Securities Act.

"Registrable Securities" shall mean (i) the Purchased Shares, (ii) the Option Shares, (iii) Ordinary Shares of the Company issued as (or issuable upon the conversion or exercise of any option, warrant, right or other security which is issued as) a dividend or other distribution with respect to, or in exchange for or in replacement of, any of the foregoing; (iv) any other Ordinary Shares owned or hereafter acquired by any Holder; (v) Ordinary Shares issued or issuable in respect of the Ordinary Shares described in (i) to (iv) above upon any recapitalization or otherwise issued or issuable with respect to such Ordinary Shares; and (vi) any depositary receipts issued by an institutional depositary upon deposit of any of the foregoing, including, for the avoidance of doubt, any ADSs. Notwithstanding the foregoing, "Registrable Securities" shall exclude any Registrable Securities sold by the Investor in a transaction in which rights under this Schedule A are not validly assigned in accordance with the Agreement or any Registrable Securities sold in a public offering, whether sold pursuant to Rule 144 promulgated under the Securities Act, or in a registered offering, or otherwise. With respect to any shares of an Existing Holder or L Catterton, "Registrable Securities" shall have the meaning ascribed to it under the 2015 Shareholders Agreement and the 2018 IRA, as applicable.

"Securities Act" shall have the meaning as set forth in the Purchase Agreement.

"Violation" shall have the meaning set forth in Section 2.6(a) of this Schedule.

1.2 Interpretation.

(a) All references in this Schedule to "Forms" or "Rules" refer to the relevant Form or Rule, as the case may be, promulgated by the Commission.

(b) All references in this Schedule to designated "Sections" and other subdivisions are to the designated Sections and other subdivisions of this Schedule unless explicitly stated otherwise.

2. REGISTRATION RIGHTS

2.1 Demand Registration.

(a) Request by the Investor. If the Company shall receive a written request (a "Demand Request") from (i) the Investor, (ii) L Catterton or (iii) any Existing Holder of at least fifty (50%) of the Registrable Securities then outstanding held by the Existing Holders that the Company file a registration statement under the Securities Act covering the registration of Registrable Securities pursuant to this Schedule A, and if the anticipated gross receipts from the offering are to exceed US$25,000,000, then the Company shall, if the Demand Request is received from an Existing Holder or L Catterton, within ten (10) Business Days of the receipt of the Demand Request, give written notice of such Demand Request (the "Request Notice") to the Investor, and use all reasonable efforts to effect, as soon as practicable, the registration under the Securities Act of all Registrable Securities that the Investor requests to be registered and included in such registration in its Demand Request or, as the case may be, by written notice given by the Investor to the Company within twenty (20) Business Days after receipt of the Request Notice, together with any Registrable Securities of any other Holder who requests in writing to join such registration, subject only to the limitations of this Section 2.1; provided that the Company shall not be obligated to effect any such registration if the Company has, within the six (6) month period preceding the date of such request, already effected a registration under the Securities Act pursuant to this Section 2.1 or Section 2.3, or in which the Investor had an opportunity to participate pursuant to the provisions of Section 2.2 hereof, other than a registration from which the Registrable Securities of the Investor have been excluded (with respect to all or any portion of the Registrable Securities the Holders requested be included in such registration) pursuant to the provisions of Section 2.2(c) hereof.

(b) Underwriting. If the Investor intends to distribute the Registrable Securities covered by its request by means of an underwriting, then it shall so advise the Company as a part of its request made pursuant to this Section 2.1 and if an Existing Holder or L Catterton so intends in its Demand Request, the Company shall include such information in the Request Notice to the Investor referred to in Section 2.1(a). In such event, the right of the Investor to include its Registrable Securities in such registration shall be conditioned upon the Investor's participation in such underwriting and the inclusion of the Investor's Registrable Securities in the underwriting to the extent provided herein. The Investor shall enter into an underwriting agreement in customary form with the managing underwriter or underwriters selected for such underwriting by the Investor and reasonably acceptable to the Company (including a market stand-off agreement of up to 90 days if required by such underwriter or underwriters). Notwithstanding any other provision of this Section 2.1, if the underwriter(s) advise(s) the Company in writing that marketing factors require a limitation of the number of securities to be underwritten, then the Company shall so advise the Holders proposing to distribute their Registrable Securities through such underwritten offering, and the number of Registrable Securities that may be included in the underwriting shall be reduced as required by the underwriter(s) and allocated among the Holders that request to include their Registrable Securities in such underwritten offering on a pro rata basis according to the number of Registrable Securities then outstanding held by each such Holder; provided, however, that the number of Registrable Securities to be included in such underwriting and registration shall not be reduced unless all other securities are first entirely excluded from the underwriting and registration including, without limitation, all securities that are not Registrable Securities and are held by any person other than a Holder, including, without limitation, any person who is an employee, officer or director of the Company, the Founder or any of his Affiliates, the Company or any Subsidiary of the Company; provided further, that at least twenty percent (20%) of shares of Registrable Securities requested by the Holders to be included in such underwriting and registration shall be so included (to be allocated among such Holders in proportion to the number of Registrable Securities held by the Holders). If the underwriter has not limited the number of Registrable Securities to be underwritten, the Company may include its securities for its own account in such registration if the underwriter so agrees and if the number of Registrable Securities which would otherwise have been included in such registration and underwriting will not thereby be limited. If any Holder disapproves of the terms of any such underwriting, such Holder may elect to withdraw therefrom by written notice to the Company and the underwriter(s), delivered at least ten (10) Business Days prior to the effective date of the registration statement. Any Registrable Securities excluded or withdrawn from such underwriting shall be excluded and withdrawn from the registration.

(c) Maximum Number of Demand Registrations. The Company shall be obligated to effect only two (2) such registrations pursuant to this Section 2.1 for the Investor and its assignee(s) (the "Assignees") of record of relevant Registrable Securities to whom rights under this Schedule A have been duly assigned in accordance with this Agreement, so long as such registrations have been declared effective by the SEC, provided that if the sale of all of the Registrable Securities sought to be included by the Investor and the Assignees pursuant to this Section 2.1 is not consummated for any reason other than primarily due to the action or inaction of the Investor or the Assignees, such registration shall not be deemed to constitute one of the registration rights granted pursuant to this Section 2.1; provided further that the registration pursuant to Section 2.2 or Section 2.3 shall not be deemed to constitute one of the registration rights granted pursuant to this Section 2.1.

(d) Deferral. Notwithstanding the foregoing, the Company shall not be required to effect a registration pursuant to this Section 2.1:

(i) during the period starting with the date sixty (60) days prior to the Company's good faith estimate of the date of the filing of, and ending on a date one hundred and eighty (180) days following the effective date of, a Company-initiated registration subject to Section 2.2 below, provided that the Company is actively employing in good faith all reasonable efforts to cause such registration statement to become effective; or

(ii) if the Company shall furnish to the Holders a certificate signed by the President or Chief Executive Officer of the Company stating that in the good faith judgment of the Board, it would be materially detrimental to the Company and its shareholders for such registration statement to be filed at such time, then the Company shall have the right to defer such filing for a period of not more than ninety (90) days after receipt of the Demand Request; provided, however, that the Company may not utilize any right under this Section 2.1(d) more than once in any twelve (12) consecutive month period; provided further, that the Company shall not register any other securities during such ninety (90)-day period. A demand right shall not be deemed to have been exercised until such deferred registration under this Section 2.1(d) shall have been effected.

(e) Expenses. All expenses incurred in connection with any registration pursuant to this Section 2.1, including without limitation all U.S. federal, "blue sky", the Financial Industry Regulatory Authority ("FINRA") and all foreign registration, filing and qualification fees, NASDAQ listing fees, printer's and accounting fees, and fees and disbursements of counsel for the Company including reasonable expenses of one legal counsel for the Investor (but excluding underwriters' discounts and commissions relating to shares sold by the Investor and Existing Holders), shall be borne by the Company; provided, however, the expenses in excess of $50,000 of any audited financials prepared in connection with a Demand Registration shall be borne pro rata by the Investor if it participates in such registration. The Investor shall bear its proportionate share (based on the total number of shares sold in such registration other than for the account of the Company) of all discounts, commissions or other amounts payable to underwriter(s) or brokers, in connection with such offering by the Investor. Notwithstanding the foregoing, the Company shall not be required to pay for any expenses of any registration proceeding begun pursuant to Section 2.1 if the registration request is subsequently withdrawn at the request of the Investor, unless the Investor agrees that such registration constitutes the use by the Investor of one (1) demand registration pursuant to Section 2.1; provided that if at the time of such withdrawal, the Investor has learned of a material adverse change in the condition, business, or prospects of the Company not known to the Investor at the time of its request for such registration and have withdrawn their request for registration with reasonable promptness after learning of such material adverse change, then the Investor shall not be required to pay any of such expenses and such registration shall not constitute the use of a demand registration pursuant to Section 2.1.

2.2 Piggyback Registration.

(a) The Company shall notify each of the Holders in writing at least twenty (20) days prior to filing any registration statement under the Securities Act for purposes of effecting a public offering of securities (including, but not limited to, registration statements relating to secondary offerings of securities of the Company, but excluding registration statements relating to any registration under Section 2.1 or Section 2.3 or to any employee benefit plan or a corporate reorganization), and shall afford each Holder an opportunity to include in such registration statement all or any part of the Registrable Securities then held by such Holder. If any Holder desires to include in any such registration statement all or any part of the Registrable Securities held by it, it shall within twenty (20) days after receipt of the above-described notice from the Company, so notify the Company in writing, and in such notice shall inform the Company of the number of Registrable Securities such Holder wishes to include in such registration statement. If such Holder decides not to include all of its Registrable Securities in any registration statement thereafter filed by the Company, such Holder shall nevertheless continue to have the right to include any Registrable Securities in any subsequent registration statement or registration statements as may be filed by the Company with respect to offerings of its securities, all upon the terms and conditions set forth herein.

(b) Right to Terminate Registration. The Company shall have the right to terminate or withdraw any registration initiated by it under this Section 2.2 prior to the effectiveness of such registration whether or not any Holder has elected to include securities in such registration. The expenses of such withdrawn registration shall be borne by the Company.

(c) Underwriting. If a registration statement under which the Company gives notice under this Section 2.2 is for an underwritten offering, then the Company shall so advise the Holders. In such event, the right of any Holder's Registrable Securities to be included in a registration pursuant to this Section 2.2 shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein. Each such Holder shall enter into an underwriting agreement in customary form with the managing underwriter or underwriters selected for such underwriting (including a market stand-off agreement of up to 90 days if required by such underwriter or underwriters). Notwithstanding any other provision of this Schedule A, if the managing underwriter(s) determine(s) in good faith that marketing factors require a limitation of the number of securities to be underwritten, then the managing underwriter(s) may exclude securities from the registration and the underwriting, and the number of securities that may be included in the registration and the underwriting shall be allocated, first, to the Company, second, to each of the Holders requesting inclusion of their Registrable Securities in such registration statement on a pro rata basis based on the total number of Registrable Securities then held by each such Holder, and third, to holders of other securities of the Company; provided, however, that the right of the underwriter(s) to exclude securities (including Registrable Securities) from the registration and underwriting as described above shall be restricted so that (i) the number of Registrable Securities included in any such registration is not reduced below twenty-five percent (25%) of the aggregate number of Registrable Securities for which inclusion has been requested; and (ii) all securities that are not Registrable Securities and are held by any person other than a Holder, including, without limitation, any person who is an employee, officer or director of the Company, the Founder or any of his Affiliates, the Company or any Subsidiary of the Company shall first be excluded from such registration and underwriting before any Registrable Securities are so excluded. If any Holder disapproves of the terms of any such underwriting, such Holder may elect to withdraw therefrom by written notice to the Company and the underwriter(s), delivered at least ten (10) Business Days prior to the effective date of the registration statement. Any Registrable Securities excluded or withdrawn from such underwriting shall be excluded and withdrawn from the registration.

(d) Expenses. All expenses incurred in connection with a registration pursuant to this Section 2.2 (excluding underwriters' and brokers' discounts and commissions relating to shares sold by the Investor), including, without limitation all U.S. federal, "blue sky", FINRA and all foreign registration, filing and qualification fees, NASDAQ listing fees, printers' and accounting fees, and fees and disbursements of counsel for the Company and reasonable expenses of one legal counsel for the Investor, shall be borne by the Company.

(e) Not Demand Registration. Registration pursuant to this Section 2.2 shall not be deemed to be a demand registration as described in Section 2.1 above. There shall be no limit on the number of times a Holder may request registration of Registrable Securities under this Section 2.2.

2.3 Form F-3. In case the Company shall receive from the Investor, L Catterton or any Existing Holder a written request or requests that the Company effect a registration on Form F-3 and any related qualification or compliance with respect to all or a part of the Registrable Securities owned by such Holder(s), then the Company will:

(a) Notice. Promptly give written notice of the proposed registration to all other Holders; and

(b) Registration. As soon as practicable, effect such registration and all such qualifications and compliances as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of the Registrable Securities as specified in the request, together with any Registrable Securities of any Holder who requests in writing to join such registration within twenty (20) days after the Company's delivery of written notice; provided, however, that the Company shall not be obligated to effect any such registration, qualification or compliance pursuant to this Section 2.3 with respect to a Holder:

(i) if Form F-3 is not available for such offering by such Holder;

(ii) if the Company shall furnish to such Holder a certificate signed by the President or Chief Executive Officer of the Company stating that in the good faith judgment of the Board, it would be materially detrimental to the Company and its shareholders for such Form F-3 registration to be effected at such time, in which event the Company shall have the right to defer the filing of the Form F-3 registration statement no more than once during any twelve (12)-month period for a period of not more than ninety (90) days after receipt of the request of Holders under this Section 2.3; provided that the Company shall not register any of its other shares during such ninety (90)-day period; or

(iii) if the Company has, within the twelve (12)-month period preceding the date of such request, already effected two (2) registrations under the Securities Act other than a registration from which the Registrable Securities of such Holder have been excluded (with respect to all or any portion of the Registrable Securities such Holder requested be included in such registration) pursuant to the provisions of Section 2.1(b) or Section 2.2(c) hereof.

(c) Expenses. The Company shall pay all expenses incurred in connection with each registration requested pursuant to this Section 2.3 (excluding underwriters' or brokers' discounts and commissions relating to shares sold by the Holders), including without limitation all U.S. federal, "blue sky", FINRA and all foreign registration, NASDAQ listing fees, filing and qualification fees, printers' and accounting fees, and fees and disbursements of counsel and reasonable expenses of one legal counsel for the Investor; provided, however, the expenses in excess of $50,000 of any audited financials prepared in connection with a Demand Registration shall be borne pro rata by the Investor if it participates in such registration.

(d) Not Demand Registration. Form F-3 registrations shall not be deemed to be demand registrations as described in Section 2.1 above. Except as otherwise provided in this Schedule, there shall be no limit on the number of times the Holders may request registration of Registrable Securities under this Section 2.3.

2.4 Obligations of the Company. Whenever required to effect the registration of any Registrable Securities under this Schedule the Company shall, as expeditiously as reasonably possible:

(a) Registration Statement. Prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its commercially reasonable efforts to cause such registration statement to become effective, , and, upon the request of the Investor, keep such registration statement effective for a period of up to ninety (90) days or, in the case of Registrable Securities registered under Form F-3 in accordance with Rule 415 under the Securities Act or a successor rule, until the distribution contemplated in the registration statement has been completed; provided, however, that (i) such ninety (90) day period shall be extended for a period of time equal to the period any Holder refrains from selling any securities included in such registration at the request of the underwriter(s), and (ii) in the case of any registration of Registrable Securities on Form F-3 which are intended to be offered on a continuous or delayed basis, such ninety (90) day period shall be extended, if necessary, to keep the registration statement effective until all such Registrable Securities are sold.

(b) Amendments and Supplements. Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement.

(c) Prospectuses. Furnish to Holders such number of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as it may reasonably request in order to facilitate the disposition of the Registrable Securities owned by the Holders that are included in such registration.

(d) Blue Sky. Use its commercially reasonable efforts to register and qualify the securities covered by such registration statement under such other securities or "blue sky" laws of such jurisdictions as shall be reasonably requested by any Holder, provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

(e) Underwriting. In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement in usual and customary form, with the managing underwriter(s) of such offering. The Investor participating in such underwriting shall also enter into and perform its obligations under such an agreement.

(f) Notification. Notify a Holder at any time when a prospectus relating to its Registrable Securities is required to be delivered under the Securities Act of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

(g) Opinion and Comfort Letter. Furnish, at the request of any Holder participating in such registration, on the date that such Registrable Securities are delivered to the underwriter(s) for sale, if such securities are being sold through underwriters, or, if such securities are not being sold through underwriters, on the date that the registration statement with respect to such securities becomes effective, (i) an opinion, dated as of such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering and reasonably satisfactory to such Holder, addressed to the underwriters, if any, and (ii) letters dated as of such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering and reasonably satisfactory to such Holder, addressed to the underwriters, if any.

(h) Exchange. Take all reasonable action necessary to list the Registrable Securities on the primary exchange on which the Company's securities are then traded.

2.5 Further Information. It shall be a condition precedent to the obligations of the Company to take any action pursuant to Section 2.1, Section 2.2 or Section 2.3 with respect to any Holder that such Holder shall furnish to the Company such information regarding itself, the Registrable Securities held by it and the intended method of disposition of such securities as shall be required to timely effect the registration of its Registrable Securities.

2.6 Indemnification. In the event any Registrable Securities are included in a registration statement under Section 2.1, Section 2.2 or Section 2.3 hereof:

(a) By the Company. To the extent permitted by law, the Company will indemnify and hold harmless each Holder, its partners, officers, directors, legal counsel, any underwriter (as defined in the Securities Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Securities Act or the Exchange Act (collectively, the "Holder Indemnified Parties"), against any losses, claims, damages, or liabilities (joint or several) to which they may become subject under the Securities Act, the Exchange Act, or other United States federal or state law, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "Violation"):

(i) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto;

(ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading; or

(iii) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any United States federal or state securities law, or any rule or regulation promulgated under the Securities Act, the Exchange Act, or any United States federal or state securities law in connection with the offering covered by such registration statement;

and the Company will reimburse any legal or other expenses reasonably incurred by each of the Holder Indemnified Parties in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this Section 2.6(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld), nor shall the Company be liable in any such case for any such loss, claim, damage, liability or action to the extent that it arises out of or is based upon a Violation which occurs primarily in reliance upon written information furnished expressly for use in connection with such registration by such Holder Indemnified Party.

(b) By the Investor. To the extent permitted by law, the Investor will, if Registrable Securities held by the Investor are included in the securities as to which such registration qualifications or compliance is being effected, indemnify and hold harmless the Company, each of its directors, each of its officers who has signed the registration statement, each person, if any, who controls the Company within the meaning of the Securities Act, and any underwriter for the Company (collectively, the "Company Indemnified Parties"), against any losses, claims, damages or liabilities (joint or several) to which they may become subject under the Securities Act, the Exchange Act or other United States federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs primarily in reliance upon written information furnished by the Investor expressly for use in connection with such registration; and the Investor will reimburse any legal or other expenses reasonably incurred by each of the Company Indemnified Parties in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this Section 2.6(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Investor, which consent shall not be unreasonably withheld; and provided, further, that in no event shall any indemnity under this Section 2.6(b) exceed the net proceeds received by the Investor in the registered offering out of which the applicable Violation arises.

(c) Notice. Promptly after receipt by an indemnified party under this Section 2.6 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 2.6, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party shall have the right to retain its own counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential conflict of interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall relieve such indemnifying party of liability to the indemnified party under this Section 2.6 to the extent the indemnifying party is prejudiced as a result thereof, but the omission to so deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 2.6.

(d) Contribution. In order to provide for just and equitable contribution to joint liability under the Securities Act in any case in which either (i) any indemnified party makes a claim for indemnification pursuant to this Section 2.6 but it is judicially determined (by the entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such indemnification may not be enforced in such case notwithstanding the fact that this Section 2.6 provides for indemnification in such case, or (ii) contribution under the Securities Act may be required on the part of any indemnified party in circumstances for which indemnification is provided under this Section 2.6; then, and in each such case, the indemnified party and the indemnifying party will contribute to the aggregate losses, claims, damages or liabilities to which they may be subject (after contribution from others) in such proportion as is appropriate to reflect the relative fault of the indemnifying party, on the one hand, and of the indemnified party, on the other hand, in connection with the statements or omissions that resulted in such loss, liability, claim, damage or expense, as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by a court of law by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission; provided, however, that, in any such case: (A) the Investor will not be required to contribute any amount in excess of its net proceeds from the sale of all such Registrable Securities offered and sold by it pursuant to such registration statement; and (B) no person or entity guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) will be entitled to contribution from any person or entity who was not guilty of such fraudulent misrepresentation.

(e) Survival; Consents to Judgments and Settlements. The obligations of the Company and the Holders under this Section 2.6 shall survive the completion of any offering of Registrable Securities in a registration statement, regardless of the expiration of any statutes of limitation or extensions of such statutes. No indemnifying party, in the defense of any such claim or litigation, shall, except with the consent of each indemnified party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect to such claim or litigation.

2.7 No Registration Rights to Third Parties. Without the prior written consent of the Investor, the Company covenants and agrees that it shall not grant, or cause or permit to be created, for the benefit of any person or entity any registration rights of any kind (whether similar to the demand, "piggyback" or Form F-3 registration rights described in this Schedule A, or otherwise) relating to any securities of the Company which are senior to, or on a parity with, those granted to the Investor.

2.8 Transfer of Rights. The registration rights may be transferred provided that the Company is given written notice thereof and provided that the transfer is in connection with an assignment of rights permitted by the Agreement.

2.9 Rule 144 Reporting. The Company covenants that it shall (i) use commercially reasonable efforts to file the reports required to be filed by it under the Securities Act and the Exchange Act and the rules and regulations adopted by the Commission thereunder and (ii) take such action as may be required from time to time to enable the Investor to sell Registrable Securities without registration under the Securities Act within the limitation of the exemptions provided by (A) Rule 144 under the Securities Act, as such rule may be amended from time to time, or (B) any similar rules or regulations hereafter adopted by the Commission. The Company shall, upon the request of the Investor, deliver to the Investor a written statement as to whether it has complied with such requirements.

2.10 Amendment to Securities Laws. The Company (on the one hand) and the Investor (on the other hand) agree that any amendment to the United States securities laws (and regulations promulgated thereunder (and related registration forms), and related state securities laws shall not affect the substantive registration requirements (and other obligations of the Company) set forth in this Schedule; and, following any such amendment, the Company shall continue to be required to cause the registration of Registrable Securities (and pay all Registration Expenses and provide indemnification) under the United States securities laws, as amended, in a manner consistent to carry out the intent and purposes of (and on terms as similar as practicable as the terms set forth in) this Schedule.

2.11 Termination. The Registration Rights for the Investor shall terminate on the earlier of (i) the date that is three (3) years from the date of the Agreement, and (ii) the date on which the Investor may sell all of its Registrable Securities under Rule 144 (a) in one three (3) month period without exceeding the volume limitations thereunder or (b) without volume limitations.

Exhibit 8.1

List of Principal Subsidiaries

Subsidiaries	Place of Incorporation
Hong Kong Secoo Investment Group Limited	Hong Kong
Secoo Inc.	United States
Secoo Italia SRL	Italy
Secoo Garden Tradings Sdn. Bhd.	Malaysia
Kutianxia (Beijing) Information Technology Limited	People's Republic of China
Beijing Zhiyi Heng Sheng Technology Service Co., Ltd.	People's Republic of China
Kuxin Tianxia (Tianjin) E-commerce Limited	People's Republic of China
Variable Interest Entities:	
Beijing Wo Mai Wo Pai Auction Co., Ltd	People's Republic of China
Beijing Secoo Trading Limited	People's Republic of China
Shanghai Secoo E-commerce Limited	People's Republic of China
Yichun Secoo E-commerce Limited	People's Republic of China

Exhibit 12.1

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

I, Richard Rixue Li, certify that:

1. I have reviewed this annual report on Form 20-F of Secoo Holding Limited;

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: June 11, 2020

By: /s/ Richard Rixue Li
Name: Richard Rixue Li
Title: Chief Executive Officer

Exhibit 12.2

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

I, Shaojun Chen, certify that:

1. I have reviewed this annual report on Form 20-F of Secoo Holding Limited, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the 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: June 11, 2020

By: /s/ Shaojun Chen
Name: Shaojun Chen
Title: Chief Financial Officer

Exhibit 13.1

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

In connection with the Annual Report of Secoo Holding Limited (the "Company") on Form 20-F for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard Rixue Li, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 11, 2020

By: /s/ Richard Rixue Li
Name: Richard Rixue Li
Title: Chief Executive Officer

Exhibit 13.2

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

In connection with the Annual Report of RYB Education, Inc. (the "Company") on Form 20-F for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Shaojun Chen, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 11, 2020

By: /s/ Shaojun Chen
Name: Shaojun Chen
Title: Chief Financial Officer

EXHIBIT 15.1

HAN KUN LAW OFFICES
9/F, Office Tower C1, Oriental Plaza, 1 East Chang An Avenue, Beijing 100738, P. R. China
TEL: (86 10) 8525-5500 ; FAX: (86 10) 8525-5511/ 5522

Date: June 11, 2020

Secoo Holding Limited
Secoo Tower
Sanlitun Road A, No.3 Courtyard Building 2
Chaoyang District, Beijing 100027
People's Republic of China

Dear Sir/Madam:

We hereby consent to the reference to our firm in Secoo Holding Limited's annual report on Form 20-F for the fiscal year ended December 31, 2019, which will be filed by Secoo Holding Limited on June 11, 2020 with the Securities and Exchange Commission pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Yours Sincerely,

/s/ Han Kun Law Offices
HAN KUN LAW OFFICES